

Newport Independent School District

**Financial Statements
With Supplementary Information
Year Ended June 30, 2018
With Independent Auditors' Report**

NEWPORT INDEPENDENT SCHOOL DISTRICT

Year Ended June 30, 2018

Table of Contents

Independent Auditors' Report	1-2
Management's Discussion and Analysis (MD&A) (Unaudited)	3-9
Basic Financial Statements:	
District Wide Financial Statements:	
Statement of Net Position - District Wide	10
Statement of Activities - District Wide	11
Fund Financial Statements:	
Balance Sheet - Governmental Funds	12
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position	13
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Statement of Net Position - Proprietary Fund	16
Statement of Revenues, Expenses and Changes in Net Position - Proprietary Fund	17
Statement of Cash Flows - Proprietary Fund	18
Statement of Fiduciary Net Position	19
Statement of Changes in Fiduciary Funds	20
Notes to the Financial Statements	21-50

NEWPORT INDEPENDENT SCHOOL DISTRICT

Year Ended June 30, 2018

Table of Contents (Continued)

Supplementary Information:

Combining Statements - Nonmajor Funds:

Combining Balance Sheet - Nonmajor Governmental Funds	51
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	52
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual – General Fund	53
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual – Special Revenue Fund	54
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual – Construction Fund	55
Statement of Receipts, Disbursements and Fund Balances - Bond and Interest Redemption Funds	56
Statement of Receipts, Disbursements and Fund Balances – Newport High School Activity Funds	57-58
Statement of Receipts, Disbursements and Fund Balances - School Activity Funds	59
Schedule of the District’s Proportionate Share of the Net Pension Liability – KTRS	60
Schedule of District Contributions – KTRS	61
Schedule of the District’s Proportionate Share of the Net Pension Liability – CERS	62
Schedule of District Contributions – CERS	63
Schedule of the District’s Proportionate Share of the Net OPEB Liability – LIF	64
Schedule of District Contributions – LIF’	65
Schedule of the District’s Proportionate Share of the Net OPEB Liability – MIF	66
Schedule of District Contributions – MIF	67
Schedule of the District’s Proportionate Share of the Net OPEB Liability – MIF (CERS)	68
Schedule of District Contributions – MIF (CERS)	69
Schedule of Expenditures of Federal Awards	70
Notes to the Schedule of Expenditures of Federal Awards	71

NEWPORT INDEPENDENT SCHOOL DISTRICT

Year Ended June 30, 2018

Table of Contents (Continued)

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	72-73
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance	74-75
Schedule of Findings and Questioned Costs	76-78
Management Letter Comments	79-84

Independent Auditors' Report

To the Members of the Board of Education
Newport Independent School District
Newport, 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 the Newport Independent School District as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Newport Independent School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' 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 *Kentucky Public School Districts' Audit Contract and Requirements* prescribed by the Kentucky State Committee for School District Audits. 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 Newport Independent School District, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Independent Auditors' Report
(Continued)**

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information on pages 3-9 (unaudited), 53-55, and 60-69 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 Newport Independent School District's basic financial statements. The information on pages 51-52, 56-59, and 70-71 as listed in the table of contents is presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The information on pages 51-52, 56-59, and 70-71 as listed in the table of contents is 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 information on 51-52, 56-59, and 70-71 as listed in the table of contents is 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 December 14, 2018 on our consideration of the Newport 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 solely 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 the effectiveness of Newport Independent School District's 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 Newport Independent School District's internal control over financial reporting and compliance.

Barnes, Dennig & Co., Ltd.

NEWPORT INDEPENDENT SCHOOL DISTRICT

Management's Discussion and Analysis (MD&A) Year Ended June 30, 2018

As management of the Newport Independent School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

The District continues to move forward with three major goals: 1. Increase the reading and math K-PREP scores for elementary and middle school students; 2. Increase the use of academic monitoring/tracking of student progress to make data-driven decisions; 3. Develop a culture where all staff knows our students and every child has an adult advocate.

ACADEMIC PROGRESS HIGHLIGHTS

- The District continued the Measures of Academic Progress (MAP) assessment tool to monitor learning throughout the year over in grades K-11. The MAP program allows teachers to adjust instruction during the school year to meet the needs of each student as well as compare student learning over time and against national averages. Students are assessed Reading and Mathematics.
- As a District, based on K-PREP data, we still see a need to increase the literacy and numeracy intervention initiatives in order to decrease novice and increase proficiency in reading and mathematics at both the elementary and secondary levels. Closing the achievement gap and increasing the number of students who meet growth, are vital to our overall academic achievement.
- ACT scores showed an increase for the 2017-2018 school year from a 17.4 to 18.0. The score for the number of students who were transitionally ready was 57.5.
- Parent involvement is encouraged at all schools through a variety of parent engagement nights throughout the year.
- The high school implements a credit recovery program. Any high school students, who were in need of credits, are able to participate to attain credits for graduation requirements.
- The graduation rate was 95.1 in 2018, which has steadily increased from 67.2 in 2012.
- The 21st Century Community Learning Center grant continues to target at-risk students and provide intervention and enrichment programs/activities centered on reducing barriers to learning for students and increase college and career readiness. The grant provides summer and after-school programs to assist with enrichment activities.
- ESS services continue to be offered through before school services, after-school tutoring services, and day-waiver programs during the school day.
- For the sixth year in a row, Newport Independent Schools will be participating in the USDA's Community Eligibility Provision (CEP). All students are served one breakfast and one lunch each day at no charge. There is also an after-school super snack program that provides snacks for our K-12 students. Students receive the option of also purchasing a la carte food and beverage items.
- The district's school calendar continues to support increased and ongoing job embedded professional development through the use of five built in days for additional professional growth opportunities.

NEWPORT INDEPENDENT SCHOOL DISTRICT

Management's Discussion and Analysis (MD&A) Year Ended June 30, 2018 (Continued)

ACADEMIC PROGRESS HIGHLIGHTS (CONTINUED)

- The District continues to use the District/School Websites, *School Messenger*, Facebook, Twitter, and other mediums to communicate up-to-date information to students, parents, community, and all stakeholders involved in the academic success of students.
- Professional learning opportunities continue to be implemented with schools focusing on academic standards, interventions, small group instruction, data analysis, PGES, and the alignment of the Kentucky Core Academic Standards with formative and summative assessments. These opportunities are designed to be differentiated and content specific to meet the professional growth needs of the teachers.
- The District expanded its technology by developing an initiative for 1:1 Technology in all schools, providing iPads to all students in grades K-8 and MacBook Air laptops to students in grades 9-12. Interactive whiteboards, instructional software, video projectors, document cameras, instructional resources for the devices, tech-enabled textbooks, and Project Lead the Way (STEM Program for K-12) have been purchased to create 21st Century Learning Classrooms that are interactive and engaging to students.

Newport Independent School District invites you to learn more about our ongoing efforts to become a more effective small urban school district.

FINANCIAL HIGHLIGHTS

- The beginning cash balance for the District was \$6,647,225.
- The General Fund had \$19,255,184 in revenue, excluding inter-fund transfers and proceeds from sales of assets, which primarily consisted of the state program (SEEK), property, local occupational license taxes, utilities, and motor vehicle taxes and the sale of a building. Excluding inter-fund transfers, there was \$18,656,439 in General Fund expenditures.
- Our primary financial concern continues to be state funding which has not kept up with the increases in operating expenses due to inflation, increased salaries - some of which are a direct result of mandates by the state, and an increasing portion of the retirement shortfall that we have been asked to fund. After many years of not making the necessary contributions to fully fund the Kentucky Teachers' Retirement System (KTRS), the legislature passed along a portion of the funding shortfall to employees and a larger portion to school districts. As a result, our district has paid hundreds of thousands of dollars into the retirement system over the past six years and will pay millions of dollars in the future in an effort to help stabilize the fund. For the first time this year we are also being required to record the portion of the unfunded state liability in our financial statements attributable to our employees, as determined by KTRS. While it remains to be seen if districts, including our own, will end up shouldering more this deficit over the years to come, if the state does not start responsibly funding the system it can be safely assumed that we will. This will continue to shift more of the responsibility for funding our education system onto the backs of school districts and subsequently local tax payers. The continual erosion of state funding makes it increasingly difficult to maintain the high standard of education and programming that our students deserve without increasing taxes locally. In this climate of shrinking state support the Newport Independent School District will maintain fiscally responsible policies in order to continue providing quality academic, extra-curricular and community service programs to all of its students.

NEWPORT INDEPENDENT SCHOOL DISTRICT

Management's Discussion and Analysis (MD&A) Year Ended June 30, 2018 (Continued)

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 are comprised of three components: 1) district-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

District-wide financial statements. The district-wide financial statements 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.

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 expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The district-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues.

The district-wide financial statements can be found on pages 10 and 11 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental funds, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary funds are our vending and food service operations and day care operations. All other activities of the District are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 12 through 20 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements. The notes to the financial statements can be found on pages 21 through 50 of this report.

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Management's Discussion and Analysis (MD&A)
Year Ended June 30, 2018
(Continued)**

DISTRICT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows exceeded liabilities and deferred inflows by \$9,050,185 as of June 30, 2018.

The largest portion of the District's net position reflects its investment in capital assets (i.e. land and improvements, buildings and improvements, vehicles, furniture and equipment), 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 for the periods ending June 30, 2018 and 2017

The following is a summary of net position for the fiscal years ended June 30, 2018 and 2017.

	<u>2018</u>	<u>2017</u>
Assets		
Current assets	\$ 11,987,962	\$ 8,255,271
Noncurrent assets	<u>27,806,369</u>	<u>25,061,560</u>
Total assets	<u>39,794,331</u>	<u>33,316,831</u>
Deferred outflows	<u>5,266,141</u>	<u>2,499,807</u>
Liabilities		
Current liabilities	1,694,333	1,638,134
Noncurrent liabilities	<u>33,037,065</u>	<u>19,508,741</u>
Total liabilities	<u>34,731,398</u>	<u>21,146,875</u>
Deferred inflows	<u>1,278,889</u>	<u>287,400</u>
Net position		
Investment in capital assets (net of debt)	10,648,545	12,260,847
Restricted	(8,725,889)	(4,266,943)
Unassigned	<u>7,127,529</u>	<u>6,388,459</u>
Total net position	<u>\$ 9,050,185</u>	<u>\$ 14,382,363</u>

Comments on General Fund Budget Comparisons

- The District's total general fund revenues for the fiscal year ended June 30, 2018, net of inter-fund transfer and sale of fixed assets, were \$19,255,184.
- General fund budget compared to actual revenue varied from line item to line item with the ending actual balance being \$4,883,074, more than budget or approximately 25.0%. The majority of the difference is the result of the District recording "on behalf" payments made by the state.
- The total cost of all programs and services in the general fund was \$18,656,439, net of inter-fund transfers.
- General Fund actual expenditures were less than budgeted expenditures by \$1,683,209.

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Management's Discussion and Analysis (MD&A)
Year Ended June 30, 2018
(Continued)**

DISTRICT-WIDE FINANCIAL ANALYSIS (CONTINUED)

The following table presents a summary of revenues and expenses for the fiscal years ended June 30, 2018 and 2017.

