

PIKEVILLE INDEPENDENT  
SCHOOL DISTRICT

AUDITED FINANCIAL STATEMENTS  
AND SUPPLEMENTAL SCHEDULES

For the year ended June 30, 2013

Prepared by:

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## INDEPENDENT AUDITOR'S REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Pikeville Independent School District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Pikeville Independent School District, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows, and the respective budgetary comparison for the General Fund and Special Revenue Fund thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

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

### ***Other Information***

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

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

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2013, 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 Pikeville Independent School District's internal control over financial reporting and compliance.

*White & Associates, PSC*

Richmond, Kentucky  
October 21, 2013

**PIKEVILLE INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
Year ended June 30, 2013**

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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, 2013. 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 \$566,610 at June 30, 2013, compared to \$866,956 at June 30, 2012, a decrease of \$300,346.
- Total net position decreased 10 percent over the course of the year, mainly due to declaring a large number of obsolete technology equipment as surplus to purchase up-to-date items which are now available at a lesser cost.
- General Fund revenues totaled \$10.4 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 also \$10.4 million in FY 2012.
- Excluding inter-fund transfers, General Fund expenditures totaled \$10.78 million. This compares to \$10.9 million in the prior year. Of these expenditures salaries and benefits totaled \$8.95 million compared to \$9.14 million in FY 2012.
- SEEK revenue was decreased \$50,153 from FY 2012. The SEEK Guaranteed Base was \$3,903 in FY 2012, and went down to \$3,833 in FY 2013. This resulted in a slight decrease in total SEEK revenues from FY 2012.

**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 with a comparison of the District's budget for the year.

**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

**PIKEVILLE INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
Year ended June 30, 2013**

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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.

**PIKEVILLE INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
Year ended June 30, 2013**

**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 exceeded liabilities by \$6.15 million as of June 30, 2013.

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 are summarized in Table 1.

**Table 1**

**Net Assets  
\$ (in Millions)**

	Governmental Activities		Business-type Activities		Total School District		Total Percentage Change 2012-2013
	2012	2013	2012	2013	2012	2013	
<b>Assets:</b>							
Current and Other Assets	1.95	1.36	0.03	0.02	1.98	1.38	-30.30%
Capital Assets	9.67	9.18	0.09	0.10	9.76	9.28	-4.92%
<b>Total Assets</b>	<b>11.62</b>	<b>10.54</b>	<b>0.12</b>	<b>0.12</b>	<b>11.74</b>	<b>10.66</b>	-9.20%
Deferred Outflows of Resources	-	0.20	-	-	-	0.20	100.00%
<b>Liabilities:</b>							
Current Liabilities	0.53	0.47	0.03	0.02	0.56	0.49	-12.50%
Noncurrent Liabilities	4.35	4.19	-	-	4.35	4.19	-3.68%
<b>Total Liabilities</b>	<b>4.88</b>	<b>4.66</b>	<b>0.03</b>	<b>0.02</b>	<b>4.91</b>	<b>4.68</b>	-4.68%
<b>Net Position:</b>							
Invested in Capital Assets							
Net of Debt	5.10	5.20	0.09	0.10	5.19	5.30	2.12%
Restricted	0.16	0.10	-	-	0.16	0.10	-37.50%
Unrestricted Net Position	1.48	0.75	-	-	1.48	0.75	-49.32%
<b>Total Net Position</b>	<b>6.74</b>	<b>6.05</b>	<b>0.09</b>	<b>0.10</b>	<b>6.83</b>	<b>6.15</b>	-9.96%

**Changes in Net Position** The District's total net position decreased \$.68 million. Current assets decreased \$.60 million, non-current assets decreased \$.48 million and liabilities decreased \$.23

**PIKEVILLE INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
Year ended June 30, 2013**

million. The District's total revenues decreased 4.4 percent to \$12.09 million. (See Table 2) Property taxes and state and formula grants accounted for most of the District's revenues.

**Table  
2  
Changes in Net Assets  
(in Millions)**

	\$ (in millions)						Total Percentage Change 2012-2013
	Governmental Activities		Business-Type Activities		Total School District		
	2012	2013	2012	2013	2012	2013	
Revenues:							
Program Revenues:							
Charges for Services	0.52	0.56	0.40	0.38	0.92	0.94	2.17%
Operating Grants and Contributions	3.17	0.95	0.32	0.25	3.49	1.20	-65.62%
Capital Grants and Contributions	0.23	0.31			0.23	0.31	0.00%
General Revenue:							
Property Taxes	4.78	3.72			4.78	3.72	-22.18%
Motor Vehicle Taxes	-	0.38			-	0.38	0.00%
Utility Taxes	-	0.79			-	0.79	0.00%
State and Federal grants	3.65	5.36			3.65	5.36	46.85%
Other Local Revenue	-	0.01			-	0.01	0.00%
Unrestricted Investment Earnings	0.02	0.02			0.02	0.02	0.00%
Loss on Retirement of Asset	(0.00)	(0.00)			(0.00)	(0.00)	
Total Revenues	12.37	12.09	0.72	0.63	13.09	12.73	-2.75%
Program Expenses:							
Instruction	7.40	6.98			7.40	6.98	-5.68%
Support Services:							
Student	0.50	0.46			0.50	0.46	-8.00%
Instructional Staff	0.84	0.72			0.84	0.72	-14.29%
District Administration	0.57	0.56			0.57	0.56	-1.75%
School Administration	0.65	0.66			0.65	0.66	1.54%
Business	0.13	0.17			0.13	0.17	30.77%
Plant Operation and Maintenance	0.89	1.34			0.89	1.34	50.56%
Student Transportation	0.66	0.44			0.66	0.44	-33.33%
Food Service Operations	0.01	-	0.71	0.60	0.72	0.60	-16.67%
Community Services Operations	0.08	0.08			0.08	0.08	0.00%
Facilities Acquisition	-	-			-	-	0.00%
Debt Service	-	-			-	-	0.00%
Loss on retirement of assets	-	0.04				0.04	100.00%
Interest	0.17	0.13			0.17	0.13	0.00%
Amortization	-	0.03			-	0.03	100.00%
Depreciation	0.79	0.71	0.01	0.01	0.80	0.72	-10.00%
Total Expenses	12.69	12.34	0.72	0.61	13.41	12.96	-3.36%
Extraordinary Item	-	(0.32)	-	-	-	(0.32)	100.00%

**PIKEVILLE INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
Year ended June 30, 2013**

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The total cost of all programs and resources decreased 4 percent from \$12.69 million to \$12.34 million. The District's expenses are predominantly related to educating and caring for students (77.5%). The administrative activities of the District accounted for 9% of total costs. Plant Operation and Maintenance is also 7% of the total costs to the District.

