

**PIKEVILLE INDEPENDENT
SCHOOL DISTRICT**

**AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULES**

For the year ended June 30, 2014

Prepared by:

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INDEPENDENT AUDITOR'S REPORT

To the Pikeville Independent Board of Education and
State Committee for School District Audits
Pikeville, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Pikeville Independent School District (District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the Auditor Responsibilities and State Compliance Requirements sections contained in the Kentucky Public School Districts' Audit Contract and Requirements. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows, and the respective budgetary comparison schedules for the General Fund and Special Revenue Fund thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The additional supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The additional supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional supplementary information and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2014, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

White & Associates, PSC

Richmond, Kentucky

October 23, 2014

PIKEVILLE INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended June 30, 2014

This section of the financial statements for the District presents management's discussion and analysis of the financial performance of the Pikeville Independent School District during the fiscal year that ended on June 30, 2014. As management of the District, we offer readers of the District's financial statements this narrative overview and analysis to highlight and further explain the financial events that have taken place in the past year. We encourage readers to consider the information presented herein along with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- The total General Fund Balance was \$808,414 at June 30, 2014, compared to \$566,610 at June 30, 2013, an increase of \$241,804.
- General Fund revenues totaled \$10.67 million, which primarily consisted of funding through the state's Support Education Excellence in Kentucky (SEEK) program and revenues from property, utilities, and motor vehicle taxes. General Fund revenues were \$10.4 million in FY 2013.
- Excluding inter-fund transfers, General Fund expenditures totaled \$10.41 million. This compares to \$10.78 million in the prior year. Of these expenditures salaries and benefits totaled \$8.89 million compared to \$8.95 million in FY 2013.
- SEEK revenue increased \$90,334 from FY 2013. The SEEK Guaranteed Base was \$3,822 in FY 2013, and went down to \$3,827 in FY 2014, however the district saw a slight increase in ADA. This growth resulted in a slight increase in total SEEK revenues from FY 2013.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The statements are followed by a section of required supplementary information that further explains and supports the financial statements.

Government-wide Financial Statements: The government-wide financial statements, Statement of Net Position and Statement of Activities, are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net position presents information on *all* of the district's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating, respectively. To assess the District's overall health, one needs to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

PIKEVILLE INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended June 30, 2014

The statement of activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenditures are reported in this statement for some items that will only result in cash flows in future fiscal periods.

In the government-wide financial statements, the District's activities are divided into two categories:

- Governmental activities – Most of the District's basic services are included here, such as regular and special needs education, transportation, and administration. Property taxes and state formula aid finance most of these activities.
- Business-type activities – The District charges fees to help cover the costs of certain services it provides. The District's food services, and daycare and community education operations are included here.

Fund Financial Statements: The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by State Laws and by bond covenants. The District establishes other funds to control and manage money for specific purposes (like the Construction Fund) or to show that it is properly using certain Revenues (like the Building Fund, Capital Outlay Fund, and Special Revenue Fund).

The District has two kinds of funds:

- Governmental funds: Most of the District's basic services are included in governmental funds, which generally focus on how money flows into and out of those funds and the balances left at year end that are available for spending in future periods. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information with the governmental funds statement that explains the relationships (or differences) between the governmental activities and the governmental funds, through the Statement of Net position and the Statement of Activities.
- Proprietary funds: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match.

Notes to the Financial Statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**PIKEVILLE INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

For the year ended June 30, 2014

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District's financial position. For the District, assets and deferred outflows exceeded liabilities by \$6.15 million as of June 30, 2014.

The largest portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, building and improvements, vehicles, furniture and equipment, and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets. Net position is summarized in Table 1.

Table 1

	Net Position \$ (in Millions)						Total Percentage Change 2013-2014
	Governmental Activities		Business-type Activities		Total School District		
	2013	2014	2013	2014	2013	2014	
Assets:							
Current and Other Assets	1.36	1.67	0.02	0.02	1.38	1.69	22.46%
Capital Assets	9.18	8.48	0.10	0.09	9.28	8.57	-7.68%
Total Assets	<u>10.54</u>	<u>10.15</u>	<u>0.12</u>	<u>0.11</u>	<u>10.66</u>	<u>10.26</u>	<u>-3.78%</u>
Deferred Outflows of Resources	0.20	0.14			0.20	0.14	-32.00%
Liabilities:							
Current Liabilities	0.47	0.41	0.02	0.00	0.49	0.41	-15.98%
Noncurrent Liabilities	4.19	3.82	-	-	4.19	3.82	-8.83%
Total Liabilities	<u>4.66</u>	<u>4.23</u>	<u>0.02</u>	<u>0.00</u>	<u>4.68</u>	<u>4.23</u>	<u>-9.58%</u>
Net Position:							
Invested in Capital Assets							
Net of Debt	5.20	4.88	0.10	0.09	5.30	4.97	-6.23%
Restricted	0.10	0.16	-	0.02	0.10	0.18	76.80%
Unrestricted Net Position	<u>0.75</u>	<u>1.01</u>	<u>-</u>	<u>-</u>	<u>0.75</u>	<u>1.01</u>	<u>34.67%</u>
Total Net Position	<u><u>6.05</u></u>	<u><u>6.05</u></u>	<u><u>0.10</u></u>	<u><u>0.11</u></u>	<u><u>6.15</u></u>	<u><u>6.16</u></u>	<u><u>0.11%</u></u>

Changes in Net Position: The District's total net position decreased \$.11 million. Current assets increased \$.31 million, non-current assets decreased \$.71 million and liabilities decreased \$.45

**PIKEVILLE INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

For the year ended June 30, 2014

million. The District's total revenues increased slightly from \$12.73 million to \$12.98 million. (See Table 2 on the next page.) Property taxes and state and formula grants accounted for most of the District's revenues.

SEE SCHEDULE ON NEXT PAGE

**PIKEVILLE INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**
For the year ended June 30, 2014

Table 2							
Changes in Net Position							
(in Millions)							
	Governmental		Business-Type		Total		Total
	Activities		Activities		School District		Percentage
	2013	2014	2013	2014	2013	2014	2013-2014
Revenues:							
Program Revenues:							
Charges for Services	0.56	0.49	0.38	0.34	0.94	0.83	-11.91%
Operating Grants and Contributions	0.95	0.93	0.25	0.45	1.20	1.38	14.58%
Capital Grants and Contributions	0.31	-			0.31	-	0.00%
General Revenue:							
Property Taxes	3.72	3.79			3.72	3.79	1.77%
Motor Vehicle Taxes	0.38	0.38			0.38	0.38	0.00%
Utility Taxes	0.79	0.84			0.79	0.84	0.00%
State and Federal grants	5.36	5.77			5.36	5.77	7.59%
Other Local Revenue	0.01	-			0.01	-	0.00%
Unrestricted Investment Earnings	0.02	0.01			0.02	0.01	-49.50%
Loss on Retirement of Asset	(0.00)	(0.00)			(0.00)	(0.00)	
Total Revenues	12.10	12.19	0.63	0.79	12.73	12.98	1.96%
Program Expenses:							
Instruction	6.98	7.05			6.98	7.05	0.93%
Support Services:					-	-	
Student	0.46	0.45			0.46	0.45	-3.02%
Instructional Staff	0.72	0.66			0.72	0.66	-8.84%
District Administration	0.56	0.63			0.56	0.63	11.70%
School Administration	0.66	0.66			0.66	0.66	0.00%
Business	0.17	0.18			0.17	0.18	5.88%
Plant Operation and Maintenance	1.34	1.36			1.34	1.36	1.49%
Student Transportation	0.44	0.38			0.44	0.38	-13.64%
Food Service Operations	-	-	0.71	0.77	0.71	0.77	9.01%
Community Services Operations	0.08	0.08			0.08	0.08	0.00%
Facilities Acquisition	-	-			-	-	0.00%
Debt Service	-	-			-	-	0.00%
Loss on retirement of assets	0.04	-					
Interest	0.13	0.11			0.13	0.11	0.00%
Amortization	0.03	0.04			0.03	0.04	
Depreciation	0.71	0.70	0.01	0.02	0.72	0.72	-0.58%
Total Expenses	12.34	12.30	0.72	0.79	13.02	13.09	0.56%
Extraordinary item	(0.32)						
Increase/(Decrease) in							
Net Position	(0.56)	(0.11)	(0.09)	0.00	(0.29)	(0.11)	-60.84%

