

**PIKEVILLE INDEPENDENT
SCHOOL DISTRICT**

**AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULES**

For the year ended June 30, 2017

Prepared by:

WHITE & ASSOCIATES, PSC
CERTIFIED PUBLIC ACCOUNTANTS
1407 Lexington Road
Richmond, Kentucky 40475
Phone (859) 624-3926 Fax (859) 625-0227

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR’S REPORT	1-2
MANAGEMENT DISCUSSION AND ANALYSIS	3-11
BASIC FINANCIAL STATEMENTS:	
Government-Wide Financial Statements:	
Statement of Net Position.....	12
Statement of Activities.....	13
Fund Financial Statements:	
Balance Sheet-Governmental Funds.....	14
Reconciliation of the Balance Sheet- Governmental Funds to the Statement of Net Position	15
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	16
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	17
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual - General Fund	18
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Special Revenue Fund.....	19
Statement of Fund Net Position – Proprietary Fund.....	20
Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Fund.....	21
Statement of Cash Flows – Proprietary Fund.....	22
Statement of Fiduciary Net Position – Fiduciary Fund.....	23
Notes to the Financial Statements.....	24-48
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of the District’s Proportionate Share of the Net Pension Liability.....	49
Schedule of Contributions.....	50
Notes to Required Supplementary Information.....	51-52
SUPPLEMENTAL INFORMATION	
Combining Statements – Non-Major Funds and Other:	
Combining Balance Sheet – Non-major Governmental Funds	53

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Non-major Governmental Funds	54
Combining Balance Sheet of Fiduciary Fund – School Activity Funds.....	55
Combining Statement of Revenues, Expenses, and Changes in Fund Balance - School Activity Funds.....	56
Statement of Revenues, Expenses, and Changes in Fund Balance - Pikeville High School.....	57
Schedule of Expenditures of Federal Awards.....	58
Notes to the Schedule of Expenditures of Federal Awards.....	59

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 <i>GOVERNMENT AUDITING STANDARDS</i>.....	60-61
---	--------------

INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM COMPLIANCE.....	62-63
--	--------------

SCHEDULE OF FINDINGS AND QUESTIONED COSTS.....	64
---	-----------

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS.....	65
--	-----------

MANAGEMENT LETTER POINTS.....	66-67
--------------------------------------	--------------

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the Pikeville Independent School District

Pikeville, Kentucky

and the State Committee for School District Audits

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 the Pikeville Independent School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Pikeville Independent School 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 Pikeville Independent School District, as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison

schedules for the General Fund and Special Revenue Fund(s) 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, schedule of the District's proportionate share of the net pension liability, and schedule of contributions 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 Pikeville Independent School District's basic financial statements. The combining and individual nonmajor fund financial statements are 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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements 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 combining and individual nonmajor fund financial statements 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 November 10, 2017, on our consideration of the Pikeville Independent School 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 Pikeville Independent School District's internal control over financial reporting and compliance.

White & Associates, PSC

Richmond, Kentucky
November 10, 2017

PIKEVILLE INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) YEAR ENDED JUNE 30, 2017

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, 2017. 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 \$939,062 at June 30, 2017, compared to \$894,039 at June 30, 2016, an increase of \$45,023.
- General Fund revenues totaled \$11.74 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 \$11.53 million in FY 2016.
- Excluding inter-fund transfers, General Fund expenditures totaled \$12.05 million. This compares to \$12.03 million in the prior year. Of these expenditures salaries and benefits totaled \$9.90 million compared to \$9.68 million in FY 2016.
- SEEK revenue decreased \$71,855 from FY 2016. The SEEK Guaranteed Base was \$3,981 in FY 2016, and was \$3,981 in FY 2017, a decrease in ADA resulted in a slight decrease in total SEEK revenues for FY2017.

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.

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.

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 \$3.90 million as of June 30, 2017.

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)

	Governmental Activities		Business-type Activities		Total School District		Total Percentage Change 2016-2017
	2016	2017	2016	2017	2016	2017	
Assets:							
Current and Other Assets	1.56	1.67	0.09	0.03	1.65	1.70	3.00%
Capital Assets	<u>7.75</u>	<u>7.41</u>	<u>0.06</u>	<u>0.09</u>	<u>7.81</u>	<u>7.50</u>	<u>-4.00%</u>
Total Assets	<u>9.31</u>	<u>9.08</u>	<u>0.15</u>	<u>0.12</u>	<u>9.46</u>	<u>9.20</u>	<u>-1.00%</u>
Deferred Outflows of Resources	0.54	0.68	0.01	0.08	0.55	0.76	40.00%
Liabilities:							
Current Liabilities	0.50	0.40	0.00	0.00	0.50	0.40	-10.00%
Noncurrent Liabilities	<u>5.06</u>	<u>5.26</u>	<u>0.11</u>	<u>0.17</u>	<u>5.17</u>	<u>5.43</u>	<u>5.00%</u>
Total Liabilities	<u>5.56</u>	<u>5.66</u>	<u>0.00</u>	<u>0.11</u>	<u>5.67</u>	<u>5.83</u>	<u>-5.00%</u>
Net Position:							
Invested in Capital Assets							
Net of Debt	4.80	4.80	0.06	0.09	4.86	4.89	0.50%
Restricted	0.10	0.08	0.02	-0.08	0.12	0.00	-100.00%
Unrestricted Net Position	<u>-0.66</u>	<u>-0.99</u>	<u>-</u>	<u>-</u>	<u>-0.66</u>	<u>-0.99</u>	<u>50.00%</u>
Total Net Position	<u>4.24</u>	<u>3.89</u>	<u>0.08</u>	<u>0.01</u>	<u>4.32</u>	<u>3.90</u>	<u>-49.50%</u>

Table 2
Changes in Net Position
(in Millions)

	Governmental		Business-Type		Total		Total
	Activities		Activities		School District		Percentage
	2016	2017	2016	2017	2016	2017	2016-2017
Revenues:							
Program Revenues:							
Charges for Services	0.45	0.43	0.28	0.28	0.73	0.71	-2.00%
Operating Grants and							
Contributions	1.12	1.04	0.32	0.34	1.44	1.36	-5.00%
Capital Grants and							
Contributions	0.31	0.32			0.31	0.32	1.00%
General Revenue:							
Property Taxes	3.90	4.22			3.90	4.22	8.00%
Motor Vehicle Taxes	0.36	0.34			0.36	0.34	-5.00%
Utility Taxes	0.85	0.86			0.85	0.86	1.00%
State and Federal grants	6.00	6.05			6.00	6.05	0.80%
Other Local Revenue Unrestricted	0.11	0.08			0.11	0.08	-20.00%
Investment Earnings	0.01	0.01			0.01	0.01	0.00%
Total Revenues	<u>13.11</u>	<u>13.35</u>	<u>0.65</u>	<u>0.62</u>	<u>13.71</u>	<u>14.00</u>	2.00%
Program Expenses:							
Instruction	7.80	8.12			7.80	8.12	4.00%
Support Services:							
Student	0.52	0.51			0.52	0.51	-1.00%
Instructional Staff District	0.73	0.74			0.73	0.74	1.00%
Administration School	0.66	0.71			0.66	0.71	7.00%
Administration	0.71	0.71			0.71	0.71	0.00%
Business	0.21	0.21			0.21	0.21	0.00%
Plant Operation and Maintenance	1.76	1.49			1.76	1.49	-15.00%
Student Transportation	0.33	0.41			0.33	0.33	0.00%
Food Service Operations	0.01	0.01	0.60	0.69	0.61	0.69	12.00%
Community Services Operations	0.10	0.10			0.10	0.10	0.00%
Interest	0.10	0.09			0.10	0.09	-1.00%
Amortization	0.01	0.01			0.01	0.01	
Depreciation	0.65	0.57	0.01	0.01	0.66	0.58	-11.00%
Total Expenses	<u>13.59</u>	<u>13.72</u>	<u>0.61</u>	<u>0.70</u>	<u>14.20</u>	<u>14.29</u>	0.06%
Increase/(Decrease) in							
Net Position	<u>(0.48)</u>	<u>(0.37)</u>	<u>0.04</u>	<u>(0.08)</u>	<u>(0.49)</u>	<u>0.29</u>	

Changes in Net Position: The District's total net position decreased \$0.43 million. The District's total revenues increased from \$13.71 million to \$14.00 million. (See Table 2 above.) Property taxes and state and formula grants accounted for most of the District's revenues.

The total cost of all programs and resources increased from \$14.20 million to \$14.29 million. The District's expenses are predominantly related to educating and caring for students (66%). The administrative activities of the District accounted for 10% of total costs. Plant Operation and Maintenance is also 10% of the total costs to the District.

Governmental Activities

Revenues for the District's governmental activities increased \$0.24 million, as well as an increase of \$0.13 million in the District's total expenses.