**Governmental Activities**

Revenues for the District's governmental activities decreased \$1.56 million, as well as a decrease of \$.34 million in the District's total expenses.

**Business-type activities**

Revenues for the District's business-type activities decreased \$.09 million, and total expenses decreased \$.11 million. The net position increased by \$.01 million.

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

As the District completed the year, its governmental funds reported combined fund balances of \$0.65 million, which is a decrease of \$.31 million from the prior year.

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

Table 3 shows revenues and expenses by fund.

*SEE TABLE ON NEXT PAGE*

**PIKEVILLE INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
Year ended June 30, 2013**

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**Table 3**

	<b>General Fund</b>	<b>Special Revenue Fund</b>	<b>Other Funds</b>	<b>Proprietary Funds</b>
Local Revenue	5.06	-	0.28	0.38
State Revenue	5.36	0.23	0.31	0.16
Federal Revenue	0.02	0.72	-	0.25
Other	-	-	-	0.04
<b>Totals</b>	<b>10.44</b>	<b>0.95</b>	<b>0.59</b>	<b>0.83</b>
Instruction	6.52	0.71	-	-
Student Support	0.39	0.07	-	-
Instructional Staff	0.60	0.12	-	-
District Admin	0.56	-	-	-
School Support	0.65	-	-	-
Business Support	0.17	-	-	-
Plant Operation & Maintenance	- 1.44	- -	- -	- -
Student Transportation	0.44	-	-	-
Food Service	0.01	-	-	0.60
Community Svc.	-	0.08	-	-
Debt Service	-	-	0.54	-
Fund Transfer/Other	-	-	-	0.19
Daycare	-	-	-	-
Depreciation	-	-	-	0.01
Other	-	-	-	-
<b>Totals</b>	<b>10.78</b>	<b>0.98</b>	<b>0.54</b>	<b>0.80</b>

**General Fund Revenue/Expenditures (Fund 1)**

The majority of revenue was derived from State Sources (51%) with local property, motor vehicle and utility taxes making up 48% 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

**PIKEVILLE INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
Year ended June 30, 2013**

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secretaries. The Plant Operation and Maintenance function accounts for 13% of the expenditures, while the Student Transportation services function accounts for 4%. 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 (75%). The majority of expenditures (72%) 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 2013 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 (46%).

**CAPITAL ASSETS**

At the end of fiscal 2013, the District had \$9.28 million invested in capital assets, including land, buildings, buses, computers and other equipment. This amount represents a net increase (including additions and deductions) of \$.48 million, or 4.9%, from last year.

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

	Governmental Activities		Business-Type Activities		Totals	
	2012	2013	2012	2013	2012	2013
Land & Improvements	0.66	0.63	-	-	0.66	0.63
Buildings	7.65	7.33	-	-	7.65	7.33
Technology Equipment	0.53	0.51	0.01	-	0.54	0.51
Vehicles	0.59	0.49	-	-	0.59	0.49
General Equipment	0.23	0.22	0.08	0.10	0.31	0.32
Construction in Progress	0.01	-	-	-	0.01	-
<b>Totals</b>	<b>9.67</b>	<b>9.18</b>	<b>0.09</b>	<b>0.10</b>	<b>9.76</b>	<b>9.28</b>

**PIKEVILLE INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
Year ended June 30, 2013**

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**DEBT**

During fiscal year 2013, the district assumed no additional debt and continues to make all bond payment obligations in a timely manner.

Outstanding Debt at Year-End		Government	
(in Millions)		Activities	
		2012	2013
General Obligation Bonds	\$ 4.57	\$ 4.16	
Total Obligations	\$ <u>4.57</u>	\$ <u>4.16</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.

- Excluding on-behalf payments, General Fund budget compared to actual revenue varied somewhat in most line items with the ending actual balance being \$277,324 less than budget.
- Excluding on-behalf payments and net of the contingency, expenditures were \$250,661 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.

**PIKEVILLE INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
Year ended June 30, 2013**

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- 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, 2013

	Primary Government		
	Governmental Activities	Business- type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 424,555	\$ -	\$ 424,555
Receivables (net)	936,018		936,018
Inventories		19,402	19,402
Capital assets:			
Land, improvements, and construction in progress	454,468		454,468
Other capital assets, net of depreciation	8,724,163	103,145	8,827,308
Total capital assets	9,178,631	103,145	9,281,776
Total assets	10,539,204	122,547	10,661,750
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Loss for the difference in reacquisition and carrying value of refunding debt	175,657		175,657
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	9,378		9,378
Accrued interest payable	18,041		18,041
Accrued salaries and benefit payable	2,094		2,094
Unearned revenue	32,993		32,993
Cash shortage		19,402	19,402
Long-term liabilities:			
Due within 1 year:			
Bond obligations	415,000		415,000
Total due within 1 year	415,000	-	415,000
Due in more than 1 year:			
Bond obligations	3,740,000		3,740,000
KSBIT payable	318,208		318,208
Sick leave	127,697		127,697
Total due in more than 1 year	4,185,905	-	4,185,905
Total liabilities	4,663,411	19,402	4,682,813
<b>NET POSITION</b>			
Net Investment in capital assets	5,199,288	103,145	5,302,433
Restricted for:			
Expendable restricted for site based carryforwards	8,915		8,915
Expendable restricted for capital projects	87,916		87,916
Unrestricted	755,331		755,331
Total net position	\$ 6,051,450	\$ 103,145	\$ 6,154,595

See the accompanying notes to the financial statements.

Pikeville Independent School District  
**Statement of Activities**  
Year Ended June 30, 2013