	<u>2018</u>	<u>2017</u>
Revenues:		
Program revenues:		
Charges for services	\$ 107,751	\$ 153,924
Operating grants and contributions	7,063,093	7,451,445
Capital grants and contributions	<u>574,928</u>	<u>605,524</u>
Total program revenues	<u>7,745,772</u>	<u>8,210,893</u>
General revenues:		
Taxes	9,645,293	8,576,960
Federal and state sources	12,895,918	15,378,302
Earnings on investments	92,706	48,675
Miscellaneous	<u>2,998,269</u>	<u>3,965,041</u>
Total general revenues	<u>25,632,186</u>	<u>27,968,978</u>
Total revenues	<u>33,377,958</u>	<u>36,179,871</u>
Expenses:		
Instruction	19,976,757	21,756,927
Student support services	837,271	759,064
Instructional support	1,067,473	943,510
District administration	1,380,439	1,580,823
School administration	1,186,175	1,186,790
Business support	861,415	1,016,612
Plant operations	2,652,609	2,495,727
Student transportation	692,769	632,233
Community support	615,819	518,000
Debt service	404,857	382,090
Food service	<u>1,477,696</u>	<u>1,529,333</u>
Total expenses	<u>31,153,280</u>	<u>32,801,109</u>
Change in net position	<u>\$ 2,224,678</u>	<u>\$ 3,378,762</u>

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Management's Discussion and Analysis (MD&A)
Year Ended June 30, 2018
(Continued)**

BUDGETARY IMPLICATIONS

In Kentucky, the public school fiscal year is July 1-June 30; other programs, i.e. some federal, 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 budget with \$4,929,647 in contingency (24.0%). The beginning cash balance of the fiscal year was \$6,647,225.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the District's finances and to reflect the District's accountability for the funds it receives. Questions or comments about this report should be directed to Mr. Kelly Middleton, Superintendent, or Mr. Tete Turner, Finance Director, by telephone at 859-292-3004 or by mail to the Central Office, 30 West 8th Street, Newport, KY 41071.

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Statement of Net Position – District Wide
As of June 30, 2018**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Current			
Cash and cash equivalents	\$ 10,157,510	\$ 216,585	\$ 10,374,095
Accounts receivable	1,590,441	18,353	1,608,794
Inventories for consumption	-	5,073	5,073
Total current assets	<u>11,747,951</u>	<u>240,011</u>	<u>11,987,962</u>
Noncurrent			
Nondepreciated capital assets:			
Land and land improvements	1,489,992	-	1,489,992
Construction in progress	16,238,036	-	16,238,036
Depreciated capital assets:			
Buildings and improvements	23,288,318	-	23,288,318
Furniture and equipment	5,491,438	681,868	6,173,306
Less: accumulated depreciation	<u>(18,777,579)</u>	<u>(605,704)</u>	<u>(19,383,283)</u>
Total noncurrent	<u>27,730,205</u>	<u>76,164</u>	<u>27,806,369</u>
Total assets	<u>39,478,156</u>	<u>316,175</u>	<u>39,794,331</u>
Deferred outflows	<u>5,113,521</u>	<u>152,620</u>	<u>5,266,141</u>
Liabilities			
Current			
Current portion of bonds payable	731,565	-	731,565
Current portion of accrued sick leave	48,069	-	48,069
Accounts payable	333,503	1,009	334,512
Accrued payroll and related expenses	460,553	-	460,553
Assessed KISBIT liability	15,672	-	15,672
Accrued interest	<u>103,962</u>	<u>-</u>	<u>103,962</u>
Total current	<u>1,693,324</u>	<u>1,009</u>	<u>1,694,333</u>
Noncurrent			
Accrued sick leave	432,617	-	432,617
CERS net pension liability	7,745,423	231,172	7,976,595
MIF net OPEB liability	7,963,901	237,693	8,201,594
Long term bonds payable	<u>16,426,259</u>	<u>-</u>	<u>16,426,259</u>
Total noncurrent	<u>32,568,200</u>	<u>468,865</u>	<u>33,037,065</u>
Total liabilities	<u>34,261,524</u>	<u>469,874</u>	<u>34,731,398</u>
Deferred inflows	<u>1,241,825</u>	<u>37,064</u>	<u>1,278,889</u>
Net Position			
Invested in capital assets, net of related debt	10,572,381	76,164	10,648,545
Restricted	(8,611,582)	(114,307)	(8,725,889)
Unrestricted	<u>7,127,529</u>	<u>-</u>	<u>7,127,529</u>
Total net position	<u>\$ 9,088,328</u>	<u>\$ (38,143)</u>	<u>\$ 9,050,185</u>

The accompanying notes are an integral part of these financial statements

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Statement of Activities – District Wide
Year Ended June 30, 2018**

FUNCTION/PROGRAMS	Expenses	Program Services			Net (Expenses) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
Instructional	\$ 19,976,757	\$ 30,133	\$ 4,559,408	\$ -	\$ (15,387,216)	\$ -	\$ (15,387,216)
Student support services	837,271	-	116,507	-	(720,764)	-	(720,764)
Staff support services	1,067,473	-	245,088	-	(822,385)	-	(822,385)
District administration	1,380,439	-	-	-	(1,380,439)	-	(1,380,439)
School administration	1,186,175	-	1,566	-	(1,184,609)	-	(1,184,609)
Business support services	861,415	-	-	-	(861,415)	-	(861,415)
Plant operation and maintenance	2,652,609	-	747	-	(2,651,862)	-	(2,651,862)
Student transportation	692,769	-	-	-	(692,769)	-	(692,769)
Community service operations	615,819	-	577,319	-	(38,500)	-	(38,500)
Facility acquisition and construction	-	-	-	574,928	574,928	-	574,928
Interest on long-term debt	404,857	-	-	-	(404,857)	-	(404,857)
Total governmental activities	<u>29,675,584</u>	<u>30,133</u>	<u>5,500,635</u>	<u>574,928</u>	<u>(23,569,888)</u>	<u>-</u>	<u>(23,569,888)</u>
Business-type Activities							
Food service	<u>1,477,696</u>	<u>77,618</u>	<u>1,562,458</u>	<u>-</u>	<u>-</u>	<u>162,380</u>	<u>162,380</u>
Total business-type activities	<u>1,477,696</u>	<u>77,618</u>	<u>1,562,458</u>	<u>-</u>	<u>-</u>	<u>162,380</u>	<u>162,380</u>
Total school district	<u>\$ 31,153,280</u>	<u>\$ 107,751</u>	<u>\$ 7,063,093</u>	<u>\$ 574,928</u>	<u>(23,569,888)</u>	<u>162,380</u>	<u>(23,407,508)</u>
			General Revenues				
			Taxes		9,645,293	-	9,645,293
			Federal and state sources		12,895,918	-	12,895,918
			Investment earnings		92,706	-	92,706
			Miscellaneous		3,013,497	-	3,013,497
			Interfund transfer		(64,246)	(85,754)	(150,000)
			Gain on disposal of fixed assets		134,772	-	134,772
			Total general and special revenues		<u>25,717,940</u>	<u>(85,754)</u>	<u>25,632,186</u>
			Change in net position		2,148,052	76,626	2,224,678
			Net position - beginning		14,278,124	104,239	14,382,363
			Net position adjustment (Note 20)		<u>(7,337,848)</u>	<u>(219,008)</u>	<u>(7,556,856)</u>
			Net position - ending		<u>\$ 9,088,328</u>	<u>\$ (38,143)</u>	<u>\$ 9,050,185</u>

The accompanying notes are an integral part of these financial statements

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Balance Sheet – Governmental Funds
As of June 30, 2018**

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Construction Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Current					
Cash and cash equivalents (deficit)	\$ 7,835,611	\$ (915,894)	\$ 2,670,253	\$ 567,540	\$ 10,157,510
Accounts receivable	<u>559,540</u>	<u>1,030,901</u>	<u>-</u>	<u>-</u>	<u>1,590,441</u>
Total current	<u>\$ 8,395,151</u>	<u>\$ 115,007</u>	<u>\$ 2,670,253</u>	<u>\$ 567,540</u>	<u>\$ 11,747,951</u>
Liabilities and Fund Balance					
Current					
Accounts payable	\$ 163,496	\$ 115,007	\$ 55,000	\$ -	\$ 333,503
Accrued payroll and related expenses	<u>460,553</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>460,553</u>
Total current	<u>624,049</u>	<u>115,007</u>	<u>55,000</u>	<u>-</u>	<u>794,056</u>
Fund Balance					
Restricted					
Capital projects	-	-	2,615,253	485,078	3,100,331
Committed					
Accrued sick leave	150,000	-	-	-	150,000
Other	2,500,000	-	-	-	2,500,000
Assigned					
Purchase obligations	43,253	-	-	82,462	125,715
Unassigned	<u>5,077,849</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,077,849</u>
Total fund balances	<u>7,771,102</u>	<u>-</u>	<u>2,615,253</u>	<u>567,540</u>	<u>10,953,895</u>
Total liabilities and fund balances	<u>\$ 8,395,151</u>	<u>\$ 115,007</u>	<u>\$ 2,670,253</u>	<u>\$ 567,540</u>	<u>\$ 11,747,951</u>

The accompanying notes are an integral part of these financial statements

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Reconciliation of the Balance Sheet
Governmental Funds to the Statement of Net Position
As of June 30, 2018**

Total fund balance per fund financial statements		\$ 10,953,895
Long-term liabilities (including bonds payable) are not due and payable in the current period and therefore are not reported as liabilities in the funds		
Construction in progress	16,238,036	
Cost of capital assets	30,269,748	
Accumulated depreciation	<u>(18,777,579)</u>	27,730,205
Deferred outflows		
Related to CERS	3,572,130	
CERS contributions made after the measurement date	555,350	
Related to MIF	578,841	
MIF contributions made after the measurement date	<u>407,200</u>	5,113,521
Deferred inflows		
Related to CERS	(1,034,573)	
Related to MIF	<u>(207,252)</u>	(1,241,825)
Long-term liabilities (including bonds payable) are not due and payable in the current period and therefore are not reported as liabilities in the funds		
Long-term liabilities at year end consist of:		
Bonds payable	(17,157,824)	
Assessed KISBIT liability	(15,672)	
Accrued interest	(103,962)	
Net pension liability	(7,745,423)	
Net OPEB liability	(7,963,901)	
Accrued sick leave	<u>(480,686)</u>	<u>(33,467,468)</u>
Net position for governmental activities		<u>\$ 9,088,328</u>