**PIKEVILLE INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

For the year ended June 30, 2014

The total cost of all programs and resources increased .56 percent from \$13.02 million to \$13.09 million. The District's expenses are predominantly related to educating and caring for students (76%). The administrative activities of the District accounted for 11% of total costs. Plant Operation and Maintenance is also 11% of the total costs to the District.

Governmental Activities

Revenues for the District's governmental activities increased \$0.09 million, as well as a decrease of \$.04 million in the District's total expenses.

Business-type activities

Revenues for the District's business-type activities increased \$0.16 million, and total expenses increased \$0.07 million. The net position remained the same.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds reported combined fund balances totaling \$0.96 million, which is an increase of \$0.31 million from the prior year.

The District has been budgeting and spending conservatively for several years now based on recommendations of the Kentucky Department of Education's District Support staff. The economy still has not fully recovered from the downturn that started in 2008. Every year, KDE staff warns all Districts to be fiscally conservative for fear that both state and federal grants will be cut even further. The District's SEEK funding and property taxes are its two largest forms of revenue.

Table 3 shows revenues and expenses by fund.

SEE TABLE ON NEXT PAGE

**PIKEVILLE INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

For the year ended June 30, 2014

**Table 3
\$ (in Millions)**

	General Fund	Special Revenue Fund	Other Funds	Proprietary Funds
Local Revenue	5.21	0.01	0.29	0.34
State Revenue	5.44	0.25	0.30	0.16
Federal Revenue	0.02	0.68	-	0.29
Other	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Totals	<u>10.67</u>	<u>0.94</u>	<u>0.59</u>	<u>0.79</u>
Instruction	6.30	0.68	-	-
Student Support	0.37	0.07	-	-
Instructional Staff	0.54	0.12	-	-
District Admin	0.62	-	-	-
School Support	0.66	-	-	-
Business Support	0.18	-	-	-
Plant Operation & Maintenance	1.36	-	-	-
Student Transportation	0.38	-	-	-
Food Service	-	-	-	0.77
Community Svc.	-	0.08	-	-
Debt Service	-	-	0.53	-
Fund Transfer/Other	-	-	-	-
Daycare	-	-	-	-
Depreciation	-	-	-	0.01
Other	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Totals	<u>10.41</u>	<u>0.95</u>	<u>0.53</u>	<u>0.78</u>

General Fund Revenue/Expenditures (Fund 1)

The majority of revenue was derived from State Sources (51%) with local property, motor vehicle and utility taxes making up 49% of total revenue.

The instruction function comprises 60% of the expenditures. The instruction function includes school expenditures for staff and supplies. The student support services function is comprised of spending for attendance services, guidance counseling, health services, psychological testing, and speech, hearing and vision services. The instructional staff support function includes spending for staff

**PIKEVILLE INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

For the year ended June 30, 2014

support personnel and librarians. The district administration support function includes spending for workers compensation, sick leave pay for retirees, property insurance, tax collection fees, and superintendent's office expenses. The school support function includes spending for principals and secretaries. The Plant Operation and Maintenance function accounts for 13% of the expenditures, while the Student Transportation services function accounts for 3%. Community services expenditures includes activities concerned with providing services to students, staff, or the community which are not considered instructional.

Special Revenue Fund Revenue/Expenditures

The majority of revenue was derived from federal sources (72%). The majority of expenditures (71%) is spent in the instructional function.

FSPK and Construction Funds Revenue/Expenditures

Fund 310 is the capital outlay fund and Fund 320 is the building fund (FSPK). State funding makes up the Capital Outlay fund and the building fund is made up of state and local revenue. During the FY 2014 school year, these funds were used to make bond payments on existing debt.

Food Service Fund Revenue/Expenditures

Revenue is received from local, state and federal monies, with the largest percentage of the revenue being from local sources (43%).

CAPITAL ASSETS

At the end of fiscal 2014, the District had \$19.38 million invested in capital assets, including land, buildings, buses, computers and other equipment. This amount represents a net increase (including additions and deductions) of \$.01 million from last year.

**PIKEVILLE INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

For the year ended June 30, 2014

Table 4

**Capital Assets at Year-End
\$ (Net of Depreciation, in Millions)**

	Governmental Activities		Business-Type Activities		Totals	
	2013	2014	2013	2014	2013	2014
Land & Improvements	1.05	1.06	-	-	1.05	1.06
Buildings	14.80	14.80	-	-	14.80	14.80
Technology Equipment	1.45	1.45	-	-	1.45	1.45
Vehicles	1.38	1.38	-	-	1.38	1.38
General Equipment	0.45	0.45	0.24	0.24	0.69	0.69
Construction in Progress	-	-	-	-	-	-
Totals	19.13	19.14	0.24	0.24	19.37	19.38

DEBT

During fiscal year 2014, the district assumed no additional debt and continues to make all bond payment obligations in a timely manner.

Table 5

**Outstanding Debt at Year-End
(in Millions)**

	Governmental Activities	
	2013	2014
General Obligation Bonds	4.16	3.74
Total Obligations	4.16	3.74

Comments on Budget Comparisons

Over the course of the fiscal year, the District revised the annual operating budget as needed and to meet the statutory deadlines from the Kentucky Department of Education.

- Excluding on-behalf payments, General Fund budget compared to actual revenue varied somewhat in most line items with the ending actual balance being \$159,320 less than budget.

**PIKEVILLE INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

For the year ended June 30, 2014

- Excluding on-behalf payments and net of the contingency, expenditures were \$28,462 more than the budget.

FUTURE BUDGETARY IMPLICATIONS

In Kentucky the public school fiscal year is July 1-June 30. Some federal programs operate on a different fiscal calendar, but are reflected in the district overall budget. By law, the budget must have a minimum 2% contingency. The district adopted a final working budget with \$1 million in contingency. State funding is not keeping pace with mandated state requirements and will continue to be an issue.

Issues which will impact future budgets include:

- State budgetary shortfalls which could result in the inability to fully fund SEEK.
- KSBIT assessment for shortfall in Workers Compensation and Liability Insurances
- Possible sequestration of Federal Funds.
- Insufficient funding of the state transportation formula.
- Increasing retirement costs to be borne by district could be significant.
- The District has experienced a very small amount of growth in student population over the past several years, although cost of providing services continues to increase. Thus, management will continue to be challenged with balancing our staffing needs with declining enrollment and prudently providing the resources to meet the students' needs in a time of increasing prices for goods and services.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions regarding this report or need additional financial information, contact Denise Clark, Finance Officer, at (606) 432-8161 or by mail at Pikeville Independent Schools, 148 Second Street, Pikeville, Kentucky 41501.