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
<b>PRIMARY GOVERNMENT:</b>							
Governmental activities:							
Instruction	\$ 6,984,458	\$ 538,284	\$ 610,166	\$	\$ (5,836,008)		\$ (5,836,008)
Support Services							
Student	456,849	22,756	38,309		(395,784)		(395,784)
Instructional Staff	724,669		57,464		(667,205)		(667,205)
District Administration	555,247		38,309		(516,937)		(516,937)
School Administration	655,925		47,887		(608,038)		(608,038)
Business	166,380		9,577		(156,802)		(156,802)
Plant Operation & Maintenance	1,353,578		105,351	217,364	(1,030,864)		(1,030,864)
Student Transportation	436,863		38,309		(398,554)		(398,554)
Food Service Operations	9,973				(9,973)		(9,973)
Community Services Operations	81,092		9,577		(71,515)		(71,515)
Depreciation	708,981				(708,981)		(708,981)
Amortization	38,963				(38,963)		(38,963)
Loss on retirement of assets	41,723				(41,723)		(41,723)
Interest on long term debt	126,331			88,656	(37,675)		(37,675)
Total governmental activities	<u>12,341,032</u>	<u>561,040</u>	<u>954,950</u>	<u>306,020</u>	<u>(10,519,022)</u>		<u>(10,519,022)</u>
Business-type activities:							
Food service operations	601,108	377,279	253,823			\$ 29,994	29,994
Depreciation	14,210					(14,210)	(14,210)
Total business-type activities	<u>615,318</u>	<u>377,279</u>	<u>253,823</u>	<u>-</u>	<u>-</u>	<u>15,784</u>	<u>15,784</u>
Total primary government	\$ <u>12,956,349</u>	\$ <u>938,319</u>	\$ <u>1,208,773</u>	\$ <u>306,020</u>	<u>(10,519,022)</u>	<u>15,784</u>	<u>(10,503,238)</u>
General revenues:							
Taxes:							
Property taxes					3,722,645		3,722,645
Motor vehicle taxes					376,111		376,111
Utility taxes					791,393		791,393
State and formula grants					5,363,146		5,363,146
Sale of equipment					1,663		1,663
Unrestricted investment earnings					17,384		17,384
Total general revenues and transfers					<u>10,272,343</u>		<u>10,272,343</u>
Extraordinary item					<u>(318,208)</u>		<u>(318,208)</u>
Total general revenues, transfers, and extraordinary item					<u>9,954,135</u>		<u>9,954,135</u>
Change in net position					(564,887)	15,784	(549,103)
Net Position - beginning					6,740,164	87,361	6,827,525
Prior period adjustment					<u>(123,827)</u>		<u>(123,827)</u>
Restated beginning net position					<u>6,616,337</u>	<u>87,361</u>	<u>6,703,698</u>
Net Position - ending					\$ <u>6,051,450</u>	\$ <u>103,145</u>	\$ <u>6,154,595</u>

See the accompanying notes to the financial statements.

Pikeville Independent School District  
**Balance Sheet**  
**Governmental Funds**  
June 30, 2013

	Governmental Funds					
	General	Special Revenue	Capital Outlay	Debt Service	Other Governmental Funds	Total
<b>ASSETS</b>						
Cash and cash equivalents	\$ 400,854	\$ -	\$ 87,072	\$ -	\$ 844	\$ 488,770
Receivables, net						
Taxes-current	167,504					167,504
Accounts	9,271					9,271
Intergovernmental-federal		97,661				97,661
Total assets	577,629	97,661	87,072	-	844	763,206
<b>LIABILITIES</b>						
Accounts payable	8,925	453				9,378
Cash shortage		64,215				64,215
Accrued salaries & benefits payable	2,094					2,094
Unearned revenue		32,993				32,993
Total liabilities	11,019	97,661	-	-	-	108,680
<b>FUND BALANCE</b>						
Restricted			87,072		844	87,916
Committed	8,915					8,915
Unassigned	557,695					557,695
Total fund balance	\$ 566,610	\$ -	\$ 87,072	\$ -	\$ 844	\$ 654,526

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, 2013

<b>Total fund balance per fund financial statements</b>	\$	654,526
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net position.</p>		9,178,631
<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>		661,582
<p>Costs associated with bond issues and refundings are expensed in the fund financial statements because they are a use of current financial resources but are capitalized on the statement of net position using the economic resources focus.</p>		175,657
<p>Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave, and accrued interest) are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net position.</p>		
<p>Accrued interest payable</p>		(18,041)
<p>Bonds payable</p>		(4,155,000)
<p>KSBIT payable</p>		(318,208)
<p>Noncurrent sick leave payable</p>		(127,697)
		(4,618,996)
<b>Net position of governmental activities</b>	<b>\$</b>	<b>6,051,450</b>

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, 2013

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Outlay</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>						
From Local Sources						
Taxes						
Property	\$ 3,335,337	\$ -	\$ -	\$ -	\$ 284,193	\$ 3,619,530
Motor vehicle	376,111					376,111
Utilities	791,393					791,393
Earnings on investments	17,384					17,384
Tuition	354,795					354,795
Other local revenue	180,706	2,783				183,489
Intergovernmental - state	5,363,146	229,963	108,445	88,656	108,919	5,899,129
Intergovernmental - federal	22,756	724,987	-	-	-	747,743
Total revenues	<u>10,441,629</u>	<u>957,733</u>	<u>108,445</u>	<u>88,656</u>	<u>393,112</u>	<u>11,989,574</u>
<b>EXPENDITURES</b>						
Instruction	6,515,833	706,053				7,221,887
Support Services						
Student	389,464	67,386				456,849
Instructional Staff	605,100	119,569				724,669
District Administration	555,247					555,247
School Administration	655,925					655,925
Business	166,380					166,380
Plant Operation & Maintenance	1,442,491					1,442,491
Student Transportation	435,986	877				436,863
Food Service Operations	9,973					9,973
Community Services Operations		81,092				81,092
Debt Service				540,208		540,208
Total expenditures	<u>10,776,399</u>	<u>974,977</u>	<u>-</u>	<u>540,208</u>	<u>-</u>	<u>12,291,583</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(334,770)	(17,244)	108,445	(451,552)	393,112	(302,009)
<b>OTHER FINANCING SOURCES (USES)</b>						
Sale of equipment	1,663					1,663
Operating transfers in	50,005	17,244		451,552		518,801
Operating transfers (out)	(17,244)		(108,445)		(393,112)	(518,801)
Total other financing sources and (uses)	<u>34,424</u>	<u>17,244</u>	<u>(108,445)</u>	<u>451,552</u>	<u>(393,112)</u>	<u>1,663</u>
<b>NET CHANGE IN FUND BALANCE</b>	(300,346)	-	0	-	-	(300,345)
<b>FUND BALANCE-BEGINNING</b>	<u>866,956</u>	<u>-</u>	<u>87,072</u>	<u>-</u>	<u>844</u>	<u>954,871</u>
<b>FUND BALANACE-ENDING</b>	<u>\$ 566,610</u>	<u>\$ -</u>	<u>\$ 87,072</u>	<u>\$ -</u>	<u>\$ 844</u>	<u>\$ 654,526</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, 2013

<b>Net change in total fund balances per fund financial statements</b>	\$	(300,345)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceeds depreciation expense for the year.</p>		(487,024)
<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>		103,115
<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, and the bond issuance costs associated with the sale of bonds amortized over the life of the bonds.</p>		(38,963)
<p>Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net position.</p>		410,000
<p>Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.</p>		
<p>Accrued interest payable</p>		3,876
<p>KSBIT payable extraordinary item</p>		(318,208)
<p>Noncurrent sick leave payable</p>		62,661
		62,661
<b>Change in net position of governmental activities</b>	<b>\$</b>	<b>(564,887)</b>