The accompanying notes are an integral part of these financial statements

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
Year Ended June 30, 2018**

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Construction Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
Taxes	\$ 8,807,197	\$ -	\$ -	\$ 838,096	\$ 9,645,293
Earnings on investments	92,706	-	-	-	92,706
State sources	9,915,093	1,673,417	-	574,928	12,163,438
Federal sources	139,766	3,757,488	-	-	3,897,254
Other sources	<u>300,422</u>	<u>69,730</u>	<u>-</u>	<u>52,250</u>	<u>422,402</u>
 Total revenues	 <u>19,255,184</u>	 <u>5,500,635</u>	 <u>-</u>	 <u>1,465,274</u>	 <u>26,221,093</u>
Expenditures:					
Instructional	10,484,252	4,583,624	-	13,631	15,081,507
Student support services	687,494	116,507	-	-	804,001
Staff support services	735,658	245,088	-	-	980,746
District administration	1,365,867	-	-	-	1,365,867
School administration	1,165,257	1,566	-	-	1,166,823
Business support services	860,488	-	-	-	860,488
Plant operation and maintenance	2,610,640	747	-	-	2,611,387
Student transportation	666,421	-	-	-	666,421
Community service operation	38,399	577,319	-	-	615,718
Facility acquisition and construction	-	-	2,367,272	-	2,367,272
Debt service:					
Principal	35,414	-	-	590,000	625,414
Interest	<u>6,549</u>	<u>-</u>	<u>-</u>	<u>386,507</u>	<u>393,056</u>
 Total expenditures	 <u>18,656,439</u>	 <u>5,524,851</u>	 <u>2,367,272</u>	 <u>990,138</u>	 <u>27,538,700</u>
 Excess (deficit) of revenues over expenditures	 <u>598,745</u>	 <u>(24,216)</u>	 <u>(2,367,272)</u>	 <u>475,136</u>	 <u>(1,317,607)</u>
Other financing sources (uses)					
Proceeds from sale of assets	139,576	-	-	-	139,576
Proceeds from sale of bonds	-	-	4,982,525	-	4,982,525
Operating transfers in	123,545	62,007	-	690,821	876,373
Operating transfers out	<u>(212,007)</u>	<u>(37,791)</u>	<u>-</u>	<u>(690,821)</u>	<u>(940,619)</u>
 Total other financing sources (uses)	 <u>51,114</u>	 <u>24,216</u>	 <u>4,982,525</u>	 <u>-</u>	 <u>5,057,855</u>
 Net change in fund balances	 649,859	 -	 2,615,253	 475,136	 3,740,248
 Fund balance, July 1, 2017	 <u>7,121,243</u>	 <u>-</u>	 <u>-</u>	 <u>92,404</u>	 <u>7,213,647</u>
 Fund balance, June 30, 2018	 <u>\$ 7,771,102</u>	 <u>\$ -</u>	 <u>\$ 2,615,253</u>	 <u>\$ 567,540</u>	 <u>\$ 10,953,895</u>

The accompanying notes are an integral part of these financial statements

NEWPORT 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, 2018**

Amounts reported for governmental activities in the statement of net position are different because:

Net change in total fund balances per fund financial statements		\$ 3,740,248
Proceeds from sale of bonds and other related costs		(4,982,525)
<p>Governmental funds report capital outlays as expenditures because they use current financial resources. However in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceed depreciation expense for the year.</p>		
Construction in progress	2,117,941	
Depreciation expense	(916,584)	
Capital outlays	1,527,111	
Retirements of capital assets	<u>(4,804)</u>	
		2,723,664
<p>Bond proceeds are reported as financing sources in governmental fund and thus contribute to the change in fund balance. In the statement of net position however, issuing debt increase long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position</p>		
Principal paid	<u>625,414</u>	
		625,414
Deferred outflow related to pensions		1,704,917
Deferred outflow related to OPEB		986,041
Deferred inflows related to pensions		(756,054)
Deferred inflows related to OPEB		(207,252)
<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>		
		<u>(1,686,401)</u>
Changes in net position of governmental activities		<u>\$ 2,148,052</u>

The accompanying notes are an integral part of these financial statements

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Statement of Net Position – Proprietary Fund
As of June 30, 2018**

	Food Service Fund	Total
	<u> </u>	<u> </u>
Assets		
Current		
Cash and cash equivalents	\$ 216,585	\$ 216,585
Accounts receivable	18,353	18,353
Inventories for consumption	<u>5,073</u>	<u>5,073</u>
Total current	<u>240,011</u>	<u>240,011</u>
Noncurrent		
Furniture and equipment	681,868	681,868
Less: accumulated depreciation	<u>(605,704)</u>	<u>(605,704)</u>
Total noncurrent	<u>76,164</u>	<u>76,164</u>
Total assets	<u>316,175</u>	<u>316,175</u>
Deferred outflows	<u>152,620</u>	<u>152,620</u>
Liabilities		
Current		
Accounts payable	<u>1,009</u>	<u>1,009</u>
Total current	<u>1,009</u>	<u>1,009</u>
Noncurrent		
MIF net OPEB liability	237,693	237,693
CERS net pension liability	<u>231,172</u>	<u>231,172</u>
Total noncurrent	<u>468,865</u>	<u>468,865</u>
Total liabilities	<u>469,874</u>	<u>469,874</u>
Deferred inflows	<u>37,064</u>	<u>37,064</u>
Net Position		
Invested in assets, net of debt	76,164	76,164
Restricted	<u>(114,307)</u>	<u>(114,307)</u>
Total net position	<u>\$ (38,143)</u>	<u>\$ (38,143)</u>

The accompanying notes are an integral part of these financial statements

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Statement of Revenues, Expenses and Changes in Net Position – Proprietary Fund
Year Ended June 30, 2018**

	Food Service Fund	Total
	<u> </u>	<u> </u>
Operating revenues		
Lunchroom sales	\$ 56,813	\$ 56,813
Other operating revenues	20,805	20,805
	<u>77,618</u>	<u>77,618</u>
Operating expenses		
Salaries and benefits	797,560	797,560
Contract services	37,664	37,664
Materials and supplies	635,277	635,277
Depreciation	7,195	7,195
	<u>1,477,696</u>	<u>1,477,696</u>
Operating loss	<u>(1,400,078)</u>	<u>(1,400,078)</u>
Nonoperating revenues (expenses)		
Federal grants	1,109,512	1,109,512
State grants	367,321	367,321
Donated commodities and other donations	85,625	85,625
Transfers	<u>(85,754)</u>	<u>(85,754)</u>
Total nonoperating revenues (expenses)	<u>1,476,704</u>	<u>1,476,704</u>
Net income	76,626	76,626
Total net position, July 1, 2017	104,239	104,239
Net position adjustment (Note 20)	<u>(219,008)</u>	<u>(219,008)</u>
Total net position, June 30, 2018	<u>\$ (38,143)</u>	<u>\$ (38,143)</u>

The accompanying notes are an integral part of these financial statements

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Statement of Cash Flows – Proprietary Fund
Year Ended June 30, 2018**

	Food Service Fund	Total
	<u> </u>	<u> </u>
Cash flows from operating activities		
Cash received from lunchroom sales	\$ 56,813	\$ 56,813
Cash received from other activities	24,184	24,184
Cash payments to employees for services	(809,577)	(809,577)
Cash payments to suppliers for goods and services	(669,539)	(669,539)
Cash transfers	<u>(85,754)</u>	<u>(85,754)</u>
Net cash used in operating activities	<u>(1,483,873)</u>	<u>(1,483,873)</u>
Cash flows from noncapital financing activities		
Non-operating revenues received	<u>1,562,458</u>	<u>1,562,458</u>
Net cash provided by noncapital financing activities	<u>1,562,458</u>	<u>1,562,458</u>
Net increase in cash and cash equivalents	50,245	50,245
Cash and cash equivalents - beginning	<u>166,340</u>	<u>166,340</u>
Cash and cash equivalents - ending	<u><u>\$ 216,585</u></u>	<u><u>\$ 216,585</u></u>
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (1,400,078)	\$ (1,400,078)
Adjustment to reconcile operating loss to net cash used in operating activities		
Depreciation	7,195	7,195
Interfund transfers	(85,754)	(85,754)
Changes in assets and liabilities:		
(Increase) in deferred outflows	(75,376)	(75,376)
Decrease in deferred inflows	28,183	28,183
Decrease in accounts receivable	3,379	3,379
Decrease in inventory	9,976	9,976
Increase in MIF net OPEB liability	18,685	18,685
Increase in CERS net pension liability	16,491	16,491
(Decrease) in accounts payable	<u>(6,574)</u>	<u>(6,574)</u>
Net cash used in operating activities	<u><u>\$ (1,483,873)</u></u>	<u><u>\$ (1,483,873)</u></u>
Schedule of non-cash transactions		
Donated commodities received from the federal government	<u><u>\$ 85,625</u></u>	<u><u>\$ 85,625</u></u>
On-behalf payments	<u><u>\$ 357,045</u></u>	<u><u>\$ 357,045</u></u>

The accompanying notes are an integral part of these financial statements

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Statement of Fiduciary Net Position
As of June 30, 2018**

	<u>Trust/Agency Fund</u>	<u>Chester Davis Scholarship Fund</u>	<u>School Activity Fund</u>	<u>Total</u>
Assets				
Current				
Cash and cash equivalents	\$ -	\$ 179,088	\$ 109,423	\$ 288,511
Investments	-	<u>827,852</u>	-	<u>827,852</u>
Total current assets	<u>-</u>	<u>1,006,940</u>	<u>109,423</u>	<u>1,116,363</u>
Liabilities				
Current				
Accounts payable	113	-	-	113
Due to student groups	-	-	<u>109,423</u>	<u>109,423</u>
Total current	<u>113</u>	<u>-</u>	<u>109,423</u>	<u>109,536</u>
Net Position				
Restricted	<u>(113)</u>	<u>1,006,940</u>	<u>-</u>	<u>1,006,827</u>
Total net position	<u>\$ (113)</u>	<u>\$ 1,006,940</u>	<u>\$ -</u>	<u>\$ 1,006,827</u>

The accompanying notes are an integral part of these financial statements

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Statement of Changes in Fiduciary Funds
Year Ended June 30, 2018**

	<u>Trust/Agency Fund</u>	<u>Chester Davis Scholarship Fund</u>	<u>Total</u>
Additions			
Net interest and investment gains	\$ -	\$ 52,769	\$ 52,769
Taxes	2,352	-	2,352
Fund transfers	150,000	-	150,000
Student activities	-	-	-
	<hr/>	<hr/>	<hr/>
Total additions	152,352	52,769	205,121
	<hr/>	<hr/>	<hr/>
Deductions			
Instruction	152,465	-	152,465
Community services	-	34,546	34,546
	<hr/>	<hr/>	<hr/>
Total deductions	152,465	34,546	187,011
	<hr/>	<hr/>	<hr/>
Change in net position	(113)	18,223	18,110
Net position - July 1, 2017	-	988,717	988,717
	<hr/>	<hr/>	<hr/>
Net position - June 30, 2018	<u>\$ (113)</u>	<u>\$ 1,006,940</u>	<u>\$ 1,006,827</u>

The accompanying notes are an integral part of these financial statements

NEWPORT INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Newport 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 Newport Independent School District (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 and account groups relevant to the operation of the Newport 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 Board itself such as 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:

Newport Independent School District Finance Corporation - The Board authorized the establishment of the Newport Independent School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS 58.180) as an agency of the District for financing the costs of school building facilities. The Board Members of the Newport Independent Board of Education also comprise the Corporation's Board of Directors.

Basis of Presentation

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

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statements
(Continued)**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

The district-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 total net position. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus.

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund and any unrestricted fund balances are considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue Fund accounts for proceeds of specific revenue sources (other than expendable trusts 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 on page 70. This is a major fund of the District.
- (C) Special Revenue Activity Fund is used to support co-curricular activities, and are not raised and expended by student groups. District activity funds accounted for in the District bank account are not subject to the Redbook and may be expended with more flexibility than school activity funds but must meet the "educational purpose" standard for all District expenditures.