Pikeville Independent School District
Statement of Net Position
June 30, 2014

	Primary Government		
	Governmental Activities	Business- type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 755,614	\$ -	\$ 755,614
Receivables (net)	914,926		914,926
Inventories		21,531	21,531
Capital assets:			
Land, improvements, and construction in progress	454,468		454,468
Other capital assets, net of depreciation	8,024,400	87,301	8,111,701
Total capital assets	8,478,868	87,301	8,566,169
Total assets	10,149,408	108,832	10,258,240
DEFERRED OUTFLOWS OF RESOURCES			
Loss for the difference in reacquisition and carrying value of refunding debt	136,694		136,694
LIABILITIES			
Accounts payable and accrued expenses	34,921	123	35,044
Accrued interest payable	14,743		14,743
Accrued salaries and benefit payable	2,094		2,094
Unearned revenue	25,314		25,314
Cash shortage		1,593	1,593
Long-term liabilities:			
Due within 1 year:			
Bond obligations	335,000		335,000
Total due within 1 year	335,000	-	335,000
Due in more than 1 year:			
Bond obligations	3,405,000		3,405,000
KSBIT payable	217,534		217,534
Sick leave	205,100		205,100
Total due in more than 1 year	3,827,634	-	3,827,634
Total liabilities	4,239,706	1,716	4,241,422
NET POSITION			
Net Investment in capital assets	4,875,562	87,301	4,962,863
Restricted for:			
Expendable restricted for site based carryforwards	1,092		1,092
Expendable restricted for food services		19,815	19,815
Expendable restricted for capital projects	155,716		155,716
Unrestricted	1,014,026		1,014,026
Total net position	\$ 6,046,396	\$ 107,116	\$ 6,153,513

See the accompanying notes to the financial statements.

Pikeville Independent School District
Statement of Activities
Year Ended June 30, 2014

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
PRIMARY GOVERNMENT:							
Governmental activities:							
Instruction	\$ 7,049,701	\$ 478,096	\$ 655,428	\$	\$ (5,916,177)		\$ (5,916,177)
Support Services							
Student	447,431	10,000	71,817		(365,615)		(365,615)
Instructional Staff	655,536		114,463		(541,072)		(541,072)
District Administration	625,618				(625,618)		(625,618)
School Administration	660,673				(660,673)		(660,673)
Business	178,347				(178,347)		(178,347)
Plant Operation & Maintenance	1,359,602				(1,359,602)		(1,359,602)
Student Transportation	378,585		809		(377,777)		(377,777)
Food Service Operations	5,238				(5,238)		(5,238)
Community Services Operations	85,479		82,916		(2,562)		(2,562)
Depreciation	699,329				(699,329)		(699,329)
Amortization	38,963				(38,963)		(38,963)
Loss on retirement of assets	434				(434)		(434)
Interest on long term debt	113,147				(113,147)		(113,147)
Total governmental activities	<u>12,298,083</u>	<u>488,096</u>	<u>925,433</u>	<u>-</u>	<u>(10,884,554)</u>		<u>(10,884,554)</u>
Business-type activities:							
Food service operations	774,131	344,795	449,152			\$ 19,815	19,815
Depreciation	15,844					(15,844)	(15,844)
Total business-type activities	<u>789,975</u>	<u>344,795</u>	<u>449,152</u>	<u>-</u>	<u>-</u>	<u>3,972</u>	<u>3,972</u>
Total primary government	<u>\$ 13,088,058</u>	<u>\$ 832,890</u>	<u>\$ 1,374,585</u>	<u>\$ -</u>	<u>(10,884,554)</u>	<u>3,972</u>	<u>(10,880,583)</u>
General revenues:							
Taxes:							
Property taxes					3,786,471		3,786,471
Motor vehicle taxes					377,979		377,979
Utility taxes					836,624		836,624
State and formula grants					5,767,594		5,767,594
Unrestricted investment earnings					10,158		10,158
Total general revenues					<u>10,778,826</u>	<u>-</u>	<u>10,778,826</u>
Change in net position					(105,728)	3,972	(101,756)
Net Position - beginning					6,051,450	103,145	6,154,595
Prior period adjustment - see note Q					100,674	-	100,674
Restated beginning net position					<u>6,152,124</u>	<u>103,145</u>	<u>6,255,269</u>
Net Position - ending					<u>\$ 6,046,396</u>	<u>\$ 107,116</u>	<u>\$ 6,153,513</u>

See the accompanying notes to the financial statements.

Pikeville Independent School District
Balance Sheet
Governmental Funds
June 30, 2014

	Governmental Funds					
	General	Special Revenue	Capital Outlay	Debt Service	Other Governmental Funds	Total
ASSETS						
Cash and cash equivalents	\$ 675,136	\$ -	\$ 154,872	\$ -	\$ 844	\$ 830,852
Receivables, net						
Taxes-current	143,315					143,315
Taxes-delinquent	2,289					2,289
Accounts	9,692					9,692
Intergovernmental-federal	1,432	114,116				115,548
Total assets	831,865	114,116	154,872	-	844	1,101,697
LIABILITIES						
Accounts payable	21,357	13,565				34,921
Cash shortage		75,238				75,238
Accrued salaries & benefits payable	2,094					2,094
Unearned revenue		25,314				25,314
Total liabilities	23,451	114,116	-	-	-	137,567
FUND BALANCE						
Restricted			154,872		844	155,716
Committed	1,092					1,092
Unassigned	807,322					807,322
Total fund balance	\$ 808,414	\$ -	\$ 154,872	\$ -	\$ 844	\$ 964,130

See the accompanying notes to the financial statements.

Pikeville Independent School District
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position
June 30, 2014

Total fund balance per fund financial statements	\$	964,130
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net position.</p>		8,478,868
<p>Accounts receivable from delinquent property taxes are not recorded in the fund financial statements because they are not available for use (received within 60 days). These receivables are accrued on the statement of net position because they have been earned and are measurable</p>		644,081
<p>Costs associated with bond issues and refundings are expensed in the fund financial statements because they are a use of current financial resources but are capitalized on the statement of net position using the economic resources focus.</p>		136,694
<p>Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave, and accrued interest) are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net position.</p>		
<p>Accrued interest payable</p>		(14,743)
<p>Bonds payable</p>		(3,740,000)
<p>KSBIT payable</p>		(217,534)
<p>Noncurrent sick leave payable</p>		(205,100)
		(4,187,380)
Net position of governmental activities	\$	6,046,396

See the accompanying notes to the financial statements.

Pikeville Independent School District
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2014

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Outlay</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES						
From Local Sources						
Taxes						
Property	\$ 3,487,779	\$ -	\$ -	\$ -	\$ 287,010	\$ 3,774,789
Motor vehicle	377,979					377,979
Utilities	836,624					836,624
Revenue in lieu of taxes	29,183					29,183
Earnings on investments	10,158					10,158
Tuition	387,677					387,677
Other local revenue	89,301	11,117				100,418
Intergovernmental - state	5,435,364	244,033	110,398	88,656	113,182	5,991,633
Intergovernmental - federal	19,995	681,400				701,394
Total revenues	<u>10,674,061</u>	<u>936,550</u>	<u>110,398</u>	<u>88,656</u>	<u>400,192</u>	<u>12,209,856</u>
EXPENDITURES						
Instruction	6,296,614	675,684				6,972,297
Support Services						
Student	373,395	74,036				447,431
Instructional Staff	537,535	118,001				655,536
District Administration	625,618					625,618
School Administration	660,673					660,673
Business	178,347					178,347
Plant Operation & Maintenance	1,359,602					1,359,602
Student Transportation	377,752	834				378,585
Food Service Operations	5,238					5,238
Community Services Operations		85,479				85,479
Debt Service				531,446		531,446
Total expenditures	<u>10,414,774</u>	<u>954,033</u>	<u>-</u>	<u>531,446</u>	<u>-</u>	<u>11,900,253</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	259,287	(17,483)	110,398	(442,790)	400,192	309,604
OTHER FINANCING SOURCES (USES)						
Operating transfers in		17,483		442,790		460,273
Operating transfers (out)	(17,483)		(42,598)		(400,192)	(460,273)
Total other financing sources and (uses)	<u>(17,483)</u>	<u>17,483</u>	<u>(42,598)</u>	<u>442,790</u>	<u>(400,192)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	241,804	0	67,800	-	-	309,604
FUND BALANCE-BEGINNING	<u>566,610</u>	<u>-</u>	<u>87,072</u>	<u>-</u>	<u>844</u>	<u>654,526</u>
FUND BALANCE-ENDING	<u>\$ 808,414</u>	<u>\$ 0</u>	<u>\$ 154,872</u>	<u>\$ -</u>	<u>\$ 844</u>	<u>\$ 964,130</u>

See the accompanying notes to the financial statements.