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, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<b>Variance with Final Budget Favorable (Unfavorable)</b>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
From Local Sources				
Taxes				
Property	\$ 3,567,991	\$ 3,567,991	\$ 3,335,337	\$ (232,654)
Motor vehicle	350,000	350,000	376,111	26,111
Utilities	850,000	850,000	791,393	(58,607)
Revenue in lieu of taxes	25,000	25,000	-	(25,000)
Earnings on investments	22,000	22,000	17,384	(4,616)
Tuition	380,000	380,000	354,795	(25,205)
Other local revenue	82,250	82,250	180,706	98,456
Intergovernmental - state	3,695,531	3,695,531 *	3,656,966	(38,565)
Intergovernmental - federal	40,000	40,000	22,756	(17,244)
Total revenues	<u>9,012,772</u>	<u>9,012,772</u>	<u>8,735,448</u>	<u>(277,324)</u>
<b>EXPENDITURES</b>				
Instruction	5,244,275	5,244,275 *	5,155,801	88,474
Support Services				
Student	356,073	356,073 *	376,623	(20,550)
Instructional Staff	515,624	515,624 *	583,191	(67,567)
District Administration	523,713	523,713 *	537,112	(13,399)
School Administration	522,560	522,560 *	513,884	8,676
Business	112,223	112,223 *	130,109	(17,886)
Plant Operation & Maintenance	1,149,609	1,149,609 *	1,352,491	(202,882)
Student Transportation	383,015	383,015 *	411,035	(28,020)
Food Service Operations	12,465	12,465	9,973	2,492
Total expenditures	<u>8,819,557</u>	<u>8,819,557</u>	<u>9,070,218</u>	<u>(250,661)</u>
<b>EXCESS (DEFICIENCY) IN REVENUES OVER EXPENDITURES</b>	193,215	193,215	(334,770)	(527,985)
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of equipment			1,663	1,663
Operating transfers in			50,005	50,005
Operating transfers out	(25,000)	(25,000)	(17,244)	7,756
Total other financing sources and (uses)	<u>(25,000)</u>	<u>(25,000)</u>	<u>34,424</u>	<u>59,424</u>
<b>NET CHANGE IN FUND BALANCE</b>	168,215	168,215	(300,346)	(468,561)
<b>FUND BALANCE-BEGINNING</b>	<u>831,785</u>	<u>831,785</u>	<u>866,956</u>	<u>35,171</u>
<b>FUND BALANCE-ENDING</b>	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>	<u>\$ 566,610</u>	<u>\$ (433,390)</u>

\* The on-behalf payments (please see the accompanying notes to the financial statements) were not budgeted, therefore, to better compare the actual to the budgeted amounts these amounts were deducted from both revenue and expenditures in the amount of \$1,706,181.

Pikeville Independent School District  
**Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**Special Revenue Fund**  
Year Ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<b>Variance with Final Budget Favorable (Unfavorable)</b>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
From Local Sources				
Other local revenue	\$ -	\$ -	\$ 2,783	\$ 2,783
Intergovernmental - state	229,533	219,386	229,963	10,577
Intergovernmental - federal	664,982	710,831	724,987	14,156
Total revenues	<u>894,515</u>	<u>930,217</u>	<u>957,733</u>	<u>27,516</u>
<b>EXPENDITURES</b>				
Instruction	639,439	650,204	706,053	(55,849)
Support Services				
Student	81,500	74,500	67,386	7,114
Instructional Staff	116,735	135,527	119,569	15,958
Student Transportation	600	600	877	(277)
Community Services Operations	81,241	81,241	81,092	148
Total expenditures	<u>919,515</u>	<u>942,072</u>	<u>974,977</u>	<u>(32,905)</u>
<b>EXCESS (DEFICIENCY) IN REVENUES OVER EXPENDITURES</b>	(25,000)	(11,855)	(17,244)	(5,389)
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in	25,000	11,855	17,244	5,389
Total other financing sources and (uses)	<u>25,000</u>	<u>11,855</u>	<u>17,244</u>	<u>5,389</u>
<b>NET CHANGE IN FUND BALANCE</b>	-	-	-	-
<b>FUND BALANCE-BEGINNING</b>	-	-	-	-
<b>FUND BALANCE-ENDING</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See the accompanying notes to the financial statements.

Pikeville Independent School District  
**Statement of Net Position**  
**Proprietary Funds**  
June 30, 2013

	<b>School Food Services</b>
<b>ASSETS</b>	
Inventories	\$ 19,402
Capital assets:	
Other capital assets, net of depreciation	103,145
Total assets	122,547
<b>LIABILITIES</b>	
Cash shortage	19,402
Total liabilities	19,402
<b>NET POSITION</b>	
Net Investment in capital assets	103,145
Total net position	\$ 103,145

See the accompanying notes to the financial statements.

Pikeville Independent School District  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**Proprietary Funds**  
Year Ended June 30, 2013

		<u>Enterprise Funds</u>
		<u>School Food Services</u>
<b>OPERATING REVENUES</b>		
Lunchroom sales	\$	377,231
Other revenue from local sources		47
Total operating revenues		<u>377,279</u>
<b>OPERATING EXPENSES</b>		
Depreciation		14,210
Food service operations		601,108
Total operating expenses		<u>615,318</u>
Operating income (loss)		<u>(238,039)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Federal grants		248,012
State grants		5,811
State on behalf payments received		158,824
State on behalf payments paid		(158,824)
Donated commodities received		35,305
Donated commodities used		(35,305)
Total nonoperating revenues		<u>253,823</u>
<b>CHANGE IN NET POSITION</b>		15,784
<b>NET POSITION-BEGINNING</b>		<u>87,361</u>
<b>NET POSITION-ENDING</b>	\$	<u><u>103,145</u></u>

See the accompanying notes to the financial statements.

Pikeville Independent School District  
**Statement of Cash Flows**  
**Proprietary Funds**  
Year Ended June 30, 2013

	<b>Enterprise Funds</b>
	<b>School Food Services</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 377,279
Payments to suppliers	(241,561)
Payments to employees	(350,704)
Net cash provided (used) by operating activities	(214,986)
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>	
Operating grants and contributions	(29,994)
Net cash provided (used) by capital financing activities	(29,994)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Operating grants and contributions	253,823
Net cash provided (used) by noncapital financing activities	253,823
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	8,843
<b>CASH AND CASH EQUIVALENTS-BEGINNING</b>	(28,245)
<b>CASH AND CASH EQUIVALENTS-ENDING</b>	\$ (19,402)
<b>Reconciliation of operating income (loss) to net cash used by operating activities:</b>	
Operating income (loss)	\$ (238,039)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:	
Depreciation	14,210
Changes in assets and liabilities:	
Receivables	12,289
Inventories	2,795
Accounts Payable	(6,241)
Net cash used by operating activities	\$ (214,986)

**NONCASH NONCAPITAL FINANCING ACTIVITIES**

During the year, the district received \$35,305 of food commodities from the U.S. Department of Agriculture.

See the accompanying notes to the financial statements.