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statements
(Continued)**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

I. Governmental Fund Types (Continued)

(D) 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 Funds).

1. 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 identified in the District's facility plan.
2. The Facility Support Program of Kentucky Fund (FSPK) accounts for funds generated by the building tax levy 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.
3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District. The District is committed to construction contracts in the amount of \$2,670,253 for ongoing projects as of June 30, 2018.

II. 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.

III. Proprietary Fund (Enterprise 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). The Food Service fund is a major fund of the District.

IV. Fiduciary Fund Type (Agency and Trust Funds)

The Activity Funds account for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with Uniform Program of Accounting for School Activity Funds.

The District applies all Governmental Accounting Standards Board (GASB) pronouncements to proprietary funds as well as the Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements.

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statements
(Continued)**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting

The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The GASB is responsible for establishing GAAP for state and local government through its pronouncements (Statements and Interpretations).

The basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. District-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.

Nonexchange 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 resources 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 they 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 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.

Taxes

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

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statements
(Continued)**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than GAAP of the United States of America. The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

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

Supplies and materials are charged to expenditures when purchased, except for inventories in the Proprietary Fund, which are capitalized at the lower of cost or market.

Fair Value Measurements

Generally accepted accounting principles has established a three-level hierarchy for fair value measurements based on transparency of valuation inputs as of the measurement date. The hierarchy is based on the lowest level of input that is significant to the fair value measurement. The three levels are defined as follows; Level 1 inputs are unadjusted quoted prices for identical assets active markets; Level 2 inputs are observable quoted prices for similar assets in active markets; Level 3 inputs are unobservable and reflect management's best estimate of what market participants would us as fair value.

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

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 governmental funds. These assets are reported in the governmental activities column of the district-wide 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 district-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 asset's life are not.

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statements
(Continued)**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (Continued)

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

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

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave. Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the District's experience of making termination payments. The entire compensated absence liability is reported on the district-wide financial statements.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statements of net position, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the district-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 judgments, the noncurrent 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.

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statements
(Continued)**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance Reserves

Beginning with fiscal year 2012 the District implemented GASB Statement 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on the District's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable fund balance - amounts that are not in a spendable form (such as inventory) or are required to be maintained intact;

Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government), through constitutional provisions, or by enabling legislation.

Committed fund balance – amounts constrained to specific purposes by the District itself, using its decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the District takes the action to remove or change the constraint.

Assigned fund balance – amounts the District intends to use for specific purpose (such as encumbrances); intent can be expressed by the District or by an official or body to which the District delegates the authority.

Unassigned fund balance – amounts that are available for purpose; positive amounts are reported only in the General fund.

It is the Board's practice to liquidate funds when conditions have been met releasing these funds from legal, contractual, Board or managerial obligations, using restricted funds first, followed by committed funds, assigned funds, then unassigned funds.

Encumbrances are not liabilities and are not recorded as expenditures until receipt of material or service. Encumbrances remaining open at the end of the fiscal year are automatically re-budgeted in the following fiscal year. Encumbrances are considered a managerial assignment of fund balance in the governmental funds balance sheet.

Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Operating Revenues and Expenses

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

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statements
(Continued)**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 as 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.

Pensions

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

Postemployment Benefits Other than Pensions (OPEB)

For purposes of measuring the liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the County Employees Retirement System Non-Hazardous (CERS) and Teachers Retirement System of the State of Kentucky (TRS) and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

NOTE 2 ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 3 CASH AND CASH EQUIVALENTS

The District maintains its cash in bank deposit accounts which, at times, exceed federally insured limits. The amounts exceeding the federally insured limits are covered by a collateral agreement and the collateral is held by the pledging banks' trust departments in the District's name. The District has not experienced any losses in such accounts and the District believes it is not exposed to any significant credit risk on cash and cash equivalents.

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statements
(Continued)**

NOTE 4 CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2018 was as follows:

	Balance June 30, 2017	Additions	Deductions	Balance June 30, 2018
<u>Governmental Activities</u>				
Land	\$ 1,109,955	\$ -	\$ -	\$ 1,109,955
Land improvements	380,037	-	-	380,037
Buildings and improvements	23,021,951	266,367	-	23,288,318
Technology equipment	2,648,531	1,087,713	71,939	3,664,305
Vehicles	707,668	-	-	707,668
General equipment	951,860	173,031	5,426	1,119,465
Construction in progress	14,120,095	2,117,941	-	16,238,036
Totals at historical cost	42,940,097	3,645,052	77,365	46,507,784
Less: accumulated depreciation				
Land improvements	31,881	19,002	-	50,883
Buildings and improvements	14,953,726	401,639	-	15,355,365
Technology equipment	1,741,080	438,731	68,287	2,111,524
Vehicles	552,319	24,174	-	576,493
General equipment	654,550	33,038	4,274	683,314
Total accumulated depreciation	17,933,556	916,584	72,561	18,777,579
Governmental activities capital assets - net	\$ 25,006,541	\$ 2,728,468	\$ 4,804	\$ 27,730,205
<u>Business - Type Activities</u>				
General equipment	\$ 646,148	\$ 27,141	\$ -	\$ 673,289
Technology equipment	7,380	1,199	-	8,579
Totals at historical cost	653,528	28,340	-	681,868
Less: accumulated depreciation				
General equipment	592,154	6,824	-	598,978
Technology equipment	6,355	371	-	6,726
Total accumulated depreciation	598,509	7,195	-	605,704
Business - type activities capital assets - net	\$ 55,019	\$ 21,145	\$ -	\$ 76,164

Depreciation expense by function for the fiscal year ended June 30, 2018 was as follows:

	<u>Governmental</u>	<u>Business-Type</u>
Instructional	\$ 662,720	\$ -
Student support services	33,270	-
Staff support services	86,727	-
District administration	14,572	-
School administration	19,352	-
Business support services	927	-
Plant operation and maintenance	72,567	-
Student transportation	26,348	-
Community service operations	101	-
Food service	-	7,195
Total	\$ 916,584	\$ 7,195

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statements
(Continued)**

NOTE 5 ACCUMULATED UNPAID SICK LEAVE BENEFITS

Upon providing proof of qualification as an annuitant from the Kentucky Teacher's Retirement System, certified and classified employees will receive from the District an amount equal to 30% of the value of accumulated sick leave. At June 30, 2018 this amount totaled approximately \$480,686 for those employees with twenty-seven or more years of experience or fifty-nine and a half years old.

NOTE 6 COMMITMENTS UNDER NON-CAPITAL LEASES

The District is the lessee of equipment under operating leases expiring between 2021 and 2022. Expenditures for the equipment under these operating leases totaled \$58,767 for the year ended June 30, 2018.

Future minimum lease payments under capital leases as of June 30, 2018, in the aggregate are as follows:

Year Ending <u>June 30,</u>		
2018-2019	\$	153,371
2019-2020		153,371
2020-2021		153,371
2021-2022		<u>30,695</u>
Total minimum payments	\$	<u><u>490,808</u></u>

NOTE 7 BONDED DEBT

The amount shown in the accompanying financial statements as lease obligations represents the District's future obligations to make lease payments relating to the bonds issued.

The original amount of each issue, the issue date, and interest rates are summarized below:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
January 12, 2012	\$ 2,365,000	1.500% - 3.250%
September 1, 2012	108,289	3.500%
March 6, 2014	2,125,000	0.350% - 4.000%
November 1, 2014	9,715,000	0.450% - 3.600%
September 1, 2015	113,107	2.000% - 2.500%
February 1, 2017	132,525	2.550%
December 5, 2017	1,540,000	3.000% - 3.625%
June 6, 2018	3,310,000	3.000% - 3.250%

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Newport Independent School District Finance Corporation to construct school facilities.

The District entered into "participation agreements" with the School Facility Construction Commission (Commission). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. Note 17 sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal has been recorded in the financial statements.

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statements
(Continued)**

NOTE 7 BONDED DEBT (CONTINUED)

All issues may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2018 for debt service (principal and interest) are reported in Note 17.

NOTE 8 RETIREMENT PLANS

The District's employees are provided with two pension plans, based on each position's college degree requirement. The County Employees Retirement System covers employees whose position does not require a college degree or teaching certification. The Kentucky Teachers Retirement System covers positions requiring teaching certification or otherwise requiring a college degree.

General information about the County Employees Retirement System Non-Hazardous

Plan description

Employees whose positions do not require a degree beyond a high school diploma are covered by the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute ("KRS") Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

Benefits provided

CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old
	Reduced retirement	At least 5 years service and 55 years old At least 25 years service and any age
Tier 2	Participation date	September 1, 2008 - December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87
	Reduced retirement	At least 10 years service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87
	Reduced retirement	Not available

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statements
(Continued)**

NOTE 8 RETIREMENT PLANS (CONTINUED)

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. One month's service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 75% of the decedent's monthly average rate of pay and any dependent child will receive 50% of the decedent's monthly final rate of pay up to 75% for all dependent children. Five years' service is required for nonservice-related disability benefits.

Contributions

Required contributions by the employee are based on the following tier:

	Required contribution
Tier 1	5%
Tier 2	5% + 1% for insurance
Tier 3	5% + 1% for insurance

The contribution requirement for CERS for the year ended June 30, 2018, was \$733,170, which consisted of \$571,925 from the District and \$161,245 from the employees. Total contributions for the year ended June 30, 2017 and 2016 were \$805,525 and \$753,695, respectively. The contributions have been contributed in full for fiscal years 2018, 2017 and 2016.

General information about the Teachers' Retirement System of the State of Kentucky

Plan description

Teaching certified employees of the District and other employees whose positions require at least a college degree are provided pensions through the Teachers' Retirement System of the State of Kentucky—a cost-sharing multiple-employer defined benefit pension plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the Commonwealth. KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the KRS. KTRS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth's financial statements. KTRS issues a publicly available financial report that can be obtained at http://www.ktrs.ky.gov/05_publications/index.htm.

Benefits provided

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

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

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statements
(Continued)**

NOTE 8 RETIREMENT PLANS (CONTINUED)

Benefits provided (Continued)

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

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

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

Contributions—Contribution rates are established by Kentucky Revised Statutes. Non-university employees are required to contribute 12.855% of their salaries to the System. University employees are required to contribute 10.400% of their salaries. KRS 161.580 allows each university to reduce the contribution of its employees by 2.215%; therefore, university employees contribute 8.185% of their salary to KTRS. The contribution requirement for KTRS for the year ended June 30, 2018, was \$1,667,157 which consisted of \$455,026 from the District and \$1,212,131 from the employees. Total contributions for the year ended June 30, 2017 and 2016 were \$1,821,352 and \$1,786,028, respectively. The contributions have been contributed in full for fiscal years 2018, 2017 and 2016.

The Commonwealth of Kentucky, as a non-employer contributing entity, pays matching contributions at the rate of 13.105% of salaries for local school district and regional cooperative employees hired before July 1, 2008 and 14.105% for those hired after July 1, 2008. For local school district and regional cooperative employees whose salaries are federally funded, the employer contributes 16.105% of salaries. If an employee leaves covered employment before accumulating five (5) years of credited service, accumulated employee pension contributions plus interest are refunded to the employee upon the member's request.