Business-type activities

Revenues for the District's business-type activities remained the same, while expenses increased by \$0.08 million in 2017. The net position showed a slight decrease.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds reported combined fund balances totaling \$1.03 million, which is an increase of \$0.21 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

Table 3
\$ (in Millions)

	General Fund	Special Revenue Fund	Other Funds	Proprietary Funds
Local Revenue	5.69	0.01	0.32	0.28
State Revenue	6.01	0.37	0.32	0.07
Federal Revenue	0.04	0.67	-	0.28
Other	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Totals	<u>11.74</u>	<u>1.05</u>	<u>0.64</u>	<u>0.63</u>
Instruction	7.18	0.83	-	-
Student Support	0.49	0.02	-	-
Instructional Staff	0.57	0.13	-	-
District Admin	0.74	-	-	-
School Support	0.72	-	-	-
Business Support	0.21	-	-	-
Plant Operation & Maintenance	1.53	-	-	-
Student Transportation	0.60	-	-	-
Food Service	0.01	-	-	0.71
Community Svc.	-	0.10	-	-
Debt Service	-	-	0.44	-
Fund Transfer/Other	-	-	-	-
Daycare	-	-	-	-
Depreciation	-	-	-	0.02
Other	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Totals	<u>12.05</u>	<u>1.08</u>	<u>0.44</u>	<u>0.73</u>

General Fund Revenue/Expenditures (Fund 1)

Revenue was basically derived from State Sources (51%) with local property, motor vehicle and utility taxes making up the other 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 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 5%. 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 (64%). The majority of expenditures (77%) 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 2017 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 (45%) and federal funding (45%).

CAPITAL ASSETS

At the end of fiscal 2017, the District had \$7.50 million invested in capital assets, including land, buildings, buses, computers and other equipment.

Table 4
Capital Assets at Year-End
(Net of Depreciation, in Millions)

	Governmental		Business-Type		Totals	
	Activities 2016	2017	Activities 2016	2017	2016	2017
Land & Improvements	0.83	0.78	-	-	0.87	0.78
Buildings	6.24	5.89	-	-	6.24	5.89
Technology Equipment	0.12	0.07	-	-	0.12	0.07
Vehicles	0.36	0.46	-	-	0.36	0.46
General Equipment	0.21	0.20	0.06	0.10	0.27	0.30
Construction in Progress	-	-	-	-	-	-
Totals	7.76	7.40	0.06	0.10	7.82	7.50

DEBT

During fiscal year 2017 the district assumed \$202,648 in new debt through KISTA for the purchase of 2 new school buses and continues to make all bond payment obligations in a timely manner.

Table 5
Outstanding Debt at Year-End
(in Millions)

	Governmental	Governmental Activities	
		2016	2017
General Obligation Bonds		3.06	2.91
		<hr/>	<hr/>
Total Obligations		<u>3.06</u>	<u>2.91</u>

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.

- General Fund budget compared to actual revenue varied somewhat in most line items with the ending actual balance being \$192,526 more than budget.
- Net of the contingency, expenditures were \$434,645 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, 2017

	Primary Government		
	Governmental Activities	Business- type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 740,666	\$ 11,244	\$ 751,910
Interfund receivable	105,325		105,325
Receivables			
Taxes-current	106,808		106,808
Taxes-delinquent	92,966		92,966
Taxes-property	478,270		478,270
Accounts	24,676		24,676
Intergovernmental-federal	121,722		121,722
Inventories		16,606	16,606
Capital assets:			
Land and construction in progress	454,468		454,468
Other capital assets, net of depreciation	6,956,082	96,611	7,052,693
Total capital assets	<u>7,410,550</u>	<u>96,611</u>	<u>7,507,161</u>
Total assets	<u>9,080,983</u>	<u>124,461</u>	<u>9,205,444</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	582,832	76,654	659,486
Deferred savings from refunding bonds	96,977		96,977
Total deferred outflows of resources	<u>679,809</u>	<u>76,654</u>	<u>756,463</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>9,760,792</u>	<u>201,115</u>	<u>9,961,907</u>
LIABILITIES			
Accounts payable and accrued expenses	44,298	27,850	72,148
Accrued interest payable	12,787		12,787
Interfund payable	105,325		105,325
Unearned revenue	15,473		15,473
Long-term liabilities:			
Due within 1 year:			
Bond obligations	360,000		360,000
Capital lease obligations	21,217		21,217
KSBIT payable	20,464		20,464
Total due within 1 year	<u>401,681</u>	<u>-</u>	<u>401,681</u>
Due in more than 1 year:			
Bond obligations	2,350,000		2,350,000
Capital lease obligations	181,431		181,431
KSBIT payable	61,392		61,392
Sick leave	260,436		260,436
Net pension liability	2,406,498	165,170	2,571,668
Total due in more than 1 year	<u>5,259,757</u>	<u>165,170</u>	<u>5,424,927</u>
Total liabilities	<u>5,839,321</u>	<u>193,020</u>	<u>6,032,341</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	30,025		30,025
NET POSITION			
Net Investment in capital assets	4,797,527	96,611	4,894,138
Restricted for:			
Food services		(88,516)	(88,516)
Capital projects	88,005		88,005
Unrestricted	(994,086)		(994,086)
Total net position	<u>3,891,446</u>	<u>8,095</u>	<u>3,899,541</u>
TOTAL LIABILITIES DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 9,760,792</u>	<u>\$ 201,115</u>	<u>\$ 9,961,907</u>

See the accompanying notes to the financial statements.

Pikeville Independent School District
Statement of Activities
Year Ended June 30, 2017

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	\$ 8,169,464	\$ 432,121	\$ 673,168	\$ -	\$ (7,064,175)		\$ (7,064,175)
Support services							
Student	509,581		38,799		(470,782)		(470,782)
Instructional staff	698,443		53,179		(645,264)		(645,264)
District administration	737,493		56,152		(681,341)		(681,341)
School administration	715,178		54,453		(660,725)		(660,725)
Business	206,510		15,723		(190,787)		(190,787)
Plant operation & maintenance	1,495,309		113,851	231,482	(1,149,976)		(1,149,976)
Student transportation	409,297		31,163		(378,134)		(378,134)
Food service operations	10,701		815		(9,886)		(9,886)
Community services operations	96,708		7,363		(89,345)		(89,345)
Depreciation	568,503				(568,503)		(568,503)
Amortization	9,929				(9,929)		(9,929)
Interest on long term debt	93,437			88,657	(4,780)		(4,780)
Total governmental activities	<u>13,720,553</u>	<u>432,121</u>	<u>1,044,666</u>	<u>320,139</u>	<u>(11,923,627)</u>		<u>(11,923,627)</u>
Business-type activities:							
Food service operations	680,731	276,725	317,231			\$ (86,775)	(86,775)
Depreciation	15,784					(15,784)	(15,784)
Total business-type activities	<u>696,515</u>	<u>276,725</u>	<u>317,231</u>	<u>-</u>	<u>-</u>	<u>(102,559)</u>	<u>(102,559)</u>
Total primary government	<u>\$ 14,417,068</u>	<u>\$ 708,846</u>	<u>\$ 1,361,897</u>	<u>\$ 320,139</u>	<u>(11,923,627)</u>	<u>(102,559)</u>	<u>(12,026,186)</u>
General revenues:							
Taxes:							
Property taxes					4,217,649		4,217,649
Motor vehicle taxes					340,143		340,143
Utility taxes					865,050		865,050
Revenue in lieu of taxes					28,302		28,302
State and formula grants					6,050,946		6,050,946
Other local revenue					82,999		82,999
Unrestricted investment earnings					13,366		13,366
Transfers					(20,061)	20,061	-
Total general revenues					<u>11,578,394</u>	<u>20,061</u>	<u>11,598,455</u>
Change in net position					(345,233)	(82,498)	(427,731)
Net Position - beginning					4,236,679	90,593	4,327,272
Net Position - ending					<u>\$ 3,891,446</u>	<u>\$ 8,095</u>	<u>\$ 3,899,541</u>

See the accompanying notes to the financial statements.