Pikeville Independent School District
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of
 Governmental Funds to the Statement of Activities**
 Year ended June 30, 2014

Net change in total fund balances per fund financial statements	\$	309,604
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceeds depreciation expense for the year.</p>		(699,763)
<p>Accounts receivable from delinquent property taxes are not recorded in the fund financial statements because they are not available for use (received within 60 days). These receivables are accrued on the statement of net position because they have been earned and are measurable.</p>		(17,501)
<p>The difference in the issue amount of the refunding of bond proceeds and the amount for payment to the escrow account to pay the refunded bonds is amortized over the life of the refunding issue.</p>		(38,963)
<p>Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net position.</p>		415,000
<p>Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.</p>		
<p>Accrued interest payable</p>		3,299
<p>Noncurrent sick leave payable</p>		(77,403)
		(105,728)
Change in net position of governmental activities	\$	(105,728)

See the accompanying notes to the financial statements.

Pikeville Independent School District
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
General Fund
Year Ended June 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
From Local Sources				
Taxes				
Property	\$ 3,645,000	\$ 3,645,000	\$ 3,487,779	\$ (157,221)
Motor vehicle	375,000	375,000	377,979	2,979
Utilities	800,000	800,000	836,624	36,624
Revenue in lieu of taxes	25,000	25,000	29,183	4,183
Earnings on investments	17,000	17,000	10,158	(6,842)
Tuition	400,000	400,000	387,677	(12,323)
Other local revenue	82,250	82,250	89,301	7,051
Intergovernmental - state	3,510,748	3,757,084 *	3,754,263	(2,821)
Intergovernmental - federal	25,000	25,000	19,995	(5,005)
Total revenues	<u>8,879,998</u>	<u>9,126,334</u>	<u>8,992,959</u>	<u>(133,375)</u>
EXPENDITURES				
Instruction	5,078,296	5,078,296 *	4,958,243	120,053
Support Services				
Student	360,834	371,834 *	360,494	11,340
Instructional Staff	517,606	517,606 *	515,610	1,996
District Administration	541,535	581,637 *	607,571	(25,934)
School Administration	522,295	522,295 *	518,834	3,461
Business	114,017	114,017 *	142,254	(28,237)
Plant Operation & Maintenance	1,145,036	1,147,536 *	1,272,136	(124,600)
Student Transportation	359,524	359,524 *	353,293	6,231
Food Service Operations	12,465	12,465	5,238	7,227
Total expenditures	<u>8,651,608</u>	<u>8,705,210</u>	<u>8,733,672</u>	<u>(28,462)</u>
EXCESS (DEFICIENCY) IN REVENUES OVER EXPENDITURES	228,390	421,124	259,287	(161,837)
OTHER FINANCING SOURCES (USES)				
Operating transfers out	(20,000)	(20,000)	(17,483)	2,517
Total other financing sources and (uses)	<u>(20,000)</u>	<u>(20,000)</u>	<u>(17,483)</u>	<u>2,517</u>
NET CHANGE IN FUND BALANCE	208,390	401,124	241,804	(159,320)
FUND BALANCE-BEGINNING	<u>566,610</u>	<u>566,610</u>	<u>566,610</u>	<u>0</u>
FUND BALANCE-ENDING	<u>\$ 775,000</u>	<u>\$ 967,734</u>	<u>\$ 808,414</u>	<u>\$ (159,320)</u>

* The on-behalf payments (please see the accompanying notes to the financial statements) were not budgeted, therefore, to better compare the actual to the budgeted amounts these amounts were deducted from both revenue and expenditures in the amount of \$1,681,101.

Pikeville Independent School District
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Special Revenue Fund
Year Ended June 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
From Local Sources				
Other local revenue	\$ -	\$ 11,000	\$ 11,117	\$ 117
Intergovernmental - state	224,890	222,666	244,033	21,367
Intergovernmental - federal	617,822	647,417	681,400	33,983
Total revenues	<u>842,712</u>	<u>881,083</u>	<u>936,550</u>	<u>55,467</u>
EXPENDITURES				
Instruction	580,558	613,490	675,684	(62,194)
Support Services				
Student	87,269	87,269	74,036	13,233
Instructional Staff	110,348	113,031	118,001	(4,970)
Student Transportation	600	600	834	(234)
Community Services Operations	83,937	84,176	85,479	(1,303)
Total expenditures	<u>862,712</u>	<u>898,566</u>	<u>954,033</u>	<u>(55,467)</u>
EXCESS (DEFICIENCY) IN REVENUES OVER EXPENDITURES	(20,000)	(17,483)	(17,483)	(0)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	20,000	17,483	17,483	-
Total other financing sources and (uses)	<u>20,000</u>	<u>17,483</u>	<u>17,483</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	-	-	-	-
FUND BALANCE-BEGINNING	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE-ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See the accompanying notes to the financial statements.

Pikeville Independent School District
Statement of Net Position
Proprietary Funds
June 30, 2014

	School Food Services
ASSETS	
Inventories	\$ 21,531
Capital assets:	
Other capital assets, net of depreciation	87,301
Total assets	108,832
LIABILITIES	
Cash shortage	1,593
Accounts payable	123
Total liabilities	1,716
NET POSITION	
Net Investment in capital assets	87,301
Expendable restricted for food services	19,815
Total net position	\$ 107,116

See the accompanying notes to the financial statements.

Pikeville Independent School District
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
Year Ended June 30, 2014

		<u>Enterprise Funds</u>
		<u>School Food Services</u>
OPERATING REVENUES		
Lunchroom sales	\$	344,748
Other revenue from local sources		46
Total operating revenues		<u>344,795</u>
OPERATING EXPENSES		
Depreciation		15,844
Food service operations		
Employee services		467,604
Operational expenses		<u>306,527</u>
Total operating expenses		<u>789,975</u>
Operating income (loss)		<u>(445,181)</u>
NONOPERATING REVENUES (EXPENSES)		
Federal grants		288,891
State grants		<u>160,262</u>
Total nonoperating revenues		<u>449,152</u>
CHANGE IN NET POSITION		3,972
NET POSITION-BEGINNING		<u>103,145</u>
NET POSITION-ENDING	\$	<u><u>107,116</u></u>

See the accompanying notes to the financial statements.