Pikeville Independent School District  
**Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
 June 30, 2013

		<b>School Activity Fund Total</b>
		<u>                    </u>
<b>ASSETS</b>		
Cash and cash equivalents	\$	<u>60,597</u>
Total Assets		<u><u>60,597</u></u>
<b>LIABILITIES</b>		
Accounts payable		564
Due to student groups		<u>60,032</u>
Total Liabilities		<u><u>60,597</u></u>
<b>NET POSITION HELD IN TRUST</b>	<b>\$</b>	<u><u>-</u></u>

See the accompanying notes to the financial statements.

PIKEVILLE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
For the year ended June 30, 2013

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Reporting Entity

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

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

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

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

Pikeville Independent Board Of Education Finance Corporation

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

Basis of Presentation

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

The District has the following funds:

### I. Governmental Fund Types

#### (A) General Fund

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

#### (B) Special Revenue (Grant) Fund

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### (C) Capital Project Funds

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

#### SEEK Capital Outlay Fund

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

#### Building (FSPK) Fund

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

#### Construction Fund

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

### (D) Debt Service Fund

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

## II. Proprietary Funds (Enterprise Funds)

### (A) Food Service Fund

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

## III. Fiduciary Fund Types

### Agency Funds

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### Basis of Accounting

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

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

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

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

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

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

### Property Taxes

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

The property tax rates (including exonerations) assessed for the year ended June 30, 2013, to finance the General Fund operations were \$.689 per \$100 valuation of real property, \$.689 per \$100 valuation for business personal property and \$.793 per \$100 valuation for motor vehicles.

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

### Capital Assets

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

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

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

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

### Interfund Balances

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

### Accumulated Unpaid Sick Leave Benefits

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

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

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

### Budgetary Process

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

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

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

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

### Cash and Cash Equivalents

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

### Inventories

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### Prepaid Assets

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

### Accrued Liabilities and Long-Term Obligations

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

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

### Fund Balances

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### Net Position

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

### Operating and Non-Operating Revenues and Expenses

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

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

### Contributions of Capital

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

### Interfund Activity

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

### **NOTE B – CHANGE IN ACCOUNTING POLICY**

During the fiscal year ended June 30, 2013, management adopted the Governmental Accounting Standards Board Statement No. 63. This statement created the statement of net position which replaced the previous statement of net assets. The term net assets is no longer used and has been replaced with net position. The District also implemented GASB 65 early, resulting in asset and liability classifications of deferred inflows and deferred outflows. This change is preferable so the District can be better prepared for the mandatory adoption in the upcoming fiscal year. The District recorded a deferred outflow of resources

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

for the difference in reacquisition and carrying value of refunding debt. Refer to the prior period adjustment note to see the effect on the change in net position.

**NOTE C – 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.

**NOTE D – CASH AND CASH EQUIVALENTS AND INVESTMENTS**

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

		<b>Bank</b>
		<u><b>Balance</b></u>
<u><b>Citizens National Bank</b></u>		<u><b>Demand</b></u>
FDIC	\$	250,000
Securities pledged to district		<u>867,118</u>
Bank balance	\$	<u><u>1,117,118</u></u>
		<b>Book</b>
		<u><b>Balance</b></u>
		<b>Cash and Cash</b>
		<u><b>Equivalents</b></u>
Governmental Activities	\$	424,555
Business-type Activities		(19,402)
School Activity		<u>60,597</u>
Total carrying amount	\$	<u><u>465,750</u></u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE E – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

<u>Governmental Activities</u>	<u>July 1, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2013</u>
Land	\$ 454,468	\$ -	\$ -	\$ 454,468
Land improvements	600,846	-	-	600,846
Buildings	14,736,468	59,280	-	14,795,748
Technology equipment	1,307,775	174,768	37,454	1,445,088
Vehicles	1,380,411	-	-	1,380,411
General equipment	427,097	24,707	-	451,804
Construction in progress	<u>4,926</u>	<u>4,926</u>	<u>9,852</u>	<u>-</u>
Total at historical cost	\$ <u>18,911,991</u>	\$ <u>263,680</u>	\$ <u>47,306</u>	\$ <u>19,128,365</u>
Less: Accumulated depreciation				
Land improvements	\$ 394,127	\$ 28,404	\$ -	\$ 422,531
Buildings	7,082,854	383,804	-	7,466,658
Technology equipment	778,227	164,647	5,583	937,291
Vehicles	789,896	97,893	-	887,788
General equipment	<u>201,233</u>	<u>34,234</u>	<u>-</u>	<u>235,467</u>
Total accumulated depreciation	\$ <u>9,246,336</u>	\$ <u>708,981</u>	\$ <u>5,583</u>	\$ <u>9,949,735</u>
Governmental Activities				
Capital Assets-net	\$ <u>9,665,655</u>	\$ <u>(445,301)</u>	\$ <u>41,723</u>	\$ <u>9,178,631</u>
<u>Business-Type Activities</u>	<u>July 1, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2013</u>
Vehicles	\$ -	\$ -	\$ -	\$ -
Technology equipment	2,743	1,950	-	4,692
General equipment	<u>217,645</u>	<u>28,045</u>	<u>1,150</u>	<u>244,540</u>
Total at historical cost	\$ <u>220,388</u>	\$ <u>29,994.04</u>	\$ <u>1,150.00</u>	\$ <u>249,232</u>
Less: Accumulated depreciation				
Vehicles	-	-	-	-
Technology equipment	2,175	437	-	2,612
General equipment	<u>130,852</u>	<u>13,772</u>	<u>1,150</u>	<u>143,475</u>
Total accumulated depreciation	\$ <u>133,028</u>	\$ <u>14,210</u>	\$ <u>1,150</u>	\$ <u>146,087</u>
Business-Type Activities				
Capital Assets-net	\$ <u>87,361</u>	\$ <u>15,784</u>	\$ <u>-</u>	\$ <u>103,145</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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

**NOTE F – 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 \$4,155,000 and \$415,000 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, 2013 are summarized below:

<u>Bond Issue</u>	<u>Original Amount</u>	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>2012</u>			<u>2013</u>
				<u>Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Outstanding Balance</u>
2002R	\$ 2,485,000	10/1/2013	1.30 - 3.80%	\$ 465,000		\$ 230,000	\$ 235,000
2003	1,140,000	6/1/2013	3.70%	20,000		20,000	-
2004	755,000	6/1/2014	4.30%	30,000		15,000	15,000
2006	360,000	5/1/2026	4.25%	310,000		10,000	300,000
2008R	890,000	9/1/2019	2.55 - 3.40%	765,000		85,000	680,000
2009	1,220,000	6/1/2029	2.0 - 4.50%	1,160,000		20,000	1,140,000
2012R	\$ 1,840,000	6/1/2024	1.15 - 3.0%	1,815,000		30,000	1,785,000
Totals				\$ 4,565,000	\$ -	\$ 410,000	\$ 4,155,000