Pikeville Independent School District
Balance Sheet
Governmental Funds
June 30, 2017

	Governmental Funds				
	General	Special Revenue	Debt Service	Other Governmental Funds	Total
ASSETS					
Cash and cash equivalents	\$ 652,661	\$ -	\$ -	\$ 88,005	\$ 740,666
Receivables					
Interfund	105,325				105,325
Taxes-current	106,808				106,808
Taxes-delinquent	92,966				92,966
Accounts	24,676				24,676
Intergovernmental-federal		121,722			121,722
Total assets	982,436	121,722	-	88,005	1,192,163
LIABILITIES					
Accounts payable	43,374	924			44,298
Interfund payable		105,325			105,325
Unearned revenue		15,473			15,473
Total liabilities	43,374	121,722	-	-	165,096
FUND BALANCE					
Restricted				88,005	88,005
Committed	15,085				15,085
Unassigned	923,977				923,977
Total fund balance	939,062	-	-	88,005	1,027,067
TOTAL LIABILITIES AND FUND BALANCE	\$ 982,436	\$ 121,722	\$ -	\$ 88,005	\$ 1,192,163

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, 2017

Fund balances-total governmental funds	\$	1,027,067
<p>Amounts reported for governmental activities in the statement of net position are different because:</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.		7,410,550
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		478,270
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		96,977
Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave, accrued interest payable, other accounts payable, and net pension obligations) are not due and payable in the current period and, therefore, are not reported in the funds		
Accrued interest payable		(12,787)
Bonds payable		(2,710,000)
Capital lease payable		(202,648)
KSBIT payable		(81,856)
Sick leave liability		(260,436)
Net pension liability		(2,406,498)
Deferred outflows and inflows or resources related to pensions are applicable to future periods and, therefore, are not reported in the funds		
Deferred outflows related to pensions		582,832
Deferred inflows related to pensions		(30,025)
		(3,017,135)
Net position of governmental activities	\$	<u><u>3,891,446</u></u>

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, 2017

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES					
From Local Sources					
Taxes					
Property	\$ 3,939,325	\$ -	\$ -	\$ 319,737	\$ 4,259,062
Motor vehicle	340,143				340,143
Utilities	865,050				865,050
Revenue in lieu of taxes	28,302				28,302
Earnings on investments	13,366				13,366
Tuition	432,121				432,121
Other local revenue	73,681	9,318			82,999
Intergovernmental - state	6,008,100	374,790	88,657	231,482	6,703,029
Intergovernmental - federal	42,846	669,876			712,722
Total revenues	<u>11,742,934</u>	<u>1,053,984</u>	<u>88,657</u>	<u>551,219</u>	<u>13,436,794</u>
EXPENDITURES					
Instruction	7,189,804	834,998			8,024,802
Support services					
Student	493,082	16,499			509,581
Instructional staff	570,494	127,949			698,443
District administration	737,493				737,493
School administration	715,178				715,178
Business	206,510				206,510
Plant operation & maintenance	1,526,290				1,526,290
Student transportation	604,540	1,378			605,918
Food service operations	10,701				10,701
Community services operations		96,708			96,708
Debt service			442,645		442,645
Total expenditures	<u>12,054,092</u>	<u>1,077,532</u>	<u>442,645</u>	<u>-</u>	<u>13,574,269</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(311,158)	(23,548)	(353,988)	551,219	(137,475)
OTHER FINANCING SOURCES (USES)					
Capital lease proceeds	202,648				202,648
Operating transfers in	197,142	23,548	353,988		574,678
Operating transfers (out)	(43,609)			(551,130)	(594,739)
Total other financing sources and (uses)	<u>356,181</u>	<u>23,548</u>	<u>353,988</u>	<u>(551,130)</u>	<u>182,587</u>
NET CHANGE IN FUND BALANCE	45,023	-	-	89	45,112
FUND BALANCE-BEGINNING	<u>894,039</u>	<u>-</u>	<u>-</u>	<u>87,916</u>	<u>981,955</u>
FUND BALANCE-ENDING	<u>\$ 939,062</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 88,005</u>	<u>\$ 1,027,067</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, 2017

Net change in fund balances-total governmental funds	\$	45,112
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report district pension contributions as expenditures. However in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.</p>		
District pension contributions less costs of benefits earned net employee contributions		(130,140)
<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>		
		(340,901)
<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>		
		(41,413)
<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>		
		(9,929)
<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>		
		147,352
<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>		
Accrued interest payable		(792)
KSBIT payable		36,611
Noncurrent sick leave payable		(51,133)
		(51,133)
Change in net position of governmental activities	\$	(345,233)

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, 2017

	<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	\$ 3,798,000	\$ 3,826,582	\$ 3,939,325	\$ 112,743
Motor vehicle	375,000	375,000	340,143	(34,857)
Utilities	850,000	850,000	865,050	15,050
Revenue in lieu of taxes	29,000	29,000	28,302	(698)
Earnings on investments	12,000	12,000	13,366	1,366
Tuition	455,000	455,000	432,121	(22,879)
Other local revenue	77,250	77,250	73,681	(3,569)
Intergovernmental - state	5,904,158	5,875,576	6,008,100	132,524
Intergovernmental - federal	50,000	50,000	42,846	(7,154)
Total revenues	<u>11,550,408</u>	<u>11,550,408</u>	<u>11,742,934</u>	<u>192,526</u>
EXPENDITURES				
Instruction	7,028,990	7,028,990	7,189,804	(160,814)
Support services			-	
Student	485,176	485,176	493,082	(7,906)
Instructional staff	560,848	560,848	570,494	(9,646)
District administration	664,002	664,002	737,493	(73,491)
School administration	710,655	710,655	715,178	(4,523)
Business	150,844	150,844	206,510	(55,666)
Plant operation & maintenance	1,609,865	1,609,865	1,526,290	83,575
Student transportation	397,302	397,302	604,540	(207,238)
Food service operations	11,765	11,765	10,701	1,064
Total expenditures	<u>11,619,447</u>	<u>11,619,447</u>	<u>12,054,092</u>	<u>(434,645)</u>
EXCESS (DEFICIENCY) IN REVENUES OVER EXPENDITURES	(69,039)	(69,039)	(311,158)	(242,119)
OTHER FINANCING SOURCES (USES)				
Capital lease proceeds			202,648	202,648
Operating transfers in			197,142	197,142
Operating transfers (out)	(25,000)	(25,000)	(43,609)	(18,609)
Total other financing sources and (uses)	<u>(25,000)</u>	<u>(25,000)</u>	<u>356,181</u>	<u>381,181</u>
NET CHANGE IN FUND BALANCE	(94,039)	(94,039)	45,023	139,062
FUND BALANCE-BEGINNING	<u>894,039</u>	<u>894,039</u>	<u>894,039</u>	<u>-</u>
FUND BALANCE-ENDING	<u>\$ 800,000</u>	<u>\$ 800,000</u>	<u>\$ 939,062</u>	<u>\$ 139,062</u>

* The district did not budget payments made by the state on-behalf of the district, therefore, those payments have been eliminated from this schedule to better compare the budgeted to actual amounts. The on-behalf payments totaled \$2,051,244.

Pikeville Independent School District
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Special Revenue Fund
Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Other local revenue	\$ -	\$ 10,000	\$ 9,318	\$ (682)
Intergovernmental - state	364,057	362,567	374,790	12,223
Intergovernmental - federal	701,761	694,263	669,876	(24,387)
Total revenues	<u>1,065,818</u>	<u>1,066,830</u>	<u>1,053,984</u>	<u>(12,846)</u>
EXPENDITURES				
Instruction	770,682	781,815	834,998	(53,183)
Support Services				
Student	35,500	35,500	16,499	19,001
Instructional Staff	186,392	174,519	127,949	46,570
Student Transportation	2,374	2,674	1,378	1,296
Community Services Operations	95,870	95,870	96,708	(838)
Total expenditures	<u>1,090,818</u>	<u>1,090,378</u>	<u>1,077,532</u>	<u>12,846</u>
EXCESS (DEFICIENCY) IN REVENUES OVER EXPENDITURES	(25,000)	(23,548)	(23,548)	-
OTHER FINANCING SOURCES (USES)				
Operating transfers in	25,000	23,548	23,548	-
Total other financing sources and (uses)	<u>25,000</u>	<u>23,548</u>	<u>23,548</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	-	-	-	-
FUND BALANCE-BEGINNING	-	-	-	-
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 Fund Net Position
Proprietary Fund
June 30, 2017

		School Food Services
ASSETS		
Cash	\$	11,244
Inventories		16,606
Capital assets:		
Other capital assets, net of depreciation		96,611
Total assets		<u>124,461</u>
 DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pensions		<u>76,654</u>
 TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		<u><u>201,115</u></u>
 LIABILITIES		
Accounts payable		27,850
Net pension liability		<u>165,170</u>
Total liabilities		<u>193,020</u>
 NET POSITION		
Net Investment in capital assets		96,611
Restricted		<u>(88,516)</u>
Total net position		<u>8,095</u>
 TOTAL LIABILITIES AND NET POSITION	\$	<u><u>201,115</u></u>

See the accompanying notes to the financial statements.

Pikeville Independent School District
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Fund
Year Ended June 30, 2017

		<u>School Food Services</u>
OPERATING REVENUES		
Lunchroom sales	\$	276,786
Other revenue from local sources		39
Total operating revenues		<u>276,825</u>
OPERATING EXPENSES		
Depreciation		15,784
Food service operations		
Employee services		378,051
Operational expenses		336,852
Total operating expenses		<u>730,687</u>
Operating income (loss)		<u>(453,862)</u>
NONOPERATING REVENUES (EXPENSES)		
Federal grants		281,375
State grants		69,928
Transfers		20,061
Total nonoperating revenues (expenses)		<u>371,364</u>
CHANGE IN NET POSITION		(82,498)
NET POSITION-BEGINNING		<u>90,593</u>
NET POSITION-ENDING	\$	<u><u>8,095</u></u>

See the accompanying notes to the financial statements.