Pikeville Independent School District
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2014

	Enterprise Funds
	School Food Services
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 344,795
Payments to suppliers	(308,533)
Payments to employees	(467,604)
Net cash provided (used) by operating activities	(431,343)
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Purchase of capital assets	-
Net cash provided (used) by capital financing activities	-
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Operating grants and contributions	449,152
Net cash provided (used) by noncapital financing activities	449,152
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	17,809
CASH AND CASH EQUIVALENTS-BEGINNING	(19,402)
CASH AND CASH EQUIVALENTS-ENDING	\$ (1,593)
Reconciliation of operating income (loss) to net cash used by operating activities:	
Operating income (loss)	\$ (445,181)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:	
Depreciation	15,844
Changes in assets and liabilities:	
Inventories	(2,129)
Accounts Payable	123
Net cash used by operating activities	\$ (431,343)

NONCASH NONCAPITAL FINANCING ACTIVITIES

During the year, the district received \$37,692 of food commodities from the U.S. Department of Agriculture.

During the year, the district recognized revenues and expenses for -on-behalf payments relating to fringe benefits in the amount of \$154,353 provided by state government.

See the accompanying notes to the financial statements.

Pikeville Independent School District
Statement of Fiduciary Net Position
Fiduciary Funds
 June 30, 2014

		School Activity Fund Total
		<u> </u>
ASSETS		
Cash and cash equivalents	\$	76,041
Total Assets		<u>76,041</u>
LIABILITIES		
Accounts payable		174
Due to student groups		75,867
Total Liabilities		<u>76,041</u>
NET POSITION HELD IN TRUST	\$	<u> -</u>

See the accompanying notes to the financial statements.

PIKEVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Pikeville Independent Board of Education (“Board”), a five-member group, is the level of government, which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Pikeville Independent Board of Education (“District”). The District receives funding from Local, State and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental “reporting entity” as defined in Section 2100-Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies, which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds relevant to the operation of the Pikeville Independent Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the District itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Pikeville Independent Board Of Education Finance Corporation

The Board authorized establishment of the Pikeville Independent Board Of Education Finance Corporation a non-stock, non-profit corporation pursuant to Section 162.385 of the School Bond Act and Chapter 273 and Section 58.180 of the Kentucky Revised Statutes (the “Corporation”) to act as an agency of the District for financing the costs of school building facilities. The Board of Directors of the Corporation shall be the same persons who are at any time the members of the Board of Education of the Pikeville Independent Board of Education.

Basis of Presentation

Government-wide Financial Statements – The statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in net total position. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

I. Governmental Fund Types

(A) General Fund

The General Fund is the main operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is always a major fund of the District.

(B) Special Revenue (Grant) Fund

The Special Revenue (Grant) Fund accounts for proceeds of specific revenue sources (other than expendable trust funds or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(C) Capital Project Funds

Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).

SEEK Capital Outlay Fund

The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects as identified in the District's facility plan. This is a major fund of the District.

Building (FSPK) Fund

The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy that is required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.

Construction Fund

The Construction Fund accounts for proceeds from sale of bonds and other revenues to be used for authorized construction and/or remodeling.

(D) Debt Service Fund

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on general obligation notes payable, as required by Kentucky Law. This is a major fund of the District.

II. Proprietary Funds (Enterprise Funds)

Food Service Fund

The School Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund.

III. Fiduciary Fund Types

Agency Funds

The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with "Accounting Procedures for Kentucky School Activity Funds."

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end. Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

Unearned Revenue – Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as unearned revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement the revenues, expenses, and changes in net position as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as unearned revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Property Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

All taxes collected are initially deposited in the General Fund and then transferred to the appropriate fund.

The property tax rates (including exonerations) assessed for the year ended June 30, 2014, to finance the General Fund operations were \$.717 per \$100 valuation of real property, \$.717 per \$100 valuation for business personal property and \$.793 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial and mixed gas.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the government funds. These assets are reported in the government activities column of the government-wide financial statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of, normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food service equipment	10-12 years
Furniture and fixtures	7 years
Rolling stock	15 years
Other	10 years

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term inter-fund loans are classified as “inter-fund receivables/payables”. These amounts are eliminated in the governmental and

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

business-type activities columns of the statements of net position, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, a certified and classified employee will receive from the district an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made when an employee leaves before year-end but is not paid for sick leave until after year-end.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account “accumulated sick leave payable” in the general fund. The non-current portion of the liability is not reported.

Budgetary Process

The District prepares its budgets on the modified accrual basis of accounting, which is the same basis as used to prepare the Statements of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law.

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

The Kentucky Department of Education does not require the Capital Project Funds and Debt Service Funds to prepare budgets.

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

Inventories

On government-wide financial statements inventories are stated at cost and are expended when used.

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as expenditure in the governmental fund types when purchased.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Prepaid Assets

Payments made that will benefit periods beyond the fiscal period end are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and expenditure/expense is reported in the year in which services are consumed.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgment, the non-current portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Fund Balances

Fund balance is divided into five categories as defined by GASB 54 as follows:

Nonspendable:	Permanently nonspendable by decree of the donor, such as an endowment, or funds that are not in a spendable form, such as prepaid expenses or inventory on hand.
Restricted	Legally restricted under legislation, bond authority, or grantor contract.
Committed	Commitments of future funds for specific purposes passed by the Board.
Assigned	Funds that are intended by management to be used for a specific purpose, including encumbrances.
Unassigned	Funds available for any purpose.

The Board has adopted a GASB 54 spending policy which states that the spending order of funds is to first use restricted funds, followed by committed, assigned, and unassigned fund funds.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Net Position

The statement of net position presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net position. Net position are reported in three categories: 1) invested in capital assets net of related debt – consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of the assets; 2) restricted net position – resulting from constraints placed on net position by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation adopted by the School District; 3) unrestricted net position – those assets that do not meet the definition of restricted net position or invested in capital assets. It is the District's policy to first apply restricted net position and then unrestricted net position when an expense is incurred for which both restricted and unrestricted net position are available.

Operating and Non-Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools.

Non-operating revenues are not generated directly from the primary activity of the proprietary funds. For the School District those revenues come in the form of grants (federal and state), donated commodities, and earnings from investments.

Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

NOTE B – ESTIMATES

The process of preparing financial statements in conformity accounting principles generally accepted in the United States of America requires District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, expenditures, designated fund balances, and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE C – CASH AND CASH EQUIVALENTS AND INVESTMENTS

The District’s cash and cash equivalents of amounts deposited in checking accounts include interest bearing accounts deposited in various local banks. Due to the liquidity nature of these accounts the carrying value is the fair market value.

		Bank
		<u>Balance</u>
		<u>Demand</u>
<u>Citizens National Bank</u>		
FDIC	\$	250,000
Securities pledged to district		<u>1,044,393</u>
Bank balance	\$	<u><u>1,294,393</u></u>
		Book
		<u>Balance</u>
		Cash and Cash
		<u>Equivalents</u>
Governmental Activities	\$	755,614
Business-type Activities		(1,593)
School Activity		<u>76,041</u>
Total carrying amount	\$	<u><u>830,062</u></u>

NOTE D – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2014, was as follows:

SCHEDULE ON NEXT PAGE

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

<u>Governmental Activities</u>	<u>July 1, 2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2014</u>
Land	\$ 454,468	\$ -	\$ -	\$ 454,468
Land improvements	600,846	-	-	600,846
Buildings	14,795,748	-	-	14,795,748
Technology equipment	1,445,088	-	-	1,445,088
Vehicles	1,380,411	-	-	1,380,411
General equipment	451,804	-	2,084	449,720
Construction in progress	-	-	-	-
Total at historical cost	\$ <u>19,128,365</u>	\$ <u>-</u>	\$ <u>2,084</u>	\$ <u>19,126,281</u>
Less: Accumulated depreciation				
Land improvements	\$ 422,531	\$ 28,404	\$ -	\$ 450,935
Buildings	7,466,658	383,202	-	7,849,860
Technology equipment	937,291	163,677	-	1,100,968
Vehicles	887,788	90,199	-	977,987
General equipment	235,467	33,847	1,650	267,663
Total accumulated depreciation	\$ <u>9,949,735</u>	\$ <u>699,329</u>	\$ <u>1,650</u>	\$ <u>10,647,414</u>
Governmental Activities				
Capital Assets-net	\$ <u>9,178,631</u>	\$ <u>(699,329)</u>	\$ <u>434</u>	\$ <u>8,478,868</u>
<u>Business-Type Activities</u>	<u>July 1, 2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2014</u>
Vehicles	\$ -	\$ -	\$ -	\$ -
Technology equipment	4,692	-	-	4,692
General equipment	244,540	-	4,831	239,709
Total at historical cost	\$ <u>249,232</u>	\$ <u>-</u>	\$ <u>4,831</u>	\$ <u>244,401</u>
Less: Accumulated depreciation				
Vehicles	-	-	-	-
Technology equipment	2,612	535	-	3,147
General equipment	143,475	15,309	4,831	153,953
Total accumulated depreciation	\$ <u>146,087</u>	\$ <u>15,844</u>	\$ <u>4,831</u>	\$ <u>157,100</u>
Business-Type Activities				
Capital Assets-net	\$ <u>103,145</u>	\$ <u>(15,844)</u>	\$ <u>-</u>	\$ <u>87,301</u>

Depreciation expense was not allocated to governmental functions. It appears on the statement of activities as “unallocated”.

NOTE E – BONDED DEBT AND LEASE OBLIGATIONS

The amount shown in the accompanying financial statements as bonded debt and lease obligations represent the District’s future obligations to make payments relating to the bonds issued by the Pikeville Independent School District Finance Corporation aggregating \$3,740,000 and \$335,000 is the portion due within one year.

The District, through the General Fund (including utility taxes), Building (FSPK) Fund, and the SEEK Capital Outlay Fund is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Pikeville Independent School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

by retiring the bonds then outstanding. The proceeds from certain refunding issues have been placed in escrow accounts to be used to service the related debt.

The original amount of outstanding issues, the issue dates, interest rates, and outstanding balances, at June 30, 2014 are summarized below:

<u>Bond Issue</u>	<u>Original Amount</u>	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>2013</u>		<u>2014</u>	
				<u>Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Outstanding Balance</u>
2002R	\$ 2,485,000	10/1/2013	1.30 - 3.80%	\$ 235,000	\$ -	\$ 235,000	\$ -
2004	755,000	6/1/2014	4.30%	15,000		15,000	-
2006	360,000	5/1/2026	4.25%	300,000		10,000	290,000
2008R	890,000	9/1/2019	2.55 - 3.40%	680,000		90,000	590,000
2009	1,220,000	6/1/2029	2.0 - 4.50%	1,140,000		20,000	1,120,000
2012R	\$ 1,840,000	6/1/2024	1.15 - 3.0%	1,785,000		45,000	1,740,000
Totals				\$ 4,155,000	\$ -	\$ 415,000	\$ 3,740,000

The District has entered into “participation agreements” with the Kentucky School Facility Construction Commission. The Kentucky Legislature, for the purpose of assisting local school districts in meeting school construction needs, created the Commission. The table following sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

The bonds may be called prior to maturity at dates and redemption premiums specified in each issue. Assuming no issues are called prior to maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2014 for debt service, (principal and interest) are as follows:

<u>Fiscal Year Ended June 30th</u>	<u>Principal</u>		<u>Interest</u>		<u>Principal Total</u>	<u>Interest Total</u>
	<u>Local</u>	<u>SFCC</u>	<u>Local</u>	<u>SFCC</u>		
	2015	\$ 265,043	\$ 69,957	\$ 88,543	\$ 18,699	\$ 335,000
2016	273,195	71,805	83,197	16,852	345,000	100,049
2017	276,258	73,742	77,738	14,915	350,000	92,654
2018	284,189	75,811	72,113	12,846	360,000	84,959
2019	286,849	78,151	64,646	10,506	365,000	75,151
2020-2024	1,221,205	178,795	215,028	30,666	1,400,000	245,694
2025-2029	510,689	74,311	66,424	10,289	585,000	76,713
	\$ 3,117,428	\$ 622,572	\$ 667,688	\$ 114,772	\$ 3,740,000	\$ 782,460

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE F – RETIREMENT PLANS

Kentucky Teachers' Retirement System

Plan Description – The Pikeville Independent School District contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by Kentucky Department of Education (KDE).

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report can be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, Kentucky 40601 or from the KTRS web site at <http://ktrs.ky.gov/>.

Funding Policy – Contribution rates are established by KRS. Members are required to contribute 11.355% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% of salaries for members before July 1, 2008 and 14.105% of salaries for members after July 1, 2008. The federal program for any salaries paid by that program pays the matching contribution of 14.605%.

Medical Insurance Plan

Plan description – In addition to the pension benefits described above, Kentucky Revised Statute 161.675 requires KTRS to provide post-retirement healthcare benefits to eligible members and dependents. The KTRS Medical Insurance benefit is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

To be eligible for medical benefits, the member must have retired either for service or disability. The KTRS Medical Insurance Fund offers coverage to members under the age of 65 through the Kentucky Employees health plan administered by the Kentucky Department of Employee Insurance. Once retired members and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the KTRS Medicare Eligible Health Plan.

Funding policy – In order to fund the post-retirement healthcare benefit, four and a half percent (4.5%) of the gross annual payroll of members before July 1, 2008 is contributed. Two and one quarter percent (2.25%) is paid by member contributions and three quarters percent (.75%) from state appropriation and one and a half percent (1.5%) from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

The Pikeville Independent School System's total payroll for the year was \$7,564,770. The payroll for employees covered under KTRS was \$6,139,475. For the year ended June 30, 2014, the Commonwealth contributed \$774,295 to KTRS for the benefit of our participating employees. The School district's

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

contributions to KTRS for the year ending June 30, 2014 were \$41,597, which represents those employees covered by federal programs.

The District’s required contributions (both withholding and match) for pension obligations to KTRS for the fiscal years ended June 30, 2014, 2013, and 2012 were \$761,673, \$871,319, and \$877,992 respectively.

County Employees Retirement System

Employees who work an average of 100 hours per month participate in the County Employees Retirement System of Kentucky (CERS), a cost sharing, multiple-employer public employee retirement system created by and operating under Kentucky Law.

The County Employees Retirement System covers substantially all regular non-certified full-time employees of the school District. The plan provides for retirement, disability and death benefits. CERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained in writing from the County Employee Retirement System, 1260 Louisville Road, Perimeter Park West, and Frankfort, Kentucky, 40601.

For participating employees who established an account prior to July 1, 2008, they contribute 5% of the creditable compensation. For employees hired after July 1, 2008, they contribute 6% of the creditable compensation. Employer contribution rates are intended to fund the normal cost on a current basis plus one percent (1%) of un-funded past service costs per annum plus interest at the actuarial assumed rate. The Board of Trustees of the Kentucky Retirement Systems determines such contribution rates each biennium. The current District contribution rate for employees is 18.89%. The District contributed \$231,030 of the employee’s compensation during the fiscal year ended June 30, 2014.