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

The bonds may be called prior to maturity at dates and redemption premiums specified in each issue. Assuming no issues are called prior to maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2013 for debt service, (principal and interest) are as follows:

*SEE SCHEDULE ON NEXT PAGE*

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

Fiscal Year Ended June 30th	<u>Principal</u>		<u>Interest</u>		<u>Principal Total</u>	<u>Interest Total</u>
	<u>Local</u>	<u>SFCC</u>	<u>Local</u>	<u>SFCC</u>		
2014	\$ 347,098	\$ 67,902	\$ 95,693	\$ 20,754	\$ 415,000	\$ 116,446
2015	265,043	69,957	88,543	18,699	335,000	107,241
2016	273,195	71,805	83,197	16,852	345,000	100,049
2017	276,258	73,742	77,738	14,915	350,000	92,654
2018	284,189	75,811	72,113	12,846	360,000	84,959
2019-2023	1,342,203	227,797	250,734	36,824	1,570,000	287,558
2024-2028	577,731	87,269	90,917	13,908	665,000	104,825
2029	98,809	16,191	4,446	729	115,000	5,175
	<u>\$ 3,464,526</u>	<u>\$ 690,474</u>	<u>\$ 763,381</u>	<u>\$ 135,526</u>	<u>\$ 4,155,000</u>	<u>\$ 898,907</u>

The Kentucky School Boards Insurance Trust (“KSBIT”) notified the District during the year that their self-insurance pools for worker’s compensation and liability insurance were underfunded. As a result, an assessment will be required under a fair methodology to be approved by the Kentucky Department of Insurance, of current and past participating members to fund the deficit and the transfer of liability to a qualified insurer/reinsurer. On June 24, 2013, the KSBIT Board voted to submit a plan to the Kentucky Department of Insurance using the novation option. A novation transfers all existing KSBIT claims and risk to a highly rated reinsurer which will continue to make claims payments. Under the novation method, the District’s liability would be \$318,208. Members will have the option of making a lump-sum payment of their assessment or to take advantage of bond financing for up to 20 years. This plan is still subject to approval and no payment is estimated for the year ending June 30, 2014. This is presented as an extraordinary item on the government-wide financial statements because it is both infrequent and unusual in nature.

**NOTE G – RETIREMENT PLANS**

Kentucky Teachers’ Retirement System

Plan Description – The Pikeville Independent School District contributes to the Teachers’ Retirement System of Kentucky (KTRS), a cost-sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by Kentucky Department of Education (KDE). KTRS was created by the 1938 General Assemble and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

report can be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, Kentucky 40601 or from the KTRS web site at <http://ktrs.ky.gov/>.

Funding Policy – Contribution rates are established by KRS. Members before July 1, 2008 are required to contribute 10.855% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% of salaries for members before July 1, 2008 and 14.105% of salaries for members after July 1, 2008. The federal program for any salaries paid by that program pays the matching contribution of 14.105%.

### Medical Insurance Plan

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

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

Funding policy – In order to fund the post-retirement healthcare benefit, three and a half percent (3.5%) of the gross annual payroll of members before July 1, 2008 is contributed. One and three quarters percent (1.75%) is paid by member contributions and three quarters percent (.75%) from state appropriation and one percent (1.0%) from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

The Pikeville Independent School System's total payroll for the year was \$7,745,663. The payroll for employees covered under KTRS was \$6,308,527. For the year ended June 30, 2013, the Commonwealth contributed \$802,936 to KTRS for the benefit of our participating employees. The School district's contributions to KTRS for the year ending June 30, 2013 were \$34,191, which represents those employees covered by federal programs.

The District's required contributions (both withholding and match) for pension obligations to KTRS for the fiscal years ended June 30, 2013, 2012, and 2011 were \$871,319, \$877,992 and \$896,585 respectively.

### County Employees Retirement System

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

The County Employees Retirement System covers substantially all regular non-certified full-time employees of the school District. The plan provides for retirement, disability and death benefits. CERS

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained in writing from the County Employee Retirement System, 1260 Louisville Road, Perimeter Park West, and Frankfort, Kentucky, 40601.

For participating employees who established an account prior to July 1, 2008, they contribute 5% of the creditable compensation. For employees hired after July 1, 2008, they contribute 6% of the creditable compensation. Employer contribution rates are intended to fund the normal cost on a current basis plus one percent (1%) of un-funded past service costs per annum plus interest at the actuarial assumed rate. The Board of Trustees of the Kentucky Retirement Systems determines such contribution rates each biennium. The current District contribution rate for employees is 19.55%. The District contributed \$256,906 of the employee’s compensation during the fiscal year ended June 30, 2013.

The District’s required contributions (both withholding and match) for pension obligations to CERS for the fiscal years ended June 30, 2013, 2012, and 2011 were \$325,162, \$316,410 and \$291,265 respectively.

**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	\$ 8,915

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

The minimum lease/termination payments are as follows:

<u>Fiscal Year</u>	<u>Minimum</u>
<u>Ended</u>	<u>Payments</u>
<u>June 30</u>	
2014	\$ 41,600
2015	36,800
2016	32,000
2017	32,000
2018	32,000
<b>Total</b>	<b>\$ 174,400</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 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

There is no pending or threatened litigation for the district.

### 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 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.

The Kentucky School Boards Insurance Trust ("KSBIT") notified the District during the year that their self-insurance pools for worker's compensation and liability insurance were underfunded. As a result, an assessment will be required under a fair methodology to be approved by the Kentucky Department of Insurance, of current and past participating members to fund the deficit and the transfer of liability to a qualified insurer/reinsurer.

### 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	\$ (564,887)
General	(300,346)
School Activity Fund	\$ (445)

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**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>From</u>	<u>To</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Special Revenue Fund	\$ 17,244	KETS Offers
Capital Outlay Fund	General Fund	50,005	Operating Expenses
Capital Outlay Fund	Debt Service Fund	58,440	Debt Payments
FSPK Fund	Debt Service Fund	\$ 393,112	Debt Payments

**NOTE P – ON-BEHALF PAYMENTS**

The financial statements include payments made by the State of Kentucky on – behalf of the Pikeville Independent School District for teacher’s retirement, health insurance, life insurance, administrative fees, and state operated vocational schools where applicable. The amounts were recorded, but not budgeted, within the General, School Food Services, and Day Care Funds. The amounts recorded for both revenues and expenditures (expenses) are \$1,706,181 for the General Fund, \$88,656 for the Debt Service Fund and \$158,824 for the School Food Service Fund.