Pikeville Independent School District
Statement of Cash Flows
Proprietary Fund
Year Ended June 30, 2017

	<u>School Food Services</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 276,825
Payments to suppliers	(281,254)
Payments to employees	(378,051)
Net cash provided (used) by operating activities	<u>(382,480)</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Purchase of capital assets	(47,820)
Net cash provided (used) by capital financing activities	<u>(47,820)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Operating transfers	20,061
Operating grants and contributions	351,303
Net cash provided (used) by noncapital financing activities	<u>371,364</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(58,936)
CASH AND CASH EQUIVALENTS-BEGINNING	<u>70,180</u>
CASH AND CASH EQUIVALENTS-ENDING	<u>\$ 11,244</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (453,862)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	15,784
Changes in assets and liabilities:	
Deferrals	(31,627)
Inventory	1,667
Pension liability	58,282
Accounts payable	27,276
Net cash provided (used) by operating activities	<u>\$ (382,480)</u>

NONCASH NONCAPITAL FINANCING ACTIVITIES

During the year, the district received \$34,172 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 \$65,028 provided by state government.

See the accompanying notes to the financial statements.

Pikeville Independent School District
Statement of Fiduciary Net Position
Fiduciary Fund
June 30, 2017

		School Activity Fund Total
<hr/>		
ASSETS		
Cash and cash equivalents	\$	92,649
Total Assets		<u>92,649</u>
LIABILITIES		
Accounts payable		8,200
Total Liabilities		<u>8,200</u>
NET POSITION		
Net Position-Restricted for School Activity Funds		<u>84,449</u>
LIABILITIES & NET POSITION	\$	<u>92,649</u>

See the accompanying notes to the financial statements.

PIKEVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2017

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:

Blended Component Unit:

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 fund balance. 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.

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.

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

Inventory consists of food purchased by the District and commodities granted by the United States Department of Agriculture (USDA). The commodities are recognized as revenues and expenditures by

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

the Food Service Fund when consumed. Any material commodities on hand at year end are recorded as inventory. All purchased inventory items are valued at the lower of cost or market (first-in, first-out) using the consumption method and commodities assigned values are based on information provided by the USDA.

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.

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
Other	10 years

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of the accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments.

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; unassigned amounts are reported only in the General Fund unless a fund has a deficit.

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.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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

The property tax rates assessed for the year ended June 30, 2017, to finance the General Fund operations were \$.718 per \$100 valuation of real property, \$.718 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.

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 Receivables/Payables

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 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.

Interfund Transfers

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position includes a section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until the appropriate period. The District reports two types of deferred outflows – contributions to the CERS pension system after the measurement period and the unrecognized portion of a deferred loss on the refinancing of long-term debt.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until appropriate period. The District reports one type of deferred outflows related to the net difference projected and actual earnings on pension plan investments.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees Retirement System Non-Hazardous (“CERS”) and Teachers Retirement System of the State of Kentucky (“KTRS”) and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the pensions. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Bond Issuance Costs

Debt issuance costs are expensed in the period they are incurred.

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.

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.

The General Fund’s expenditures exceeded its appropriations by \$434,645.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

New Pronouncements

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pension Plans* (“GASB 75”). GASB 75 replaces Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employer Plans*. It establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures for other postemployment benefits (“OPEB”). In addition, GASB 75 details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. GASB 75 will be effective for the District beginning with its year ending June 30, 2018.

In March 2016, the GASB issued Statement No. 82, *Pension Issues* (“GASB 82”). GASB 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements that arose during the implementation of GASB Statement No. 68. GASB 82 is effective for the District beginning with its year ending June 30, 2017. The adoption of this standard did not have a material effect on the District’s financial statements.

NOTE B – CASH AND CASH EQUIVALENTS

The Kentucky Revised Statutes authorize the District to invest money subject to its control in obligations of the United States; bonds or certificates of indebtedness of Kentucky and its agencies and instrumentalities; savings and loan associations insured by an agency of the United States up to the amount insured; and national or state banks chartered in Kentucky and insured by an agency of the United States providing such banks pledge as security obligations, as permitted by KRS 41.240(4), having a current quoted market value at least equal to uninsured deposits.

Custodial credit risk is the risk that in the event of a bank failure, a government’s deposits may not be returned to it. The District’s deposit policy for custodial credit risk requires compliance with the provisions of state law.

At year end the District’s bank balances were collateralized by securities held by the pledging bank’s trust department in the District’s name and FDIC insurance. At year end, the carrying amount of the District’s cash and cash equivalents was \$844,559. The bank balance for the same time was \$1,303,687.

Due to the nature of the accounts and certain limitations imposed on the use of funds, each bank account within the following funds is considered to be restricted: SEEK Capital Outlay Fund, Facility Support Program (FSPK/Building) Fund, special Revenue (Grant Fund), Debt Service Fund, School Construction Fund, School Food Service Fund, and School Activity Fund.

NOTE C – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2017, was as follows:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

<u>Governmental Activities</u>	<u>July 1, 2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2017</u>
Land	\$ 454,468	\$ -	\$ -	\$ 454,468
Land improvements	908,586	-	-	908,586
Buildings	14,843,118	-	-	14,843,118
Technology equipment	1,327,064	-	-	1,327,064
Vehicles	1,505,804	196,621	-	1,702,425
General equipment	532,297	30,981	-	563,278
Construction in progress	-	-	-	-
Total at historical cost	\$ <u>19,571,336</u>	\$ <u>227,602</u>	\$ <u>-</u>	\$ <u>19,798,938</u>
Less: Accumulated depreciation				
Land improvements	\$ 537,235	\$ 43,628	\$ -	\$ 580,863
Buildings	8,600,808	352,830	-	8,953,638
Technology equipment	1,210,445	42,618	-	1,253,063
Vehicles	1,146,132	91,784	-	1,237,916
General equipment	<u>325,265</u>	<u>37,643</u>	<u>-</u>	<u>362,908</u>
Total accumulated depreciation	\$ <u>11,819,885</u>	\$ <u>568,503</u>	\$ <u>-</u>	\$ <u>12,388,388</u>
Governmental Activities				
Capital Assets-net	\$ <u>7,751,451</u>	\$ <u>(340,901)</u>	\$ <u>-</u>	\$ <u>7,410,550</u>
<u>Business-Type Activities</u>	<u>July 1, 2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2017</u>
Vehicles	\$ -	\$ -	\$ -	\$ -
Technology equipment	4,692	-	-	4,692
General equipment	<u>222,430</u>	<u>47,820</u>	<u>2,918</u>	<u>267,332</u>
Total at historical cost	\$ <u>227,122</u>	\$ <u>47,820</u>	\$ <u>2,918</u>	\$ <u>272,024</u>
Less: Accumulated depreciation				
Vehicles	-	-	-	-
Technology equipment	4,205	390	-	4,595
General equipment	<u>158,341</u>	<u>15,394</u>	<u>2,918</u>	<u>170,818</u>
Total accumulated depreciation	\$ <u>162,546</u>	\$ <u>15,784</u>	\$ <u>2,918</u>	\$ <u>175,413</u>
Business-Type Activities				
Capital Assets-net	\$ <u>64,576</u>	\$ <u>32,035</u>	\$ <u>-</u>	\$ <u>96,611</u>

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE D – 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 \$2,710,000 and \$360,000 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 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, 2017 are summarized below:

<u>Bond Issue</u>	<u>Original Amount</u>	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>2016</u>			<u>2017</u>
				<u>Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Outstanding Balance</u>
2006	\$ 360,000	5/1/2026	4.25%	\$ 245,000	\$ -	\$ 20,000	\$ 225,000
2008R	890,000	9/1/2019	2.55 - 3.40%	405,000		100,000	305,000
2009	1,220,000	6/1/2029	2.0 - 4.50%	1,020,000		50,000	970,000
2012R	\$ 1,840,000	6/1/2024	1.15 - 3.0%	1,390,000		180,000	1,210,000
Totals				<u>\$ 3,060,000</u>	<u>\$ -</u>	<u>\$ 350,000</u>	<u>\$ 2,710,000</u>

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, 2017 for debt service, (principal and interest) are as follows:

SEE SCHEDULE ON FOLLOWING PAGE

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Fiscal Year Ended June 30th	Principal		Interest		Principal Total	Interest Total
	Local	SFCC	Local	SFCC		
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	292,765	67,235	56,778	8,243	360,000	65,021
2021	248,321	26,679	49,838	6,816	275,000	56,654
2022	252,542	27,458	43,146	6,037	280,000	49,184
2023-2027	744,951	100,049	118,543	17,704	845,000	136,248
2028-2029	193,315	31,685	13,146	2,154	225,000	15,300
	<u>\$ 2,302,932</u>	<u>\$ 407,068</u>	<u>\$ 418,210</u>	<u>\$ 64,306</u>	<u>\$ 2,710,000</u>	<u>\$ 482,517</u>