The District’s required contributions (both withholding and match) for pension obligations to CERS for the fiscal years ended June 30, 2014, 2013, and 2012 were \$292,920, \$293,220, \$325,162, and \$316,140 respectively.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, will require that unfunded portions of future pension benefit obligations shall be recorded as a liability of governments. This pronouncement will be mandatory for fiscal periods beginning after June 15, 2015. Although the data is not available from the Kentucky Teachers Retirement System or the County Employees Retirement System at this time, we believe that this implementation will have a material effect on future financial statements.

NOTE G – COMMITMENTS

The Pikeville Independent School District has committed the fund balance in General Fund as follows:

<u>Purpose</u>	<u>Amount</u>
Site Based Decision Making Carry forward	\$ 1,092

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Board has entered into a renewable one-year lease for the non-exclusive rental of the W.C. Hambley Athletic Complex. The lease terms state that the termination of the lease will result in termination payments equal to the lease payments for the original term. Therefore this lease is non-cancellable for the original term. The lease consists of \$1,000 monthly maintenance fees which run for the life of the lease. Also included were \$800 monthly payments for the lease of the locker room addition ending December 2014 and \$20,000 annual payments for the lease of the turf and grand stands addition with the last payment being on June 1, 2018.

The minimum lease/termination payments are as follows:

Fiscal Year		Minimum
Ended		Payments
<u>30-Jun</u>		<u>Payments</u>
2015	\$	36,800
2016		32,000
2017		32,000
2018		<u>32,000</u>
Total	\$	<u><u>174,400</u></u>

NOTE H - CONTINGENCIES

The District receives funding from Federal, State and Local governmental agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor’s review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and un-reimbursed disbursements, if any, is not expected to be significant. Continuation of the District’s grant programs is predicated upon the grantors’ satisfaction the funds provided are being spent as intended and the grantors’ intent to continue their program.

NOTE I- LITIGATION

There is no pending or threatened litigation for the district.

NOTE J – INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, illegal acts, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies, which are retrospectively rated and includes Workers’ Compensation insurance.

NOTE K – RISK MANAGEMENT

The District is exposed to various risks of loss related to illegal acts, torts, theft/damage/destruction of assets, errors and omissions, injuries to employees, and natural disasters. To obtain insurance for

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

workers’ compensation, errors and omission, and general liability coverage, the District purchased commercial insurance policies.

The District purchases unemployment insurance through the Kentucky School Districts Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past three fiscal years.

NOTE L – DEFICIT FUND AND OPERATING BALANCES

The following fund had an operating deficit at the end of the fiscal year causing a reduction in the fund balance/net position.

<u>Fund</u>	<u>Reduction in Fund Balance / Net Position</u>
Governmental Activities	\$ (105,728)

NOTE M - COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school district at risk for a substantial loss (contingency).

NOTE N – TRANSFER OF FUNDS

The following transfers were made during the year.

<u>From</u>	<u>To</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Special Revenue Fund	\$ 17,483	KETS
Capital Outlay Fund	Debt Service Fund	42,598	Debt payments
FSPK Fund	Debt Service Fund	\$ 400,192	Debt payments

NOTE O – ON-BEHALF PAYMENTS

The financial statements include payments made by the State of Kentucky on – behalf of the Pikeville Independent School District for teacher’s retirement, health insurance, life insurance, administrative fees, and state operated vocational schools where applicable. The amounts were recorded, but not budgeted, within the General, Debt Service and School Food Services Funds. The amounts recorded for both revenues and expenditures (expenses) are \$1,681,101 for the General Fund, \$88,656 for the Debt Service Fund and \$154,353 for the School Food Service Fund.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE P – RESTRICTED FUNDS

The following funds had restricted fund balances.

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
Capital Outlay	\$ 154,872	School Facilities Construction Commission Requirement
FSPK	\$ 844	School Facilities Construction Commission Requirement

NOTE Q – PRIOR PERIOD ADJUSTMENT

Due to the liability for KSBIT being overstated by \$100,674 in the prior year net assets were understated as follows:

Net Assets July 1, 2013	\$ 6,051,450
Prior Period Adjustment	100,674
Restated Net Assets July 1, 2013	<u>\$ 6,152,124</u>

NOTE R – SUBSEQUENT EVENTS

The District has evaluated subsequent events through October 23, 2014, the date of the audit report.

Pikeville Independent School District
Combining Balance Sheet - Nonmajor Governmental Funds
 June 30, 2014

	Other Governmental Funds		
	FSPK	Construction	Total
Assets			
Cash and Cash Equivalents	\$ <u>844</u>	\$ <u>-</u>	\$ <u>844</u>
Total Assets	<u>844</u>	<u>-</u>	<u>844</u>
Fund Balances			
Restricted	<u>844</u>	<u>-</u>	<u>844</u>
Total Fund Balances	\$ <u><u>844</u></u>	\$ <u><u>-</u></u>	\$ <u><u>844</u></u>

See the accompanying notes to the financial statements.

Pikeville Independent School District
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds
For the year ended June 30, 2014

	Other Governmental Funds		
	FSPK	Construction	Total
Revenues			
From Local Sources			
Taxes			
Property	\$ 287,010	\$ -	\$ 287,010
Intergovernmental - State	113,182		113,182
Total Revenues	400,192	-	400,192
Expenditures			
Debt Service		-	-
Total Expenditures	-	-	-
Excess (Deficit) of Revenues Over Expenditures	400,192	-	400,192
Other Financing Sources (Uses)			
Transfers Out	(400,192)		(400,192)
Total Other Financing Sources (Uses)	(400,192)	-	(400,192)
Net change in fund balances	-	-	-
Fund Balance beginning	844	-	844
Fund Balance ending	\$ 844	\$ -	\$ 844

See the accompanying notes to the financial statements.

Pikeville Independent School District
Combining Balance Sheet of Fiduciary Fund - School Activity Funds
As of June 30, 2014

	SCHOOL ACTIVITY FUND		
	PIKEVILLE HIGH SCHOOL	PIKEVILLE ELEMENTARY	TOTAL
ASSETS			
Cash and cash equivalents	\$ 33,496	\$ 42,545	\$ 76,041
Total Assets	33,496	42,545	76,041
LIABILITIES			
Accounts payable	-	174	174
Total Liabilities	-	174	174
FUND BALANCE			
School activities	33,496	42,371	75,867
Total Liabilities & Fund Balances	\$ 33,496	\$ 42,545	\$ 76,041

See the accompanying notes to the financial statements.

Pikeville Independent School District
Combining Statement of Revenues, Expenses and Changes in Fund Balance
- School Activity Funds
For the year ended June 30, 2014

	SCHOOL ACTIVITY FUND		
	PIKEVILLE HIGH SCHOOL	PIKEVILLE ELEMENTARY	TOTAL
REVENUES			
Student revenues	\$ 323,942	\$ 147,889	\$ 471,831
EXPENSES			
Student activities	320,472	135,524	455,997
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	3,470	12,365	15,834
FUND BALANCE July 1, 2013	30,026	30,006	60,032
FUND BALANCE June 30, 2014	\$ 33,496	\$ 42,371	\$ 75,867

See the accompanying notes to the financial statements.