**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	\$ 844	School Facilities Construction Commission Requirement

**NOTE R – PRIOR PERIOD ADJUSTMENT**

Due to GASB 65, bond issue costs were overstated by \$71,670 and bond discounts were overstated by \$52,157 causing net position to be overstated as follows:

Net position July 1, 2012	\$ 6,740,164
Prior Period Adjustment	(123,827)
Restated Net position July 1, 2012	<u>\$ 6,616,337</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**NOTE S – SUBSEQUENT EVENTS**

The District has evaluated subsequent events through October 21, 2013, the date of the audit report.

Pikeville Independent School District  
**Combining Balance Sheet - Nonmajor Governmental Funds**  
 June 30, 2013

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

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, 2013

	Other Governmental Funds		
	FSPK	Construction	Total
<b>Revenues</b>			
From Local Sources			
Taxes			
Property	\$ 284,193	\$ -	\$ 284,193
Intergovernmental - State	108,919		108,919
Total Revenues	393,112	-	393,112
<b>Expenditures</b>			
Debt Service	-	-	-
Total Expenditures	-	-	-
<b>Excess (Deficit) of Revenues Over Expenditures</b>	393,112	-	393,112
<b>Other Financing Sources (Uses)</b>			
Transfers Out	(393,112)		(393,112)
Total Other Financing Sources (Uses)	(393,112)	-	(393,112)
<b>Net change in fund balances</b>	-	-	-
<b>Fund Balance beginning</b>	844	-	844
<b>Fund Balance ending</b>	\$ 844	\$ -	\$ 844

See the accompanying notes to the financial statements.

Pikeville Independent School District  
**Combining Balance Sheet of Fiduciary Fund - School Activity Funds**  
As of June 30, 2013

	<b>SCHOOL ACTIVITY FUND</b>		
	<b>PIKEVILLE HIGH SCHOOL</b>	<b>PIKEVILLE ELEMENTARY</b>	<b>TOTAL</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 30,590	\$ 30,006	\$ 60,597
Total Assets	30,590	30,006	60,597
<b>LIABILITIES</b>			
Accounts payable	564	-	564
Total Liabilities	564	-	564
<b>FUND BALANCE</b>			
School activities	30,026	30,006	60,032
Total Liabilities & Fund Balances	\$ 30,590	\$ 30,006	\$ 60,597

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**  
As of June 30, 2013

	<b>SCHOOL ACTIVITY FUND</b>		
	<b>PIKEVILLE HIGH SCHOOL</b>	<b>PIKEVILLE ELEMENTARY</b>	<b>TOTAL</b>
<b>REVENUES</b>			
Student revenues	\$ 361,884	\$ 131,282	\$ 493,166
<b>EXPENSES</b>			
Student activities	357,362	136,249	493,611
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES</b>	4,522	(4,967)	(445)
<b>FUND BALANCE July 1, 2012</b>	25,504	34,974	60,477
<b>FUND BALANCE June 30, 2013</b>	\$ 30,026	\$ 30,006	\$ 60,032

See the accompanying notes to the financial statements.

Pikeville Independent School District  
**Statement of Revenues, Expenses and Changes in Fund Balance -Pikeville High School**  
As of June 30, 2013

	FUND BALANCE BEGINNING	REVENUES	EXPENSES	TRANSFER	FUND BALANCE ENDING
OFFICE	\$ 98	\$ 2,497	\$ 3,355	\$ 788	\$ 27
POSTAGE	53	190	190	(53)	-
LOCKER FEES	450	240	292	-	398
TEXTBOOKS	455	10,830	10,112	-	1,173
SCHOOL RESERVED	65	62,354	62,419	-	-
ATHLETIC CONTINGENCY	(6,189)	2,834	(3,205)	149	-
PROJECT PROM	205	7,320	7,525	-	0
STUDENT VENDING	47	2,545	2,243	(246)	104
TEACHER VENDING	819	2,947	2,944	(784)	39
ATHLETICS	4,135	140,851	149,758	5,550	779
FCA	1,180	1,050	465	-	1,765
HONOR SOCIETY	1,894	3,282	3,365	-	1,811
HS ACADEMICS	3,581	9,926	11,897	(235)	1,375
JH ACADEMICS	579	1,390	2,104	229	94
JHPEP CLUB	-	1,252	880	(149)	223
PEP CLUB HS	3,554	8,311	7,408	(4,400)	57
KEY CLUB	1,241	463	436	-	1,269
STUDENT COUNCIL	665	961	755	-	871
FBLA	48	24,495	21,727	(17)	2,799
SPECIAL ED FOUNDATION	144	-	-	-	144
SMITH FEES	33	-	33	-	-
BAND	7	-	7	-	-
BAND NEEDS	139	-	139	-	-
BAND FRUIT	415	-	28	(387)	-
CHORUS	91	7,165	6,088	-	1,168
DRAMA	3,957	9,143	8,872	-	4,228
KYA COOLEY	3	-	-	(3)	-
7TH SCIENCE AWARD	53	725	460	(318)	-
8TH MATH	160	-	139	(21)	-
M PRATER FEES	-	-	(62)	(62)	-
HS MATH	-	2,000	2,000	-	-
8TH GRADE CLASS DUES	-	1,254	1,236	(18)	(0)
11TH GRADE	11	17,916	16,671	56	1,312
12TH GRADE	630	5,100	5,811	124	42
SENIOR TRIP	-	-	-	-	-
7TH GRADE CLASS FEE	-	2,858	3,021	163	-
BV CHEERLEADERS	-	-	-	-	-
YEARBOOK	5,518	4,778	5,571	-	4,725
COUNSELOR NEEDS	-	956	478	(421)	57
LIBRARY	531	3,401	3,721	-	210
HELP	60	100	205	53	9
CLASS OF 2014 GRAD FU	-	2,939	2,832	-	107
PANTHER BASKETBALL	-	5,694	2,902	-	2,791
R KING ENG DEPT	220	40	-	-	260
SCOTT FIELD TRIPS	-	530	475	-	55
COMPETITIVE CHEER AC	-	8,187	8,187	-	-
COOKING TEAM	-	301	-	-	301
PANTHER FOOTBALL CA	-	1,458	778	-	680
PANTHER PRIDE	650	3,602	3,100	-	1,152
	-	-	-	-	-
<b>TOTALS</b>	<b>\$ 25,504</b>	<b>\$ 361,884</b>	<b>\$ 357,362</b>	<b>\$ 0</b>	<b>\$ 30,026</b>

See the accompanying notes to the financial statements.

PIKEVILLE INDEPENDENT SCHOOL DISTRICT  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Year Ended June 30, 2013

**NOTE A – BASIS OF PRESENTATION**

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

**NOTE B – FOOD DISTRIBUTION**

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed. At June 30, 2013, the District had food commodities totaling \$35,305.