NEWPORT INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements
(Continued)

NOTE 8 RETIREMENT PLANS (CONTINUED)

Medical Insurance Plan

Plan description

In addition to the pension benefits described above, KRS 161.675 requires KTRS to provide post-employment healthcare benefits to eligible employees and dependents. The KTRS Medical Insurance Fund 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 employees under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. Once retired employees 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, 6.59% of the gross annual payroll of employees before July 1, 2008 is contributed. 3.75% is paid by member contributions, 0.16% is credited to the Commonwealth, and 3.00% is contributed by the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

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

At June 30, 2018, the District reported a liability for its proportionate share of the net pension liability for CERS. The District did not report a liability for the District's proportionate share of the net pension liability for KTRS because the Commonwealth of Kentucky provides the pension support directly to KTRS on behalf of the District. The amount recognized by the District as its proportionate share of the net pension liability, the related Commonwealth support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the CERS net pension liability	\$ 7,976,595
Commonwealth's proportionate share of the KTRS net pension liability associated with the District	<u>79,502,497</u>
	<u>\$ 87,479,092</u>

The net pension liability for each plan was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statements
(Continued)**

NOTE 8 RETIREMENT PLANS (CONTINUED)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

The District's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2017, the District's proportion was 0.136275% percent.

For the year ended June 30, 2018, the District recognized pension expense of \$1,807,055 related to CERS and \$2,834,683 related to KTRS. The District also recognized revenue of \$2,834,683 for KTRS support provided by the Commonwealth. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual performance	\$ 63,342	\$ 202,480
Net difference between projected and actual earnings on pension plan investments	1,185,732	724,675
Change of Assumptions	2,120,451	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	309,220	138,296
District contributions subsequent to the measurement date	<u>571,925</u>	<u>-</u>
Total	<u><u>\$ 4,250,670</u></u>	<u><u>\$ 1,065,451</u></u>

\$571,925 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

	<u>Year ended June 30:</u>
2019	\$ 577,958
2020	577,958
2021	673,758
2022	516,133
2023	267,487

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statements
(Continued)**

NOTE 8 RETIREMENT PLANS (CONTINUED)

Actuarial assumptions

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>CERS</u>	<u>KTRS</u>
Inflation	2.30%	3.00%
Projected salary increases	3.05%	3.5 - 7.3%
Investment rate of return, net of investment expense and inflation	6.25%	7.50%

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

For KTRS, Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale BB to 2025 set forward two years for males and one year for females. The actuarial assumptions used were based on the results of an actuarial experience study for the period July 1, 2010 to June 30, 2015 adopted by the Board on November 19, 2016.

For CERS, the long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statements
(Continued)**

NOTE 8 RETIREMENT PLANS (CONTINUED)

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

<u>Asset Class</u>	<u>KTRS Target Allocation</u>	<u>KTRS Long-Term Expected Real Rate of Return</u>	<u>CERS Target Allocation</u>	<u>CERS Long-Term Expected Real Rate of Return</u>
US equity	42%	4.40%	18%	5.97%
International equity	20%	5.30%	18%	7.85%
Global bonds			4%	2.63%
Global credit			2%	3.63%
Emerging market debt			5%	5.50%
Private equity	6%	6.70%	10%	8.25%
Core US fixed income				
High yield			7%	5.75%
Fixed income	16%	1.50%		
Real return (diversified inflation strategies)			10%	6.13%
Additional categories	9%	3.60%		
Real estate	5%	4.40%	5%	7.63%
Private credit			10%	8.75%
Absolute return (diversified hedge funds)			10%	5.63%
Cash	2%	0.08%	2%	1.88%
Total	<u>100%</u>		<u>100%</u>	

Discount rate

For CERS, the discount rate used to measure the total pension liability was 6.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 6.25%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

For KTRS, the discount rate used to measure the total pension liability was 4.49%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan employees until the 2038 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2037 and a municipal bond index rate of 3.56% was applied to all periods of projected benefit payments after 2037. The Single Equivalent Interest Rate (SEIR) that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability.

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statements
(Continued)**

NOTE 8 RETIREMENT PLANS (CONTINUED)

Sensitivity of CERS and KTRS proportionate share of net pension liability to changes in the discount rate

The following table presents the net pension liability of the District, calculated using the discount rates selected by each pension system, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS	5.25%	6.25%	7.25%
District's proportionate share of net pension liability	\$ 10,060,210	\$ 7,976,595	\$ 6,233,666
KTRS	3.49%	4.49%	5.49%
District's proportionate share of net pension liability	-	-	-

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued financial reports of both CERS and KTRS.

NOTE 9 OPEB PLANS

General information about the Teachers' Retirement System OPEB Plan

Plan description

Teaching-certified employees of the Newport Independent Schools are provided OPEBs through the Teachers' Retirement System of the State of Kentucky (TRS) – a cost-sharing multiple-employer defined benefit OPEB plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the state. TRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky and therefore is included in the Commonwealth's financial statements. TRS issues a publicly available financial report that can be obtained at <https://trs.ky.gov/financial-reports-information>.

The state reports a liability, deferred outflows of resources and deferred inflows of resources, and expense as a result of its statutory requirement to contribute to the TRS Medical Insurance and Life Insurance Plans. The following information is about the TRS plans.

Medical Insurance Plan

Plan description

In addition to the OPEB benefits described above, Kentucky Revised Statute 161.675 requires TRS to provide post-employment healthcare benefits to eligible members and dependents. The TRS Medical Insurance benefit is a cost-sharing multiple employer defined benefit plan with a special funding situation. Changes made to the medical plan may be made by the TRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statements
(Continued)**

NOTE 9 OPEB PLANS (CONTINUED)

Benefits provided

To be eligible for medical benefits, the member must have retired either for service or disability. The TRS 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. TRS retired members are given a supplement to be used for payment of their health insurance premium. The amount of the member's supplement is based on a contribution supplement table approved by the TRS Board of Trustees. The retired member pays premiums in excess of the monthly supplement. Once retired members and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the TRS Medicare Eligible Health Plan.

Contributions

In order to fund the post-retirement healthcare benefit, seven and one-half percent (7.50%) of the gross annual payroll of members is contributed. Three and three quarters percent (3.75%) is paid by member contributions and three quarters percent (.75%) from state appropriation and three percent (3.00%) from the employer. The state contributes the net cost of health insurance premiums for members who retired on or after July 1, 2010 who are in the non-Medicare eligible group. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

General information about the County Employees Retirement System Non-Hazardous OPEB Plan

Plan description

Employees whose positions do not require a degree beyond a high school diploma are covered by the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute ("KRS") Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov>.

Benefits provided

CERS provides health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service. For retirement purposes, employees are grouped into three tiers, based on hire date. See Note 8 for tier classifications.

Contributions

Required contributions by the employee are based on the tier disclosed in Note 8.

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statements
(Continued)**

NOTE 9 OPEB PLANS (CONTINUED)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs

At June 30, 2018, the Newport Independent School District reported a liability of \$8,201,594 for its proportionate share of the collective net OPEB liability that reflected a reduction for state OPEB support provided to the District. The collective net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the collective net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2017, the District's proportion was 0.27 percent for TRS and 0.13 for CERS, which was the same as its proportion measured as of June 30, 2016.

The amount recognized by the District as its proportionate share of the OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the CERS net OPEB liability	\$ 2,739,594
District's proportionate share of the TRS net OPEB liability	5,462,000
State's proportionate share of the net OPEB liability associated with the District	<u>4,461,000</u>
	<u><u>\$ 12,662,594</u></u>

For the year ended June 30, 2018, the District recognized OPEB expense of \$858,176 and revenue of \$214,354 for support provided by the State. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual performance	\$ -	\$ 7,609
Net difference between projected and actual earnings on OPEB plan investments	-	199,472
Change of assumptions	596,118	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	6,357
District contributions subsequent to the measurement date	<u>419,353</u>	<u>-</u>
Total	<u><u>\$ 1,015,471</u></u>	<u><u>\$ 213,438</u></u>

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statements
(Continued)**

NOTE 9 OPEB PLANS (CONTINUED)

Of the total amount reported as deferred outflows of resources related to OPEB, \$316,570 resulting from District contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the District's OPEB expense as follows:

<u>Year ended June 30:</u>	
2019	\$ 76,536
2020	76,536
2021	76,536
2022	76,536
2023	76,536

Actuarial assumptions

The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>TRS</u>	<u>CERS</u>
Investment rate of return	8.00%, net of OPEB plan investment expense, including inflation.	6.25%
Projected salary increases	3.50 - 7.20%, including inflation	4.00%, average
Inflation rate	3.00%	2.30%
Real Wage Growth	0.50%	
Wage Inflation	3.50%	2.00%
Healthcare cost trend rates		
Under 65	7.75% for FY 2017 decreasing to an ultimate rate of 5.00% by FY 2023	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.
Ages 65 and Older	5.75% for FY 2017 decreasing to an ultimate rate of 5.00% by FY 2020	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years.
Medicare Part B Premiums	1.02% for FY 2017 with an ultimate rate of 5.00% by 2029	
Municipal Bond Index Rate	3.56%	3.56%
Discount Rate	8.00%	5.84%
Single Equivalent Interest Rate	8.00%, net of OPEB plan investment expense, including inflation	

For TRS, Mortality rates were based on the RP-2000 Combined Mortality Table projected to 2025 with projection scale BB and set forward two years for males and one year for females is used for the period after service retirement and for dependent beneficiaries. The RP-2000 Disabled Mortality Table set forward two years for males and seven years for females is used for the period after disability retirement.

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statements
(Continued)**

NOTE 9 OPEB PLANS (CONTINUED)

For CERS, mortality rates were based on the RP-2000 Combined Mortality Table projected to 2013 with projection scale BB and set back one year for females.

The remaining actuarial assumptions (e.g. initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2017 valuation were based on a review of recent plan experience done concurrently with the June 30, 2017 valuation.

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>30 Year Expected Geometric Real Rate of Return</u>
Global Equity	60.0%	5.1%
Fixed Income	9.0%	1.2%
Real Estate	4.5%	4.0%
Private Equity	5.5%	6.6%
High Yield	10.0%	4.3%
Other Additional Categories	10.0%	3.3%
Cash (LIBOR)	1.0%	0.5%
Total	<u>100.0%</u>	

**Modeled as 50% High Yield and 50% Bank Loans.*

Discount rate

For TRS, the discount rate used to measure the total OPEB liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statements
(Continued)**

NOTE 9 OPEB PLANS (CONTINUED)

For CERS, the discount rate used to measure the total OPEB liability was 5.84%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

The following table presents the District's proportionate share of the collective net OPEB liability of the System, as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	<u>1% Decrease (7.00%)</u>	<u>Current Discount Rate (8.00%)</u>	<u>1% Increase (9.00%)</u>
TRS			
District's net OPEB liability	\$ 6,360,315	\$ 5,462,000	\$ 4,713,954
	<u>1% Decrease (4.84%)</u>	<u>Current Discount Rate (5.84%)</u>	<u>1% Increase (6.84%)</u>
CERS			
District's net OPEB liability	\$ 3,485,981	\$ 2,739,594	\$ 2,118,482

Sensitivity of the District's proportionate share of the collective net OPEB liability to changes in the healthcare cost trend rates

The following presents the District's proportionate share of the collective net OPEB liability, as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using healthcare cost trend rates that were 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
TRS			
District's net OPEB liability	\$ 4,574,143	\$ 5,462,000	\$ 6,557,922.81
	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
CERS			
District's net OPEB liability	\$ 2,101,409	\$ 2,739,594	\$ 3,569,196

OPEB plan fiduciary net position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued TRS financial report.