NOTE E – CAPITAL LEASES

The following is an analysis of the leased property under capital lease by class:

KISTA Issue	Original Amount	Maturity Date	Interest Rates	2016 Lease Outstanding	Additions	Retirements	2017 Lease Outstanding
2017	\$ 202,648	3/1/2027	2.55%	\$ -	\$ 202,648	\$ -	\$ 202,648
				<u>\$ -</u>	<u>\$ 202,648</u>	<u>\$ -</u>	<u>\$ 202,648</u>

The following is a schedule by years of the future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of June 30, 2017:

Fiscal Year Ended June 30th	Local Principal	Interest	Total Payments
2018	\$ 21,217	\$ 5,297	\$ 26,514
2019	22,227	4,626	26,853
2020	18,983	4,060	23,043
2021	19,462	3,576	23,038
2022	19,940	3,079	23,019
2023-2026	100,819	7,585	108,404
	<u>\$ 202,648</u>	<u>\$ 28,223</u>	<u>\$ 230,871</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Total minimum lease payments	\$	230,871
Less: Amount representing interest		(28,223)
 Present Value of Net Minimum Lease Payments	\$	202,648

The assets acquired through the capital leases are as follows:

		<u>Governmental Activities</u>
Buses	\$	<u>196,621</u>
Less accumulated depreciation		<u>(3,085)</u>
Total	\$	<u>193,536</u>

NOTE F – OTHER LONG TERM OBLIGATIONS

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave. The activity during fiscal year 2017 for accumulated sick leave is as follows:

	<u>2016</u>				<u>2017</u>
	<u>Outstanding</u>		<u>Additions</u>	<u>Retirements</u>	<u>Outstanding</u>
	<u>Balance</u>				<u>Balance</u>
Sick Leave	\$ 209,303	\$ 51,133	\$ -	\$ -	\$ 260,436
Totals	<u>\$ 209,303</u>	<u>\$ 51,133</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 260,436</u>

The District elected to take advantage of the 0% interest option repayment plan for the worker's compensation and property and liability insurance deficit with the now defunct Kentucky School Board Insurance Trust. The repayment plan required the District to pay 25% of the worker's compensation deficit during fiscal year 2017 with the remaining balance to be repaid over the next six years, and to pay 40% of the property and liability deficit during fiscal year 2017 with the remaining balance to be repaid over the next two years. The activity during fiscal year 2017 for the worker's compensation and property and liability deficit are as follows:

<u>Insurance Fund</u>	<u>2016</u>				<u>2017</u>
	<u>Outstanding</u>		<u>Additions</u>	<u>Retirements</u>	<u>Outstanding</u>
	<u>Balance</u>				<u>Balance</u>
Worker's Compensation	\$ 102,320			\$ 20,464	\$ 81,856
Property and Liability	16,147			16,147	-
Totals	<u>\$ 118,467</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 36,611</u>	<u>\$ 81,856</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The minimum payments are as follows:

Fiscal Year Ended June 30,	<u>Payment</u>
2018	20,464
2019	20,464
2020	20,464
2021	20,464
Total	<u><u>\$ 81,856</u></u>

NOTE G – RETIREMENT PLANS

Kentucky Teachers Retirement System

Plan description—Teaching certified employees of the Kentucky School District are provided pensions through the Teachers’ Retirement System of the State of Kentucky (KTRS)—a cost-sharing multiple-employer defined benefit pension plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the state. 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 is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth’s financial statements. KTRS issues a publicly available financial report that can be obtained at http://www.ktrs.ky.gov/05_publications/index.htm.

Benefits provided—For members who have established an account in a retirement system administered by the Commonwealth prior to July 1, 2008, members become vested when they complete five (5) years of credited service. To qualify for monthly retirement benefits, payable for life, members must either:

- 1.) Attain age fifty-five (55) and complete five (5) years of Kentucky service, or
- 2.) Complete 27 years of Kentucky service.

Participants that retire before age 60 with less than 27 years of service receive reduced retirement benefits. Non-university members with an account established prior to July 1, 2002 receive monthly payments equal to two (2) percent (service prior to July 1, 1983) and two and one-half (2.5) percent (service after July 1, 1983) of their final average salaries for each year of credited service. New members (including second retirement accounts) after July 1, 2002 will receive monthly benefits equal to 2% of their final average salary for each year of service if, upon retirement, their total service is less than ten years. New employees after July 1, 2002 who retire with ten or more years of total service will receive monthly benefits equal to 2.5% of their final average salary for each year of service, including the first ten years. In addition, employees who retire July 1, 2004 and later with more than 30 years of service will have their multiplier increased for all years over 30 from 2.5% to 3.0% to be used in their benefit calculation. Effective July 1, 2008, the KTRS has been amended to change the benefit structure for members hired on or after that date.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Final average salary is defined as the member's five (5) highest annual salaries for those with less than 27 years of service. Employees at least age 55 with 27 or more years of service may use their three (3) highest annual salaries to compute the final average salary. KTRS also provides disability benefits for vested employees at the rate of sixty (60) percent of the final average salary. A life insurance benefit, payable upon the death of a member, is \$2,000 for active contributing members and \$5,000 for retired or disabled members.

Cost of living increases are one and one-half (1.5) percent annually. Additional ad hoc increases and any other benefit amendments must be authorized by the General Assembly.

Contributions—Contribution rates are established by Kentucky Revised Statutes (KRS). Non-university employees are required to contribute 12.855% of their salaries to the System.

The Commonwealth of Kentucky, as a non-employer contributing entity, pays matching contributions in the amount of 16.105% of salaries for local school district employees hired before July 1, 2008 and 17.105% for those hired after July 1, 2008. For local school district employees whose salaries are federally funded, the employer contributes 15.855% of salaries. If an employee leaves covered employment before accumulating five (5) years of credited service, accumulated employee pension contributions plus interest are refunded to the employee upon the member's request.

KTRS - Medical Insurance Plan

Plan description—In addition to the pension benefits described above, Kentucky Revised Statute 161.675 requires KTRS to provide post-employment 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, six percent (6%) of the gross annual payroll of members before July 1, 2008 is contributed. Three percent (3%) is paid by member contributions and three quarters percent (.75%) from state appropriation and two and one quarter percent (2.25%) 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.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to KTRS

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

At June 30, 2017 the District did not report a liability for the District’s proportionate share of the net pension liability because the Commonwealth of Kentucky provides the pension support directly to KTRS on behalf of the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of KTRS net pension liability	\$	-
Commonwealth's proportionate share of the KTRS net pension liability associated with the district		<u>62,328,123</u>
	\$	<u><u>62,328,123</u></u>

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District’s proportion of the net pension liability was based on the actual liability of the employees and former employees relative to the total liability of the Commonwealth as determined by the actuary. At June, 30, 2016, the District’s proportion was 0.205%.

For the year ended June 30, 2016, the District recognized pension expense of \$2,153,527 and revenue of \$2,153,527 for support provided by the State.

Actuarial Methods and Assumptions—The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2016
Actuarial Cost Method	Entry Age
Amortization Method	Level percentage of payroll, open
Remaining Amortization Period	30 years
Asset Valuation Method	5-year smoothed market
Single Equivalent Interest Rate	4.2%
Municipal Bond Index Rate	3.01%
Inflation	3.5%
Salary Increase	4.0-8.2%, including inflation
Investment Rate of Return	7.5%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with a setback of 1 year for females. The last experience study was performed in 2011 and the next experience study is scheduled to be conducted in 2016.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by KTRS’s investment consultant, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	45.0%	6.4%
Non U.S. Equity	17.0%	6.5%
Fixed Income	24.0%	1.6%
High Yield Bonds	4.0%	3.1%
Real Estate	4.0%	5.8%
Alternatives	4.0%	6.8%
Cash	2.0%	1.5%
Total	<u>100.0%</u>	

Discount Rate: The discount rate used to measure the total pension liability was 4.2%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members until the 2040 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2039 and a municipal bond index rate of 3.01% was applied to all periods of projected benefit payments after 2039. The Single Equivalent Interest Rate (SEIR) that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability.

The following table presents the net pension liability of the Commonwealth associated with the District, calculated using the discount rate of 4.2%, as well as what the Commonwealth’s net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.2%) or 1-percentage-point higher (5.2%) than the current rate:

SEE SCHEDULE NEXT PAGE

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	1% Decrease	Current Discount Rate	1% Increase
KTRS	3.20%	4.20%	5.20%
State's proportionate share of net pension liability	76,463,299.11	62,328,123.00	50,727,039.78

Pension plan fiduciary net position: Detailed information about the pension plan’s fiduciary net position is available in the separately issued KTRS financial report which is publically available at <http://www.ktrs.ky.gov/>.