Pikeville Independent School District  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
 Year Ended June 30, 2013

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Expenditures
US Department of Agriculture				
Passed Through State Department of Education				
* <b>School Breakfast Program</b>	10.553			
Fiscal Year 13		7760005 13	\$ N/A	\$ 42,342
Fiscal Year 12		7760005 12	N/A	10,172
* <b>National School Lunch Program</b>	10.555			
Fiscal Year 13		7750002 13	N/A	151,194
Fiscal Year 12		7750002 12	N/A	39,140
* <b>Summer Food Service Program for Children</b>	10.559			
Fiscal Year 13		7690024 13	N/A	130
Fiscal Year 12		7690024 12	N/A	1,305
* <b>Summer Food Service Program for Children</b>	10.559			
Fiscal Year 13		7740023 13	N/A	1,205
Fiscal Year 12		7740023 12	N/A	12,449
Child Nutrition Cluster Subtotal				<u>257,937</u>
Passed Through State Department of Agriculture				
<b>Food Donation-Commodities</b>	10.565			
Fiscal Year 13		510.4950	N/A	35,305
Total US Department of Agriculture				<u>293,242</u>
US Department of Education				
Passed Through State Department of Education				
* <b>Title I Grants to Local Educational Agencies</b>	84.010A			
Fiscal Year 13		3100002 13	362,169	206,929
Fiscal Year 12		3100002 12	381,237	181,515
				<u>388,444</u>
<b>Special Education Grants to States</b>	84.027A			
Fiscal Year 13		3810002 13	198,456	196,326
Fiscal Year 13P		3810002 13	7,088	1,050
Fiscal Year 12		3810002 12	203,952	150
Fiscal Year 12P		3810002 12	2,615	2,615
Fiscal Year 11P		3810002 11	3,638	326
<b>Special Education - Preschool Grants</b>	84.173A			
Fiscal Year 13		3800002 13	7,913	7,913
Special Education Cluster Subtotal				<u>208,380</u>
<b>Education Jobs Fund</b>	84.410			
Fiscal Year 11		EJOB00 11	237,426	9,785
<b>Vocation Education - Basic Grants to States</b>	84.048			
Fiscal Year 13		4621132 13	9,737	8,693
Fiscal Year 12		4621132 12	10,819	2,146
				<u>10,839</u>
<b>Rural Education</b>	84.358B			
Fiscal Year 13		3140002 13	23,148	13,011
Fiscal Year 12		3140002 12	25,993	3,442
				<u>16,453</u>
<b>Race to the Top</b>	84.413A			
Fiscal Year 11		39600002 11	15,374	4,203
<b>Improving Teacher Quality State Grants</b>	84.367A			
Fiscal Year 13		3230002 13	86,696	84,668
Fiscal Year 12		3230002 12	87,610	1,964
				<u>86,633</u>
Total US Department of Education				<u>724,736</u>
US Department of Commerce				
Passed Through Eastern Kentucky PRIDE, Inc.				
<b>PRIDE Environmental Education</b>	11.420			
Fiscal Year 13		2703	250	250
Total US Department of Commerce				<u>250</u>
US Department of Health and Human Services				
Passed Through Kentucky School Board Association				
<b>Medical Assistance Program</b>	93.778			
Fiscal Year 13		110.4810	N/A	22,756
Total US Department of Health and Human Services				<u>22,756</u>
<b>Total Expenditure of Federal Awards</b>				<u>\$ 1,040,984</u>

\* Major program

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the Auditor Responsibilities and State Compliance Requirements sections contained in the Kentucky Public School Districts' Audit Contract and Requirements, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Pikeville Independent School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Pikeville Independent School District's basic financial statements, and have issued our report thereon dated October 21, 2013.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses, In addition, the results of our tests disclosed no deficiencies as it relates to specific state statutes or regulations identified in the audit requirements prescribed by the Kentucky State Committee for School District Audits included in the Kentucky Public School District's Audit Contract and Requirements or Appendices. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

*White & Associates, P.C.*

Richmond, Kentucky  
October 21, 2013

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

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

**Report on Compliance for Each Major Federal Program**

We have audited Pikeville Independent School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Pikeville Independent School District's major federal programs for the year ended June 30, 2013. Pikeville Independent School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

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

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

***Opinion on Each Major Federal Program***

In our opinion, Pikeville Independent School District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

## Report on Internal Control Over Compliance

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

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

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

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

*White & Associates, PSC*

Richmond, Kentucky  
October 21, 2013

PIKEVILLE INDEPENDENT SCHOOL DISTRICT  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
 Year Ended June 30, 2013

**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)?	No
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?	No
What type of report was issued on compliance for major programs?	Unmodified
Did the audit disclose findings as it relates to major programs that Is required to be reported as described in Section 510(a) of OMB A-133?	No
Major Programs	Title I [CFDA 84.010A] Child Nutrition Cluster [CFDA 10.553, 10.555, 10.559]
Dollar threshold of Type A and B programs	\$300,000
Low risk auditee?	No

**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, 2013

**Finding 12-1**

*Statement of Condition:* Assistant coaches were paid through accounts payable instead of payroll.

*Criteria for the Condition:* Within the Common Law Rules, Revenue Ruling 87-41 states criteria to be used to determine if a worker is an employee or an independent contractor. These criteria indicate that assistant coaches would be considered employees of the District.

*Cause of the Condition:* Assistant coaches were not considered employees of the District.

*Effect of the Condition:* Payments were handled improperly.

*Subsequent Review:* This finding was corrected.

**MANAGEMENT LETTER**

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, 2013, 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 October 21, 2013. This letter does not affect our report dated October 21, 2013, on the financial statements of the Pikeville Independent School District. The conditions observed are as follows:

**PIKEVILLE ELEMENTARY**

1-13

Statement of Condition: The Principal is not dating the bank statement after review.

Recommendation for Correction: The Principal should date the front page of the bank statement after a complete review.

Management Response to the Recommendation: Principal is already initialing the monthly bank statements and has been instructed to begin dating each statement as well.

**PIKEVILLE HIGH SCHOOL**

2-13

Statement of Condition: Support/Booster club annual financial reports are not available from the following school booster clubs: Softball, Soccer, Dance, Band, Golf, Cross Country, Track.

Recommendation for Correction: The principal should notify each Support/Booster Organization of the requirement of turning in annual financial reports and insure these are received by July 25.

Management's Response to the Recommendation: Support/Booster Organizations have been notified of this requirement as well as a thorough review with Principal as to their responsibility to collect and retain these reports.

3-13

Statement of Condition: Instances of receipts not written at the time monies were received by the school treasurer.

Recommendation for Correction: Receipts shall be written to the individual giving the monies to the school treasurer at the time the monies are received.

Management's Response to the Recommendation: Principal and Bookkeeper will review Redbook policy and instructions regarding receipts and deposits. To ensure proper handling of receipts.

We will review the status of these conditions during our next audit engagement. We have already discussed many of these conditions and suggestions with various District personnel, and we will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

The prior year management letter 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  
October 21, 2013