NEWPORT INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements
(Continued)

NOTE 9 OPEB PLANS (CONTINUED)

Life Insurance Plan

Plan description

TRS administers the life insurance plan as provided by Kentucky Revised Statute 161.655 to eligible active and retired members. The TRS Life Insurance benefit is a cost-sharing multiple employer defined benefit plan with a special funding situation. Changes made to the life insurance plan may be made by the TRS Board of Trustees and the General Assembly.

Benefits provided

TRS provides a life insurance benefit of five thousand dollars payable for members who retire based on service or disability. TRS provides a life insurance benefit of two thousand dollars payable for its active contributing members. The life insurance benefit is payable upon the death of the member to the member's estate or to a party designated by the member.

Contributions

In order to fund the post-retirement life insurance benefit, three hundredths of one percent (.03%) of the gross annual payroll of members is contributed by the state.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs

At June 30, 2018, the Owen County School District did not report a liability for its proportionate share of the collective net OPEB liability for life insurance benefits because the State of Kentucky provides the OPEB support directly to TRS on behalf of the District. The amount recognized by the District as its proportionate share of the OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the net OPEB liability	\$ -
State's proportionate share of the net OPEB liability associated with the District	<u>60,000</u>
	<u>\$ 60,000</u>

For the year ended June 30, 2018, the District recognized OPEB expense of \$-0- and revenue of \$2,624 for support provided by the State.

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statements
(Continued)**

NOTE 9 OPEB PLANS (CONTINUED)

Actuarial assumptions

The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	7.50%, net of OPEB plan investment expense, including inflation.
Projected salary increases	3.50 - 7.20%, including inflation
Inflation rate	3.00%
Real Wage Growth	0.50%
Wage Inflation	3.50%
Municipal Bond Index Rate	3.56%
Discount Rate	7.50%
Single Equivalent Interest Rate	7.50%, net of OPEB plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table projected to 2025 with projection scale BB and set forward two years for males and one year for females is used for the period after service retirement and for dependent beneficiaries. The RP-2000 Disabled Mortality Table set forward two years for males and seven years for females is used for the period after disability retirement.

The remaining actuarial assumptions (e.g. initial per capita costs, rate of plan participation, rates of plan election, etc.) used in the June 30, 2016 valuation were based on a review of recent plan experience done concurrently with the June 30, 2016 valuation.

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

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statements
(Continued)**

NOTE 9 OPEB PLANS (CONTINUED)

Actuarial assumptions (Continued)

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

<u>Asset Class*</u>	<u>Target Allocation</u>	<u>30 Year Expected Geometric Real Rate of Return</u>
U.S. Large Cap Equity	38.4%	4.3%
U.S. Small Cap Equity	2.6%	4.8%
Developed Int'l Equity	15.8%	5.2%
Emerging Markets Equity	4.2%	5.4%
Fixed Income - Inv Grade	16.0%	1.2%
Real Estate	6.0%	4.0%
Private Equity	7.0%	6.6%
High Yield	2.0%	4.3%
Other Additional Categories	7.0%	3.3%
Cash (LIBOR)	1.0%	0.5%
Total	<u>100.0%</u>	

pension allocation and returns that achieve the target 7.5% long-term rate of return

***Modeled as 50% High Yield and 50% Bank Loans.*

Discount rate

The discount rate used to measure the total OPEB liability for life insurance was 7.50%. The projection of cash flows used to determine the discount rate assumed that the employer contributions will be made at statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

The following table presents the District's proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 7.50%, as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
District's net OPEB liability	\$ -	\$ -	\$ -

OPEB plan fiduciary net position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued TRS financial report.

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statements
(Continued)**

NOTE 10 CONTINGENCIES

Grant Fund Approval

The District receives funding from federal, state, and local government 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 unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue the programs.

NOTE 11 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, etc. Each of these risk areas are covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated, which includes workers' compensation insurance.

NOTE 12 DEFICIT OPERATING/FUND BALANCES

The Food Service Fund and Trust/Agency Fund currently have a deficit fund balance. The following funds have operations that resulted in a current year deficit of revenues over expenditures, resulting in a corresponding reduction of fund balance:

Newport High School	\$	1,684
Newport Alternative High School		4,284
Trust/Agency Fund		113

NOTE 13 COBRA

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

NOTE 14 CONTINGENT LIABILITY

The District is a participant in the Kentucky School Board Insurance Trust in which the District purchases general liability and workers' compensation insurance. As of June 30, 2018, the District has been notified of a deficit in the trust and has been given a preliminary assessment of its portion of the deficit of \$15,672. This contingent liability has been recorded in the District Wide Financial Statements but not included in the Governmental Financial Statements.

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statements
(Continued)**

NOTE 15 TRANSFER OF FUNDS

The following transfers were made during the year.

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Food Service Fund	General Fund	Indirect Costs	\$ 85,754
Special Revenue Fund	General Fund	Indirect Costs	37,791
Building Fund	Debt Service Fund	Debt Service	546,713
General Fund	Special Revenue Fund	Operating Costs	62,007
Capital Outlay Fund	Debt Service Fund	Debt Service	144,108
General Fund	Trust/Agency Fund	Operating Costs	150,000

NOTE 16 ON-BEHALF PAYMENTS

For the year ended June 30, 2018 total payments of \$5,168,171 were made for life insurance, health insurance, KTRS matching and administrative fees by the Commonwealth of Kentucky on behalf of the District. These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expense accounts on the statement of activities.

General Fund	\$ 4,525,440
Debt Service Fund	285,686
Food Service Fund	<u>357,045</u>
Total On-Behalf	<u><u>\$ 5,168,171</u></u>

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statements
(Continued)**

NOTE 17 SCHEDULE OF LONG-TERM DEBT

A summary of the changes in the outstanding principal for the District during the fiscal year ended June 30, 2018 is as follows:

Fiscal Year	2012, 2014, 2014B, 2017, 2018 and KISTA Bus Loans						Total Requirements
	Newport Independent School District			KY School Facilities Construction Commission			
	Principal	Interest	Total	Principal	Interest	Total	
2018-2019	\$ 541,921	\$ 424,341	\$ 966,262	\$ 189,644	\$ 96,041	\$ 285,685	\$ 1,251,947
2019-2020	551,812	414,269	966,081	192,814	92,871	285,685	1,251,766
2020-2021	572,664	402,127	974,791	196,269	89,416	285,685	1,260,476
2021-2022	584,173	389,383	973,556	200,256	85,428	285,684	1,259,240
2022-2023	590,611	375,524	966,135	204,578	81,106	285,684	1,251,819
2023-2024	599,619	360,037	959,656	209,232	76,451	285,683	1,245,339
2024-2025	619,813	342,607	962,420	214,693	70,992	285,685	1,248,105
2025-2026	626,715	323,435	950,150	220,491	65,194	285,685	1,235,835
2026-2027	645,683	303,921	949,604	226,836	58,850	285,686	1,235,290
2027-2028	651,522	283,732	935,254	233,478	52,209	285,687	1,220,941
2028-2029	674,072	262,009	936,081	240,928	44,757	285,685	1,221,766
2029-2030	696,205	238,281	934,486	248,795	36,890	285,685	1,220,171
2030-2031	717,649	213,800	931,449	257,351	28,334	285,685	1,217,134
2031-2032	743,762	188,340	932,102	266,238	19,447	285,685	1,217,787
2032-2033	769,177	162,024	931,201	125,823	10,255	136,078	1,067,279
2033-2034	797,507	134,559	932,066	127,493	5,409	132,902	1,064,968
2034-2035	827,285	105,232	932,517	37,715	663	38,378	970,895
2035-2036	835,000	85,185	920,185	-	-	-	920,185
2036-2037	850,000	56,614	906,614	-	-	-	906,614
2037-2038	870,000	26,534	896,534	-	-	-	896,534
	<u>\$ 13,765,190</u>	<u>\$ 5,091,954</u>	<u>\$ 18,857,144</u>	<u>\$ 3,392,634</u>	<u>\$ 914,313</u>	<u>\$ 4,306,947</u>	<u>\$ 23,164,091</u>

A summary of the changes in principal of the outstanding bond obligations and sick leave for the District during the year ended June 30, 2018 is as follows:

Governmental Activities	Balance July 1, 2017	Additions	Payments	Balance June 30, 2018
Bond Obligations	<u>\$ 12,800,713</u>	<u>\$ 4,982,525</u>	<u>\$ 625,414</u>	<u>\$ 17,157,824</u>
Sick Leave	<u>\$ 413,307</u>	<u>\$ 130,160</u>	<u>\$ 62,781</u>	<u>\$ 480,686</u>

NOTE 18 INVESTMENTS AT FAIR VALUE

Current accounting and reporting standards define fair value, establish a three-level hierarchy for fair value measurements based on transparency of valuation inputs and require disclosures about fair value measurements. The hierarchy is based on the lowest level of input that is significant to the fair value measurement. The three levels are defined as follows:

- Level 1 - Inputs are unadjusted quoted prices for identical assets in active markets.
- Level 2 - Inputs are observable quoted prices for similar assets in active markets.
- Level 3 - Inputs are unobservable and reflect our best estimate of what market participants would use as fair value.

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statements
(Continued)**

NOTE 18 INVESTMENTS AT FAIR VALUE (CONTINUED)

Investments consisted of the following at June 30, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash Equivalents	\$ 6,694	\$ -	\$ -	\$ 6,694
Equity Securities	821,158	-	-	821,158
Total Investments	<u>\$ 827,852</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 827,852</u>

The following is a description of the valuation methodologies used for investments measured at fair value on a recurring basis and recognized in the accompanying statement of financial position, as well as the general classification pursuant to the valuation hierarchy. There were no valuations using Level 2 or 3 inputs.

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using pricing models or quoted prices of securities with similar characteristics.

NOTE 19 TAX ABATEMENTS

The local government enters into tax abatement agreements with businesses. The locality may grant property tax abatements on property tax bills for the purposes of attracting or retaining businesses within their jurisdiction. The local government has chosen not to disclose the nature or amount of those abatements

NOTE 20 CHANGE IN ACCOUNTING PRINCIPLE

Effective July 1, 2017, the District was required to adopt Governmental Accounting Standards Board (GASB) Statement no. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions", as they relate to governments that provide postemployment benefits through health insurance plans administered as trust or similar arrangements that meet certain criteria. GASB 75 requires governments providing defined benefit postemployment benefits to recognize their long-term obligation for benefits. Cost-sharing governmental employers, such as the District, are required to report a net OPEB liability, OPEB expense and OPEB-related assets and liabilities based on their proportionate share of the collective amounts for all governments in the plan.

GASB 75 required retrospective application. Since the District only presents one year of financial information, the beginning net pension was adjusted to reflect the retrospective application. The adjustment resulted in a \$7,556,856 reduction in the beginning net position on the Statement of Activities.