County Employees Retirement System

Plan description—Substantially all full-time classified employees of the District participate in the County Employees Retirement System (“CERS”). CERS is a cost-sharing, multiple-employer defined benefit pension plan administered by the Kentucky General Assembly, The plan covers substantially all regular full-time members employed in non-hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the plan. The plan provides for retirement, disability and death benefits to plan members.

CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601, or by calling (502) 564-4646 or at <https://kyret.ky.gov>.

Benefits provided: Benefits under the plan will vary based on final compensation, years of service and other factors as fully described in the plan documents.

Contributions: Funding for CERS is provided by members, who contribute 5.00% (6.00% for employees hired after September 1, 2008) of their salary through payroll deductions, and by employers of members. For the year ending June 30, 2017, employers were required to contribute 18.68% of the member’s salary. During the year ending June 30, 2017, the District contributed \$247,358 to the CERS pension plan. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees.

CERS-Medical Insurance Plan

In addition to the CERS pension benefits described above, recipients of CERS retirement benefits may elect to participate in a voluntary hospital/medical group insurance plan for themselves and their dependents. The cost of participation for their dependents is borne by the retiree. The retirement system will pay a portion of the cost of participation for the retiree based on years of service as follows: Less than 4 years – 0%, 4-9 years – 25%, 10-14 years – 50%, 15-19 years – 75% and 20 or more years – 100%.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Contributions requirements for medical benefits are a portion of the actuarially determined rates of covered payroll, as disclosed above.

Contributions - Employer contributions compared to the actuarially required contributions are outlined in the following table for CERS Post - Employment Health Care Benefits:

	<u>2017</u>		<u>2016</u>		<u>2015</u>
CERS NONHAZARDOUS PLAN					
Actuarially Required Contributions	\$ 62,237	\$	61,419	\$	58,496
Contributions Recognized by Plan	<u>62,237</u>		<u>61,419</u>		<u>58,496</u>
Difference	\$ -	\$	\$ -	\$	\$ -
Covered Payroll	\$ 1,324,187	\$	1,245,832	\$	1,198,688
Contributions as a Percentage of Payroll	4.70%		4.93%		4.88%

The unfunded medical benefit obligation of the CERS, based upon the entry age normal cost method, as of June 30, 2016 was as follows:

	<u>000's omitted</u>
Total medical benefit obligation	\$ 2,988,121
Net position available for benefits at actuarial value	<u>(1,979,811)</u>
Unfunded medical benefit obligation	<u>\$ 1,008,310</u>

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to CERS

At June 30, 2017, the District reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2016. An expected total pension liability as of June 30, 2016 was determined using standard roll-forward techniques. The District's proportion of the net pension liability was based on contributions to CERS during the fiscal year ended June 30, 2016. At June 30, 2016, the District's proportion was 0.05223%.

For the year ended June 30, 2017, the District recognized pension expense of \$156,795. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

SEE SCHEDULE NEXT PAGE

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 11,228	\$
Changes of assumptions	136,233	
Net difference between projected and actual earnings on pension plan investments	241,763	
Changes in proportion and differences between District contributions and proportionate share of contributions	22,904	30,025
District contributions subsequent to the measurement date	<u>247,358</u>	
	\$ <u>659,486</u>	\$ <u>30,025</u>

The \$247,358 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five year period. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions are amortized over the average service life of all members. These will be recognized in pension expense as follows:

	<u>Year Ended June 30,</u>
2018	\$ 95,525
2019	95,525
2020	95,525
2021	<u>95,527</u>
	\$ <u>382,102</u>

Actuarial Methods and Assumptions—The total pension liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2015. The financial reporting actuarial valuation as of June 30, 2015, used the following actuarial methods and assumptions:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Valuation Date	June 30, 2016
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	28 years
Asset Valuation Method	5-year smoothed market
Inflation	3.25%
Salary Increase	4.0 % average, including inflation
Investment Rate of Return	7.5%, net of pension plan investment expense, including inflation

The following represents the changes in assumptions from the prior valuation to the valuation performed as of June 30, 2016:

- The assumed investment rate of return remained at 7.5%.
- The assumed rate of inflation remained at 3.25%.
- The assumed rate of wage inflation remained at .75%.
- Payroll growth assumption remained at 4%.
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.
- The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for CERS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013 is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by CERS’s investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Combined Equity	44.0%	5.40%
Combined Fixed Income	19.0%	1.50%
Real Return (Diversified Inflation Strategies)	10.0%	3.50%
Real Estate	5.0%	4.50%
Absolute Return (Diversified Hedge Funds)	10.0%	4.25%
Private Equity	10.0%	8.50%
Cash Equivalent	<u>2.0%</u>	-0.25%
	<u>100.0%</u>	

Discount rate: The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.50%. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District’s proportionate share of net pension liability to changes in the discount rate: The following presents the District’s proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
CERS	6.50%	7.50%	8.50%
District's proportionate share of net pension liability	3,204,637	2,571,668	2,028,972

Pension plan fiduciary net position: Detailed information about the pension plan’s fiduciary net position is available in the separately issued CERS financial report which is publically available at <https://kyret.ky.gov>.

Payables to the pension plan: At June 30, 2017, there are no payables to CERS.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE H – 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	\$ 15,085

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 was \$20,000 in annual payments for the lease of the turf and grand stands addition with the last payment being on June 1, 2018. During FY 2017, the District had a credit from an overpayment and no rent expense was paid in current fiscal year.

The minimum lease/termination payments are as follows:

<u>Fiscal Year Ended</u>	<u>Minimum</u>
<u>June 30,</u>	<u>Payments</u>
2018	<u>32,000</u>
Total	\$ <u>32,000</u>

NOTE I - 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 J- LITIGATION

The District is currently involved in pending litigation for which the expected award to the claimant if any is expected to be covered by the District’s insurance carrier.

NOTE K – 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 L – 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 M – 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	\$	(345,223)
Business-type Activities/Proprietary Fund		(82,498)
School Activity Fund	\$	(11,208)

NOTE N - 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 O – TRANSFER OF FUNDS

The following transfers were made during the year:

<u>Type</u>	<u>From</u>	<u>To</u>	<u>Purpose</u>	<u>Amount</u>
Operations	General Fund	Special Revenue Fund	KETS Matching	\$ 23,548
Operations	FSPK Fund	General Fund	Operating Expenditures	197,142
Operations	General Fund	Food Service	Operating Expenditures	20,061
Debt Service	Capital Outlay	Debt Service Fund	Debt Payments	112,132
Debt Service	FSPK Fund	Debt Service Fund	Debt Payments	\$ 241,856

NOTE P – ON-BEHALF PAYMENTS

For fiscal year 2017, the Commonwealth of Kentucky contributed estimated payments on behalf of the District as follows:

SEE SCHEDULE ON NEXT PAGE

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

<u>Plan/Description</u>	<u>Amount</u>
Kentucky Teachers Retirement System (GASB 68 Schedule A)	\$ 1,025,555
Health Insurance	1,073,390
Life Insurance	1,869
Administrative Fee	14,854
HRA/Dental/Vision	86,275
Federal Reimbursement	(48,417)
Technology	54,137
SFCC Debt Service Payments	<u>88,657</u>
Total	\$ <u>2,296,322</u>

These amounts are included in the financial statements as state revenue and an expense allocated to the different functions in the same proportion as full-time employees.

NOTE Q – RESTRICTED FUNDS

The following funds had restricted fund balances.

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
Capital Outlay	\$ 87,072	School Facilities Construction Commission Requirement
FSPK	933	School Facilities Construction Commission Requirement
Food Service	(88,516)	Food Service Operations
Fiduciary Fund	\$ 84,449	School Activity

NOTE R – SUBSEQUENT EVENTS

The District has evaluated subsequent events through November 10, 2017, the date of the audit report.

PIKEVILLE INDEPENDENT SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
For the Year Ended June 30, 2017

	Reporting Fiscal Year (Measurement Date) 2017 (2016)	Reporting Fiscal Year (Measurement Date) 2016 (2015)	Reporting Fiscal Year (Measurement Date) 2015 (2014)
COUNTY EMPLOYEE'S RETIREMENT SYSTEM:			
Districts' proportion of the net pension liability	0.0522%	0.0514%	0.0533%
District's proportionate share of the net pension liability	\$ 2,571,668	\$ 2,208,948	\$ 1,730,000
State's proportionate share of the net pension liability associated with the District	-	-	-
Total	<u>\$ 2,571,668</u>	<u>\$ 2,208,948</u>	<u>\$ 1,730,000</u>
District's covered payroll	\$ 1,245,832	\$ 1,198,688	\$ 1,198,688
District's proportionate share of the net pension liability as a percentage of its covered payroll	206.42%	184.28%	144.32%
Plan fiduciary net position as a percentage of the total pension liability	59.00%	59.97%	66.80%
KENTUCKY TEACHER'S RETIREMENT SYSTEM:			
Districts' proportion of the net pension liability	0.205%	0.205%	0.196%
District's proportionate share of the net pension liability	\$ -	\$ -	\$ -
State's proportionate share of the net pension liability associated with the District	62,328,123	47,600,799	40,257,277
Total	<u>\$ 62,328,123</u>	<u>\$ 47,600,799</u>	<u>\$ 40,257,277</u>
District's covered payroll	\$ 6,636,661	\$ 6,330,740	\$ 6,147,111
District's proportionate share of the net pension liability as a percentage of its covered payroll	0.000%	0.000%	0.000%
Plan fiduciary net position as a percentage of the total pension liability	35.22%	42.49%	45.59%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

See the accompanying notes to the required supplementary information.