Pikeville Independent School District
Statement of Revenues, Expenses and Changes in Fund Balance -Pikeville High School
For the year ended June 30, 2014

	FUND BALANCE BEGINNING	REVENUES	EXPENSES	TRANSFER	FUND BALANCE ENDING
OFFICE	\$ 27	\$ 821	\$ 1,158	\$ 432	\$ 122
POSTAGE	-	-	80	114	34
LOCKER FEES	398	255	-	(653)	-
TEXTBOOKS	1,173	9,995	10,058	(1,110)	-
SCHOOL RESERVED	-	18,095	18,095	-	-
ATHLETIC CONTINGENCY	-	2,023	-	(2,023)	-
PROJECT PROM	0	6,531	6,290	(78)	164
STUDENT VENDING	104	10,491	9,902	-	692
TEACHER VENDING	39	3,382	2,930	-	491
ATHLETICS	779	129,162	131,574	1,633	0
MOCK TRIAL	-	1,608	1,472	-	136
NEED ENERGY	-	8,934	8,699	-	235
ROBOTICS	-	2,000	-	-	2,000
S.KENNON SCIENCE DEP	-	500	-	-	500
7TH GRADE ACTIVITY FUND	-	1,190	1,184	-	6
FCA	1,765	-	-	(1,765)	-
HONOR SOCIETY	1,811	2,995	2,982	-	1,825
HS ACADEMICS	1,375	8,048	8,013	-	1,410
JH ACADEMICS	94	524	577	-	41
JH PEP CLUB	223	1,722	1,532	-	412
PEP CLUB HS	57	8,578	7,580	2,820	3,875
KEY CLUB	1,269	2,940	3,227	-	982
STUDENT COUNCIL	871	762	744	-	889
FBLA	2,799	27,388	27,337	-	2,851
SPECIAL ED FOUNDATION	144	-	-	-	144
BAND	-	13,098	12,641	545	1,002
CHORUS	1,168	7,495	8,055	(245)	364
DRAMA	4,228	4,500	2,277	-	6,452
8TH GRADE CLASS DUES	-	310	-	(310)	-
11TH GRADE	1,312	14,071	14,140	-	1,242
12TH GRADE	42	5,749	5,166	(37)	589
YEARBOOK	4,725	4,915	5,480	-	4,159
COUNSELOR NEEDS	57	1,912	1,884	366	451
LIBRARY	210	4,358	4,085	-	483
HELP	9	-	-	-	9
CLASS OF 2018	-	3,250	3,017	310	543
CLASS OF 2017 GRAD FU	107	-	-	-	107
PANTHER BASKETBALL	2,791	6,350	9,141	-	-
R KING ENG DEPT	260	-	-	-	260
SCOTT FIELD TRIPS	55	144	77	-	122
COMPETITIVE CHEER AC	-	7,244	7,244	-	-
COOKING TEAM	301	1,461	1,194	65	634
PANTHER FOOTBALL CA	680	-	680	-	-
PANTHER PRIDE	1,152	1,142	1,958	(65)	271
TOTALS	\$ 30,026	\$ 323,942	\$ 320,472	\$ (0)	\$ 33,496

See the accompanying notes to the financial statements.

PIKEVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2014

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Pikeville Independent School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed. At June 30, 2014, the District had food commodities totaling \$37,692.

Pikeville Independent School District
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2014

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Expenditures
US Department of Agriculture				
Passed Through State Department of Education				
School Breakfast Program	10.553			
Fiscal Year 13		7760005 13	\$	\$ 11,478
Fiscal Year 14		7760005 14	N/A	43,062
National School Lunch Program	10.555			
Fiscal Year 13		7750002 13	N/A	42,835
Fiscal Year 14		7750002 14	N/A	150,766
Summer Food Service Program for Children	10.559			
Fiscal Year 13		7690024 13	N/A	291
Summer Food Service Program for Children	10.559			
Fiscal Year 14		7740023 13	N/A	2,766
Child Nutrition Cluster Subtotal				<u>251,198</u>
Passed Through State Department of Agriculture				
Food Donation-Commodities	10.565			
Fiscal Year 13		510.4950	N/A	37,692
Total US Department of Agriculture				<u>288,891</u>
US Department of Education				
Passed Through State Department of Education				
* Title I Grants to Local Educational Agencies	84.010A			
Fiscal Year 13		3100002 13	362,169	155,240
Fiscal Year 14		3100002 14	325,846	232,330
				<u>387,570</u>
Special Education Grants to States	84.027A			
Fiscal Year 13		3810002 13	198,456	2,130
Fiscal Year 13P		3810002 13	7,088	765
Fiscal Year 14		3810002 14	190,740	172,565
Special Education - Preschool Grants	84.173A			
Fiscal Year 14		3800002 14	7,769	7,769
Special Education Cluster Subtotal				<u>183,229</u>
Vocation Education - Basic Grants to States	84.048			
Fiscal Year 13		4621132 13	9,737	1,044
Fiscal Year 13A		4621132 13	510	510
Fiscal Year 14		4621132 14	9,788	9,043
				<u>10,597</u>
Rural Education	84.358B			
Fiscal Year 13		3140002 13	21,926	10,137
Fiscal Year 14		3140002 14		1,538
				<u>11,676</u>
Race to the Top	84.413A			
Fiscal Year 11		39600002 11	15,374	3,127
Improving Teacher Quality State Grants	84.367A			
Fiscal Year 13		3230002 13	86,696	2,028
Fiscal Year 14		3230002 14	83,679	83,174
				<u>85,201</u>
Total US Department of Education				<u>681,400</u>
Passed Through Kentucky School Board Association				
Medicaid Reimbursement	93.778			
Fiscal Year 14		110.4810	\$	\$ 19,995
Total U.S. Department of Health and Human Services				<u>19,995</u>
Total Expenditure of Federal Awards				<u>\$ 990,285</u>

* Major program

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Pikeville Independent Board of Education and
State Committee for School District Audits
Pikeville, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the Auditor Responsibilities and State Compliance Requirements sections contained in the Kentucky Public School Districts' Audit Contract and Requirements, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Pikeville Independent School District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Pikeville Independent School District's basic financial statements, and have issued our report thereon dated October 23, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Pikeville Independent School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Pikeville Independent School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Pikeville Independent School District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pikeville Independent School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Pikeville Independent School District, in a separate letter dated October 23, 2014.

In addition, the results of our tests disclosed no material deficiencies as it relates to specific state statutes or regulations identified in the audit requirements prescribed by the Kentucky State Committee for School District Audits included in the Kentucky Public School District's Audit Contract and Requirements or Appendices.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

White & Associates, P.C.

Richmond, Kentucky
October 23, 2014

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Pikeville Independent Board of Education and
State Committee for School District Audits
Pikeville, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Pikeville Independent School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Pikeville Independent School District's major federal programs for the year ended June 30, 2014. Pikeville Independent School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Pikeville Independent School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the Auditor Responsibilities and State Compliance Requirements sections contained in the Kentucky Public School Districts' Audit Contract and Requirements. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Pikeville Independent School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Pikeville Independent School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Pikeville Independent School District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of Pikeville Independent School District, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Pikeville Independent School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Pikeville Independent School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

White & Associates, P.C.

Richmond, Kentucky
October 23, 2014

PIKEVILLE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2014

SUMMARY OF AUDITOR’S RESULTS

What type of report was issued for the financial statements?	Unmodified
Were there significant deficiencies in internal control disclosed? If so, was any significant deficiencies material (GAGAS)?	None Reported
Was any material noncompliance reported (GAGAS)?	No
Were there material weaknesses in internal control disclosed for major programs?	No
Were there any significant deficiencies in internal control disclosed that were not considered to be material weaknesses?	None Reported
What type of report was issued on compliance for major programs?	Unmodified
Did the audit disclose findings as it relates to major programs that Is required to be reported as described in Section 510(a) of OMB A-133?	No
Major Programs	Title I [CFDA 84.010A]
Dollar threshold of Type A and B programs	\$300,000
Low risk auditee?	Yes

FINDINGS - FINANCIAL STATEMENT AUDIT

No findings at the financial statement level.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

No findings at the major federal award programs level.

PIKEVILLE INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2014

There were no prior audit findings.