NOTE 21 SUBSEQUENT EVENTS

Subsequent events were considered through December 14, 2018, which represents the release date of our report.

SUPPLEMENTARY
INFORMATION

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Combining Balance Sheet – Nonmajor Governmental Funds
As of June 30, 2018**

	<u>Capital Outlay Fund</u>	<u>Building Fund</u>	<u>Debt Service Fund</u>	<u>District Activity Fund</u>	<u>Total Nonmajor Governmental Funds</u>
Assets					
Current					
Cash and cash equivalents	\$ -	\$ 485,078	\$ -	\$ 82,462	\$ 567,540
Total assets	<u>\$ -</u>	<u>\$ 485,078</u>	<u>\$ -</u>	<u>\$ 82,462</u>	<u>\$ 567,540</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances					
Restricted:					
SFCC Escrow	-	485,078	-	-	485,078
Assigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>82,462</u>	<u>82,462</u>
Total fund balances	<u>-</u>	<u>485,078</u>	<u>-</u>	<u>82,462</u>	<u>567,540</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 485,078</u>	<u>\$ -</u>	<u>\$ 82,462</u>	<u>\$ 567,540</u>

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Combining Statement of Revenues Expenditures and
Changes in Fund Balances – Nonmajor Governmental Funds
Year Ended June 30, 2018**

	Capital Outlay Fund	Building Fund	Debt Service Fund	District Activity Fund	Total Nonmajor Government Funds
Revenues					
Taxes	\$ -	\$ 838,096	\$ -	\$ -	\$ 838,096
State sources	144,108	145,134	285,686	-	574,928
Other sources	-	-	-	52,250	52,250
Total revenues	<u>144,108</u>	<u>983,230</u>	<u>285,686</u>	<u>52,250</u>	<u>1,465,274</u>
Expenditures					
Instructional	-	-	-	13,631	13,631
Debt service:					
Principal	-	-	590,000	-	590,000
Interest	-	-	386,507	-	386,507
Total expenditures	<u>-</u>	<u>-</u>	<u>976,507</u>	<u>13,631</u>	<u>990,138</u>
Excess of expenditures over revenues	<u>144,108</u>	<u>983,230</u>	<u>(690,821)</u>	<u>38,619</u>	<u>475,136</u>
Other Financing Sources (Uses)					
Operating transfers in	-	-	690,821	-	690,821
Operating transfers out	<u>(144,108)</u>	<u>(546,713)</u>	<u>-</u>	<u>-</u>	<u>(690,821)</u>
Total other financing sources (uses)	<u>(144,108)</u>	<u>(546,713)</u>	<u>690,821</u>	<u>-</u>	<u>-</u>
Net change in fund balance	-	436,517	-	38,619	475,136
Total fund balance, July 1, 2017	<u>-</u>	<u>48,561</u>	<u>-</u>	<u>43,843</u>	<u>92,404</u>
Total fund balance, June 30, 2018	<u>\$ -</u>	<u>\$ 485,078</u>	<u>\$ -</u>	<u>\$ 82,462</u>	<u>\$ 567,540</u>

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Statement of Revenues, Expenditures and Changes in Fund
Balance – Budget to Actual – General Fund
Year Ended June 30, 2018**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance With Final Budget Positive (Negative)
Revenues				
Taxes	\$ 8,351,758	\$ 8,351,758	\$ 8,807,197	\$ 455,439
Other local sources	372,301	372,301	393,128	20,827
State sources	5,529,339	5,529,339	9,915,093	4,385,754
Federal sources	260,933	260,933	139,766	(121,167)
Other sources	73,290	120,900	263,121	142,221
Total revenues	<u>14,587,621</u>	<u>14,635,231</u>	<u>19,518,305</u>	<u>4,883,074</u>
Expenditures				
Instructional	7,882,292	7,882,292	10,484,252	(2,601,960)
Student support services	675,494	675,494	687,494	(12,000)
Staff support services	603,947	603,947	735,658	(131,711)
District administration	1,498,279	1,498,279	1,365,867	132,412
School administration	911,235	911,235	1,165,257	(254,022)
Business support services	965,360	965,360	860,488	104,872
Plant operation and maintenance	2,357,114	2,375,114	2,610,640	(235,526)
Student transportation	508,030	508,030	666,421	(158,391)
Community service operation	28,250	28,250	38,399	(10,149)
Debt Service	67,266	67,266	41,963	25,303
Other	5,006,778	5,036,388	212,007	4,824,381
Total expenditures	<u>20,504,045</u>	<u>20,551,655</u>	<u>18,868,446</u>	<u>1,683,209</u>
Net change in fund balance	(5,916,424)	(5,916,424)	649,859	6,566,283
Fund balance, July 1, 2017	<u>3,802,437</u>	<u>(334,714)</u>	<u>7,121,243</u>	<u>(7,455,957)</u>
Fund balance, June 30, 2018	<u>\$ (2,113,987)</u>	<u>\$ (6,251,138)</u>	<u>\$ 7,771,102</u>	<u>\$ 14,022,240</u>

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Statement of Revenues, Expenditures and Changes in Fund
Balance – Budget to Actual – Special Revenue Fund
Year Ended June 30, 2018**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance With Final Budget Positive (Negative)
Revenues				
Other local sources	\$ 55,900	\$ 81,500	\$ 69,730	\$ (11,770)
State sources	1,890,087	1,739,100	1,673,417	(65,683)
Federal sources	2,706,606	4,140,472	3,757,488	(382,984)
Other sources	66,768	338,740	62,007	(276,733)
	<u>4,719,361</u>	<u>6,299,812</u>	<u>5,562,642</u>	<u>(737,170)</u>
Expenditures				
Instructional	3,907,041	4,692,678	4,583,624	109,054
Student support services	65,853	112,662	116,507	(3,845)
Staff support services	230,677	430,540	245,088	185,452
School administration	1,765	1,765	1,566	199
Business support services	-	-	-	-
Plant operation and maintenance	-	35,430	747	34,683
Community service operation	507,645	623,099	577,319	45,780
Other	6,380	71,227	37,791	33,436
	<u>4,719,361</u>	<u>5,967,401</u>	<u>5,562,642</u>	<u>404,759</u>
Net change in fund balance	-	332,411	-	(332,411)
Fund balance, July 1, 2017	<u>-</u>	<u>365,119</u>	<u>-</u>	<u>365,119</u>
Fund balance, June 30, 2018	<u>\$ -</u>	<u>\$ 697,530</u>	<u>\$ -</u>	<u>\$ 32,708</u>

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Statement of Revenues, Expenditures and Changes in Fund
Balance – Budget to Actual – Construction Fund
Year Ended June 30, 2018**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Revenues				
Other local sources	\$ 195,000	\$ 195,000	\$ -	\$ (195,000)
Other sources	-	46,007	4,982,525	4,936,518
	<u>195,000</u>	<u>241,007</u>	<u>4,982,525</u>	<u>4,741,518</u>
Expenditures				
Facility acquisition and construction	<u>195,000</u>	<u>2,856,007</u>	<u>2,367,272</u>	<u>488,735</u>
	<u>195,000</u>	<u>2,856,007</u>	<u>2,367,272</u>	<u>488,735</u>
Net change in fund balance	-	(2,615,000)	2,615,253	5,230,253
Fund balance, July 1, 2017	<u>-</u>	<u>3,228,244</u>	<u>-</u>	<u>3,228,244</u>
Fund balance, June 30, 2018	<u><u>\$ -</u></u>	<u><u>\$ 613,244</u></u>	<u><u>\$ 2,615,253</u></u>	<u><u>\$ 2,002,009</u></u>

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Statement of Receipts, Disbursements and Fund Balances
Bond and Interest Redemption Funds
Year Ended June 30, 2018**

	<u>Issue of 2012</u>	<u>Issue of 2012 KISTA</u>	<u>Issue of 2014</u>	<u>Issue of 2014B</u>	<u>Issue of 2015 KISTA</u>	<u>Issue of 2017</u>	<u>Issue of 2017 KISTA</u>	<u>Total</u>
Cash at July 1, 2017	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Receipts:								
Transfers and miscellaneous deposits	<u>151,706</u>	<u>11,958</u>	<u>147,476</u>	<u>653,855</u>	<u>12,666</u>	<u>23,470</u>	<u>17,339</u>	<u>964,995</u>
Disbursements:								
Bonds paid	105,000	10,811	90,000	395,000	10,728	-	13,875	625,414
Interest coupons	<u>46,706</u>	<u>1,147</u>	<u>57,476</u>	<u>258,855</u>	<u>1,938</u>	<u>23,470</u>	<u>3,464</u>	<u>393,056</u>
Total disbursements	<u>151,706</u>	<u>11,958</u>	<u>147,476</u>	<u>653,855</u>	<u>12,666</u>	<u>23,470</u>	<u>17,339</u>	<u>1,018,470</u>
Excess of receipts over disbursements	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash at June 30, 2018	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Accounts Receivable and Payable								
Matured interest and bonds outstanding	-	-	-	-	-	-	-	-
Due from other funds	-	-	-	-	-	-	-	-
Due to other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total accounts receivable and payable	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance at June 30, 2018	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Statement of Receipts, Disbursements and Fund Balances
Newport High School Activity Funds
Year Ended June 30, 2018**

	<u>Fund Balance July 1, 2017</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Fund Balance June 30, 2018</u>
Academic team	\$ 44	\$ -	\$ -	\$ 44
Alumni fund	618	-	-	618
Annual	1,253	3,453	3,459	1,247
Archery club	428	-	-	428
Art	158	-	-	158
Band	168	-	-	168
Baseball	82	1,294	316	1,060
Basketball	915	-	400	515
Business	380	-	-	380
Carpentry	565	-	-	565
Cats café	17	-	-	17
Charitable donations and payments	965	-	-	965
Cheerleading	273	1,214	778	709
Children's Inc. donation	500	-	-	500
Class of 2018	-	13,284	11,768	1,516
Coke account	1,302	-	-	1,302
Commercial art	451	-	451	-
Digital photography club	323	-	-	323
Donna Murphy Invitational Tour	1,057	1,399	1,079	1,377
F.B.L.A.	74	6,682	5,609	1,147
F.C.C.L.A.	158	765	518	405
Fine arts	11	-	-	11
Football activities	4,592	572	3,415	1,749
Girls basketball	955	2,421	1,266	2,110
Graphic arts	2,973	5,568	7,808	733
GSA	-	450	262	188
Home economics-Jessica Cope	11	-	-	11
Inauguration	391	-	-	391
Interest account	1,142	1,145	-	2,287
iPad take home fee	15,985	-	-	15,985
John Turner memorial donations	3,791	1,487	1,039	4,239
Key club	71	-	-	71
Library	501	1,626	136	1,991
Lockers	-	5	-	5
Math	120	-	-	120
Media	117	335	452	-
MS Annual	-	100	-	100
MSD	40	-	-	40
National Honor's Society	151	952	700	403
Newport Mason Donation	500	-	-	500
Newport Strong	540	50	-	590
Officials	11,873	47,046	53,940	4,979
PE and health	116	-	-	116
Pep Club	267	-	-	267
Prom	1,900	7,922	6,090	3,732
Records and Postage	880	110	196	794
Recycling	125	-	-	125
Retirement donations	68	-	-	68