PIKEVILLE INDEPENDENT SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF CONTRIBUTIONS
For the Year Ended June 30, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
COUNTY EMPLOYEE'S RETIREMENT SYSTEM:				
Contractually required contribution	\$ 247,358	\$ 212,538	\$ 211,808	\$ 231,030
Contributions in relation to the contractually required contribution	<u>247,358</u>	<u>212,538</u>	<u>211,808</u>	<u>231,030</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
District's covered payroll	\$ 1,324,187	\$ 1,245,832	\$ 1,198,688	\$ 1,223,025
District's proportionate share of the net pension liability as a percentage of it's covered payroll	18.68%	17.06%	17.67%	18.89%
KENTUCKY TEACHER'S RETIREMENT SYSTEM:				
Contractually required contribution	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contribution	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
District's covered payroll	\$ 6,751,740	\$ 6,636,661	\$ 6,330,740	\$ 6,147,111
District's proportionate share of the net pension liability as a percentage of it's covered payroll	0.00%	0.00%	0.00%	0.00%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

See the accompanying notes to the required supplementary information.

PIKEVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
 For the year ended June 30, 2017

(1) CHANGES OF ASSUMPTIONS

KTRS

In the 2011 valuation and later, the expectation of retired life mortality was changed to the RP-2000 Mortality Tables rather than the 1994 Group Annuity Mortality Table, which was used prior to 2011. In the 2011 valuation, rates of withdrawal, retirement, disability and mortality were adjusted to more closely reflect actual experience. In the 2011 valuation, the Board adopted an interest smoothing methodology to calculate liabilities for purposes of determining the actuarially determined contributions.

CERS

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2016:

- The assumed investment rate of return remained at 7.50%
- The assumed rate of inflation remained at 3.25%.
- The assumed rate of wage inflation remained at 0.75%.
- Payroll growth assumption remained at 4.00%.
- The morality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.
- The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

(2) METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

KTRS

The actuarially determined contribution rates in the schedule of employer contributions are calculated as of June 30, three years prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine contribution rates reported in the most recent year of that schedule:

Actuarial Cost Method	Entry Age
Amortization Method	Level percentage of payroll, open
Remaining Amortization Period	30 years
Asset Valuation Method	5-year smoothed market
Inflation	3.5%
Salary Increase	4.0-8.2%, including inflation
Investment Rate of Return	7.5%, net of pension plan investment expense, including inflation

PIKEVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

For the year ended June 30, 2017

CERS

The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal years ended 2016 and 2017, determined as of July 1, 2016. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine contribution rates reported in the most recent year of that schedule:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	28 years
Asset Valuation Method	5-year smoothed market
Inflation	3.25%
Salary Increase	4.0 % average, including inflation
Investment Rate of Return	7.5%, net of pension plan investment expense, including inflation

(3) CHANGES OF BENEFITS

There were no changes of benefit terms for KTRS or CERS.

Pikeville Independent School District
Combining Balance Sheet - Nonmajor Governmental Funds
 June 30, 2017

Other Governmental Funds				
	FSPK	Capital Outlay	Construction	Total
Assets				
Cash and cash equivalents	\$ 933	\$ 87,072	\$ -	\$ 88,005
Total Assets	933	87,072	-	88,005
Fund Balances				
Restricted	933	87,072	-	88,005
Total Fund Balances	\$ 933	\$ 87,072	\$ -	\$ 88,005

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, 2017

	Other Governmental Funds			
	FSPK	Capital Outlay	Construction	Total
Revenues				
From local sources				
Taxes				
Property	\$ 319,737	\$ -	\$ -	\$ 319,737
Intergovernmental - State	119,350	112,132		231,482
Total Revenues	439,087	112,132	-	551,219
Expenditures				
Debt service	-	-	-	-
Total Expenditures	-	-	-	-
Excess (Deficit) of Revenues Over Expenditures	439,087	112,132	-	551,219
Other Financing Sources (Uses)				
Transfers out	(438,998)	(112,132)		(551,130)
Total Other Financing Sources (Uses)	(438,998)	(112,132)	-	(551,130)
Net change in fund balances	89	-	-	89
Fund Balance beginning	844	87,072	-	87,916
Fund Balance ending	\$ 933	\$ 87,072	\$ -	\$ 88,005

See the accompanying notes to the financial statements.

Pikeville Independent School District
Combining Balance Sheet of Fiduciary Fund - School Activity Funds
 June 30, 2017

	SCHOOL ACTIVITY FUND		
	PIKEVILLE HIGH SCHOOL	PIKEVILLE ELEMENTARY	TOTAL
ASSETS			
Cash and cash equivalents	\$ 68,310	\$ 24,339	\$ 92,649
Accounts receivable	-	-	-
	<u>68,310</u>	<u>24,339</u>	<u>92,649</u>
Total Assets	<u>68,310</u>	<u>24,339</u>	<u>92,649</u>
LIABILITIES			
Accounts payable	<u>8,200</u>	<u>-</u>	<u>8,200</u>
Total Liabilities	<u>8,200</u>	<u>-</u>	<u>8,200</u>
FUND BALANCE			
School activities	<u>60,110</u>	<u>24,339</u>	<u>84,449</u>
Total Liabilities & Fund Balances	<u>\$ 68,310</u>	<u>\$ 24,339</u>	<u>\$ 92,649</u>

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, 2017

	SCHOOL ACTIVITY FUND		
	PIKEVILLE HIGH SCHOOL	PIKEVILLE ELEMENTARY	TOTAL
REVENUES			
Student revenues	\$ 441,797	\$ 86,450	\$ 528,247
EXPENSES			
Student activities	446,028	93,427	539,455
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	(4,231)	(6,977)	(11,208)
FUND BALANCE - BEGINNING	64,341	31,316	95,657
FUND BALANCE - ENDING	\$ 60,110	\$ 24,339	\$ 84,449

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, 2017

	FUND BALANCE BEGINNING	REVENUES	EXPENSES	TRANSFER	FUND BALANCE ENDING
OFFICE	\$ 149	\$ 561	\$ 344	\$ (210)	\$ 156
POSTAGE	1	30	-	-	31
LOCKER FEES	526	256	1	-	781
GENERAL	107	-	-	-	107
TEXTBOOKS	2,202	10,894	12,039	-	1,057
SCHOOL RESERVED	-	52,057	52,057	-	-
ATHLETIC CONTINGENCY	1,727	4,584	6,311	-	-
PHS HALL OF FAME	-	665	644	-	21
PROJECT PROM	102	8,125	7,973	-	254
STUDENT VENDING	2,315	6,500	6,956	1,827	3,686
TEACHER VENDING	12	2,362	2,344	-	30
SOFTBALL SCOREBOARD	-	12,000	11,600	-	400
ATHLETICS	7,186	195,035	201,988	-	233
CORP SPONSORSHIP	6,320	10,500	5,593	-	11,227
MOCK TRIAL	380	-	-	-	380
NEED ENERGY	3,901	100	1,309	-	2,692
FUTURE CITY 2016	873	-	575	-	298
ROBOTICS	15	-	-	-	15
S.KENNON SCIENCE DEP	100	-	-	-	100
7TH GRADE ACTIVITY FUND	182	1,510	1,510	-	182
STARS DISTRICT	3	-	-	-	3
SCOTT ARI GRANT	50	569	569	-	50
KENNON ARI GRANT	8	-	-	-	8
TACKETT ARI GRANT	-	587	587	-	-
KING MAJ LEADER ARI	-	-	210	210	-
S BLACKBURN ALUMNI GRANT	67	-	-	-	67
FCA	315	240	388	-	167
HONOR SOCIETY	1,793	4,349	4,913	-	1,229
HS ACADEMICS	6,181	8,091	9,260	-	5,012
JH ACADEMICS	9	25	-	-	34
JH PEP CLUB	1,128	631	298	-	1,461
PEP CLUB HS	3,351	6,652	6,777	-	3,226
KEY CLUB	2,198	-	371	(1,827)	-
STUDENT COUNCIL	574	427	651	-	350
PREPPY PANTHER	237	350	396	-	191
FBLA	73	14,299	13,611	(39)	722
SPECIAL ED FOUNDATION	144	-	-	-	144
BETA CLUB	-	14,653	14,621	-	32
BAND	29	9,402	9,281	39	189
SCHOOL BUCKS	1,342	325	703	-	964
SCHOOL NEWSPAPER	57	-	54	-	3
CHORUS	1,609	12,454	12,780	-	1,283
DRAMA	3,286	527	300	-	3,513
KYA-COOLEY	-	2,020	1,950	-	70
11TH GRADE	2,665	13,639	14,769	-	1,535
12TH GRADE	485	9,866	10,310	-	41
BV CHEERLEADERS	17	-	-	-	17
YEARBOOK	6,784	9,975	4,359	-	12,400
COUNSELOR NEEDS	42	3,415	3,285	-	172
LIBRARY	285	4,592	4,380	-	497
HELP	489	-	91	-	398
CLASS OF 2022	-	90	-	-	90
CLASS OF 2021	-	3,560	2,990	-	570
CLASS OF 2020	375	-	-	-	375
CLASS OF 2019	664	-	-	-	664
CLASS OF 2018	543	-	-	-	543
CLASS OF 2017 GRAD FU	107	-	-	-	107
PANTHER BASKETBALL	-	5,217	5,217	-	-
R KING ENG DEPT	260	34	-	-	294
SCOTT FIELD TRIPS	44	-	-	-	44
COMPETITIVE CHEER AC	1,973	7,407	9,380	-	-
COOKING TEAM	430	1,322	930	-	822
PANTHER FOOTBALL CA	48	1,900	1,245	-	703
TEEN'S WHO CARE	578	-	108	-	470
TOTALS	\$ 64,341	\$ 441,797	\$ 446,028	\$ -	\$ 60,110

See the accompanying notes to the financial statements.

Pikeville Independent School District
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2017

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Passed Through to Subrecipients	Program or Award Amount	Expenditures
US Department of Agriculture					
Passed Through State Department of Education					
School Breakfast Program	10.553				
Fiscal Year 16		7760005 16	\$ -	N/A	\$ 10,614
Fiscal Year 17		7760005 15	-	N/A	39,211
National School Lunch Program	10.555				
Fiscal Year 16		7750002 16	-	N/A	42,452
Fiscal Year 17		7750002 17	-	N/A	154,926
Child Nutrition Cluster Subtotal					<u>247,203</u>
Passed Through State Department of Agriculture					
Food Donation-Commodities	10.565				
Fiscal Year 17		510.4950	-	N/A	34,172
Total US Department of Agriculture					<u>281,375</u>
US Department of Education					
Passed Through State Department of Education					
Title I Grants to Local Educational Agencies	84.010A				
Fiscal Year 16		3100002 16	-	266,712	1,170
Fiscal Year 17		3100002 17	-	266,557	252,160
					<u>253,330</u>
* Special Education Grants to States	84.027A				
Fiscal Year 15P		3810002 15	-	6,580	422
Fiscal Year 16		3810002 16	-	203,897	52,046
Fiscal Year 16P		3810002 16	-	1,387	1,387
Fiscal Year 17		3810002 17	-	209,454	160,686
Fiscal Year 17P		3810002 17	-	1,485	606
* Special Education - Preschool Grants	84.173A				
Fiscal Year 16		3800002 16	-	7,769	431
Fiscal Year 17		3800002 17	-	7,769	2,074
Special Education Cluster Subtotal					<u>217,652</u>
Vocation Education - Basic Grants to States	84.048				
Fiscal Year 16		3710002 16	-	8,262	547
Fiscal Year 17		3710002 17	-	8,945	8,238
					<u>8,786</u>
Rural Education	84.358B				
Fiscal Year 16		3140002 16	-	24,273	4,922
Fiscal Year 17		3140002 17	-	26,398	14,354
					<u>19,276</u>
Improving Teacher Quality State Grants	84.367A				
Fiscal Year 16		3230002 16	-	83,515	428
Fiscal Year 17		3230002 17	-	82,829	82,265
					<u>82,693</u>
Passed Through Kentucky Valley Educational Cooperative					
Race to the Top - District	84.416A				
Fiscal Year 17		B416A140080	-	88,630	88,630
Total US Department of Education					<u>670,366</u>
Total Expenditure of Federal Awards					<u>\$ 951,741</u>

* Major program

PIKEVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2017

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Pikeville Independent School District under the programs of the federal government for the year ended June 30, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Pikeville Independent School District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

NOTE B – SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represents adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

NOTE C – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities received and disbursed. For the year ended June 30, 2017, the District received food commodities totaling \$34,172.

NOTE D – INDIRECT COST RATE

The Pikeville Independent School District has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

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 Board of Education of the Pikeville Independent School District

Pikeville, Kentucky

and the State Committee for School District Audits

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, as defined 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 the Pikeville Independent School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Pikeville Independent School District's basic financial statements, and have issued our report thereon dated November 10, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the Pikeville Independent School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 the 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 November 10, 2017.

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, PSC

Richmond, Kentucky
November 10, 2017

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Education of the Pikeville Independent School District
Pikeville, Kentucky

and the Committee for School District Audits

Report on Compliance for Each Major Federal Program

We have audited the Pikeville Independent School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Pikeville Independent School District's major federal programs for the year ended June 30, 2017. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) 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 the Uniform Guidance 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 the 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 the Pikeville Independent School District's compliance.

Opinion on Each Major Federal Program

In our opinion, the 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, 2017.

Report on Internal Control over Compliance

Management of the 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 the 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 the Uniform Guidance, 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 the 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

White & Associates, PSC

Richmond, Kentucky

November 10, 2017

PIKEVILLE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2017

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 the Uniform Guidance?	No
Major Programs	Special Education Cluster [CFDA 84.027A, 84.173A]
Dollar threshold of Type A and B programs	\$750,000
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, 2017

There were no prior audit findings.

MANAGEMENT LETTER POINTS

Pikeville Independent School District
Pikeville, Kentucky

In planning and performing our audit of the financial statements of the Pikeville Independent School District for the year ended June 30, 2017, we considered the District's internal controls in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. We previously reported on the District's internal control in our report dated November 10, 2017. This letter does not affect our report dated November 10, 2017, on the financial statements of the Pikeville Independent School District. The conditions observed are as follows:

PIKEVILLE ELEMENTARY

No conditions.

PIKEVILLE HIGH SCHOOL

1-17

Statement of Condition: Inventory Control Worksheets (F-SA-5) are not being completed monthly on bookstores, pencil machines, concessions and vending machines (vending machines exempt if full service).

Recommendation for Correction: Inventory Control Worksheets (F-SA-5) need to be correctly filled out monthly on all activities that require one. Completed worksheets need to be reviewed by the principal to address significant shortages or overages. After reviewing the worksheets file them with the other financial documents.

Management Response to the Recommendation: There was one club sponsor who operated an after school concession and failed to complete the Inventory Control Worksheets. This sponsor is no longer operating a concession and all event concessions are operated by and through Booster Club Accounts. Finance Officer did review the procedure for completing Inventory Control Worksheets with the Bookkeeper and Principal.

2-17

Statement of Condition: The vendor invoice or Standard Invoice must have a confirmation signature of the person receiving the goods or services before the payment process can be continued.

Recommendation for Correction: After receiving the product or service, the person receiving the goods or service shall sign the original invoice or Standard Invoice before the school treasurer processes the invoice for payment.

Management Response to the Recommendation: After discussion with the Bookkeeper, it was found that she was getting verbal “ok to pay” or through emails, but not all employees would initial the invoices. Finance Officer reviewed this process with Principal and Bookkeeper that initials or signature for approval to pay was required. Finance Officer will be completing quarterly reviews of bills paid at the school to ensure this finding is corrected during the current fiscal year.

3-17

Statement of Condition: Purchase Orders are being utilized; however there were several instances of the Purchase Orders being approved after the obligation of funds or purchase being made.

Recommendation for Correction: The person requesting to make a purchase or expend activity funds will prepare a Purchase Request/Order (F-SA-7) and have it approved by the sponsor and principal. After proper approval, a Purchase Order number shall be issued or an (EPES) Purchase Order generated so the expenditure can be purchased or ordered.

Management Response to the Recommendation: Reviewed the invoices that were paid with purchase orders written after the fact with the Bookkeeper and Principal. Principal is going to have one on one conversations with individuals who were involved in the purchases related to the finding to reiterate the purchasing process. Also, the Principal is going to meet with all faculty and staff as a group to reiterate the requirement of purchase orders being written and approved prior to the purchase of goods or services. Finance Officer will be completing quarterly reviews of the bills paid to ensure this finding is corrected during the current fiscal year.

All prior year conditions have been implemented and corrected Mr. Jerry Green, Superintendent, is the person responsible for initiation of the corrective action plan for the above comments which will be implemented immediately. The corrective action plan is the management response for each condition.

We would like to thank the Finance Officer and their department for their support and assistance during our audit.

This report is intended solely for the information and use of the Board of Education, management, and others within the district and is not intended to be and should not be used by anyone other than these specified parties.

White & Associates, PSC

White & Associates, PSC
Richmond, Kentucky
November 10, 2017