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Statement of Receipts, Disbursements and Fund Balances
Newport High School Activity Funds (Continued)
Year Ended June 30, 2018**

	Fund Balance July 1, 2017	Receipts	Disbursements	Fund Balance June 30, 2018
Roger Johnson Foundation	\$ 2,812	\$ -	\$ 500	\$ 2,312
Science	210	-	-	210
Skills USA	395	2,331	2,443	283
Snack machine	47	-	-	47
Soccer	184	2,510	532	2,162
Social studies	362	-	-	362
Softball	794	-	60	734
Spanish honor society	266	-	-	266
Student activity	1,033	149	596	586
Student council	1,588	3,024	3,251	1,361
Sunshine	426	-	118	308
Target - take charge of education	81	-	-	81
Teacher supply fund	205	-	-	205
Teacher survey	110	-	-	110
Teachers lounge coke	680	451	406	725
Textbooks	1,610	-	-	1,610
Track	3,059	1,420	1,985	2,494
Visual Communications	257	-	-	257
Volleyball	229	2,449	1,893	785
World Travel Club	23	-	-	23
Wrestling	1,063	-	-	1,063
Youth basketball league	2,000	-	-	2,000
YSC big stef school supplies	12	-	-	12
YSC Fundraisers	579	1,071	1,649	1
Mac Book Covers	914	229	83	1,060
	<hr/>	<hr/>	<hr/>	<hr/>
Total	\$ 75,790	\$ 111,514	\$ 113,198	\$ 74,106
	<hr/>	<hr/>	<hr/>	<hr/>

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Statement of Receipts, Disbursements and Fund Balances – School Activity Funds
Year Ended June 30, 2018**

	<u>Newport Alternative High School</u>	<u>Newport Intermediate School</u>	<u>Newport Primary School</u>	<u>Total</u>
Fund balances at July 1, 2017	\$ 7,443	\$ 8,545	\$ 22,597	\$ 38,585
Add: receipts	7,531	16,517	15,304	39,352
Less: disbursements	<u>(11,815)</u>	<u>(15,614)</u>	<u>(15,191)</u>	<u>(42,620)</u>
Fund balances at June 30, 2018	<u>\$ 3,159</u>	<u>\$ 9,448</u>	<u>\$ 22,710</u>	<u>\$ 35,317</u>

NEWPORT INDEPENDENT SCHOOL DISTRICT

Schedule of the District's Proportionate Share of the Net Pension Liability - KTRS

Last 10 Fiscal Years*

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
District's proportion of the net pension liability	0%	0%	0%	0%	*	*	*	*	*	*
District's proportionate share of the net pension liability	\$ -	\$ -	\$ -	\$ -	*	*	*	*	*	*
State's proportionate share of the net pension liability associated with the District	<u>79,502,497</u>	<u>90,960,338</u>	<u>72,203,325</u>	<u>63,244,526</u>	*	*	*	*	*	*
Total	<u>\$ 79,502,497</u>	<u>\$ 90,960,338</u>	<u>\$ 72,203,325</u>	<u>\$ 63,244,526</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>
District's covered-employee payroll	\$ 10,236,247	\$ 10,278,171	\$ 10,095,979	\$ 9,642,589	\$ 9,223,450	\$ 9,753,371	*	*	*	*
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	0%	0%	0%	0%	*	*	*	*	*	*
Plan fiduciary net position as a percentage of the total pension liability	39.83%	35.22%	42.49%	45.59%	*	*	*	*	*	*

* The amounts presented for each fiscal year were determined as of June 30. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Changes of benefit terms: None

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

Changes of assumption: In the 2016 valuation, rates of withdrawal, retirement, disability and mortality were adjusted to more closely reflect actual experience. In the 2016 valuation, the Assumed Salary Scale, Price Inflation, and Wage Inflation were adjusted to reflect a decrease.

NEWPORT INDEPENDENT SCHOOL DISTRICT

Schedule of District Contributions - KTRS

	Last 10 Fiscal Years*									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	\$ 455,026	\$ 505,164	\$ 464,624	\$ 378,727	\$ 342,523	\$ 276,073	\$ 264,260	*	*	*
Contributions in relation to the contractually required contribution	<u>(455,026)</u>	<u>(505,164)</u>	<u>(464,624)</u>	<u>(378,727)</u>	<u>(342,523)</u>	<u>(276,073)</u>	<u>(264,260)</u>	<u>*</u>	<u>*</u>	<u>*</u>
Contribution deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>*</u>	<u>*</u>	<u>*</u>
District's covered-employee payroll	\$ 9,434,495	\$ 10,236,247	\$ 10,278,171	\$ 10,095,979	\$ 9,642,589	\$ 9,223,450	\$ 9,753,371	*	*	*
Contributions as a percentage of covered-employee payroll	4.82%	4.94%	4.52%	3.75%	3.55%	2.99%	2.71%	*	*	*

* The amounts presented for each fiscal year were determined as of June 30. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

NEWPORT INDEPENDENT SCHOOL DISTRICT

Schedule of the District's Proportionate Share of the Net Pension Liability – CERS

	Last 10 Fiscal Years*									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
District's proportion of net pension liability	0.136275%	0.141107%	0.136127%	0.132373%	*	*	*	*	*	*
District's proportionate share of the net pension liability	\$ 7,976,595	\$ 6,947,591	\$ 5,852,826	\$ 4,295,000	*	*	*	*	*	*
Total net pension liability	\$ 5,853,307,482	\$ 4,923,618,237	\$ 4,299,525,565	\$ 3,244,377,000	*	*	*	*	*	*
District's covered-employee payroll	\$ 3,351,575	\$ 3,369,890	\$ 3,172,689	\$ 3,035,128	\$ 3,033,739	\$ 3,230,810	*	*	*	*
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	238.0%	206.2%	184.5%	141.5%	*	*	*	*	*	*
Plan fiduciary net position as a percentage of the total pension liability	53.30%	55.50%	59.97%	66.80%	*	*	*	*	*	*

* The amounts presented for each fiscal year were determined as of June 30. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Changes of benefit terms: The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 listed below:

2009: A new benefit tire for members who first participate on or after September 1, 2008 was introduced which included the following changes:

1. Tired structure for benefit accrual rates
2. New retirement eligibility requirements
3. Different rules for the computation of final average compensation

2014: As cash balance plan was introduced for member whose participation date is on or after January 1, 2014.

Changes of assumption: The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 listed below:

2015: The assumed investment rate of return was decreased from 7.75% to 7.50%.

2015: The assumed rate of inflation was reduced from 3.50% to 3.25%.

2015: The assumed rate of wage inflation was reduced from 1.00% to 0.75%.

2015: Payroll growth assumption was reduced from 4.50% to 4.00%.

2015: The mortality table used active members is RP-2000 Combined Mortality table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females.)

2015: For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

2015: The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

2017: The assumed investment rate of return was decreased from 7.50% to 6.25%.

2017: The assumed rate of inflation was reduced from 3.25% to 2.30%.

2017: The assumed rate of salary growth was reduced from 4.00% to 3.05%.

NEWPORT INDEPENDENT SCHOOL DISTRICT

Schedule of District Contributions – CERS

Last 10 Fiscal Years*

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Contractually required contribution	\$ 571,925	\$ 626,075	\$ 574,902	\$ 560,614	\$ 573,336	\$ 593,095	\$ 612,032	*	*	*
Contributions in relation to the contractually required contribution	<u>(571,925)</u>	<u>(626,075)</u>	<u>(574,902)</u>	<u>(560,614)</u>	<u>(573,336)</u>	<u>(593,095)</u>	<u>(612,032)</u>	<u>*</u>	<u>*</u>	<u>*</u>
Contribution deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>*</u>	<u>*</u>	<u>*</u>
District's covered-employee payroll	\$ 2,981,885	\$ 3,351,575	\$ 3,369,890	\$ 3,172,689	\$ 3,035,128	\$ 3,033,739	\$ 3,230,810	*	*	*
Contributions as a percentage of of covered-employee payroll	19.18%	18.68%	17.06%	17.67%	18.89%	19.55%	18.94%	*	*	*

* The amounts presented for each fiscal year were determined as of June 30. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

NEWPORT INDEPENDENT SCHOOL DISTRICT

Schedule of the District's Proportionate Share of the Net OPEB Liability – LIF

	Last 10 Fiscal Years*									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
District's proportion of the collective trust OPEB liability	0%	*	*	*	*	*	*	*	*	*
District's proportionate share of the collective net OPEB liability	\$ -	*	*	*	*	*	*	*	*	*
State's proportionate share of the collective net OPEB liability (asset) associated with the District	60,000	*	*	*	*	*	*	*	*	*
Total net OPEB liability	\$ 60,000	*	*	*	*	*	*	*	*	*
District's covered-employee payroll	\$ 10,236,247	*	*	*	*	*	*	*	*	*
District's proportionate share of the collective net OPEB liability as a percentage of its covered-employee payroll	0.0%	*	*	*	*	*	*	*	*	*
Plan fiduciary net position as a percentage of the total OPEB liability	79.99%	*	*	*	*	*	*	*	*	*

* The amounts presented for each fiscal year were determined as of June 30. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Changes of benefit terms - None.

Methods and assumptions used in the actuarially determined contributions - The actuarially determined contribution rates, as a percentage of payroll, used to determine the actuarially determined contribution amounts in the Schedule of Employer Contributions are calculated as the of the indicated valuation date. The following actuarial methods and assumptions (from the indicated actuarial valuations) were used to determine contribution rates reported in that schedule for the year ending June 30, 2017:

Valuation date	June 30, 2014
Actuarial cost method	Entry Age Normal
Amortization method	Level Percent of Payroll
Amortization period	30 years, Open
Asset valuation method	Market value
Inflation	3.50%
Real wage growth	0.50%
Wage inflation	4.00%
Salary increases, including wage inflation	4.00% - 8.10%
Discount rate	7.50%

NEWPORT INDEPENDENT SCHOOL DISTRICT

Schedule of the District Contributions – LIF

Last 10 Fiscal Years*

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Contractually required contribution	\$ -	*	*	*	*	*	*	*	*	*
Contributions in relation to the contractually required contribution	<u>-</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>
Contribution deficiency	<u>-</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>
District's covered-employee payroll	\$ 9,434,495	*	*	*	*	*	*	*	*	*
Contributions as a percentage of covered-employee payroll	0.00%	*	*	*	*	*	*	*	*	*

* The amounts presented for each fiscal year were determined as of June 30. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available. No changes were made to the assumptions or benefit terms.

NEWPORT INDEPENDENT SCHOOL DISTRICT

Schedule of the District's Proportionate Share of the Net OPEB Liability – MIF

	Last 10 Fiscal Years*									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
District's proportion of the collective trust OPEB liability	0.153165%	*	*	*	*	*	*	*	*	*
District's proportionate share of the collective net OPEB liability	\$ 5,462,000	*	*	*	*	*	*	*	*	*
State's proportionate share of the collective net OPEB liability associated with the District	\$ 4,461,000	*	*	*	*	*	*	*	*	*
Total net OPEB liability	\$ 9,923,000	*	*	*	*	*	*	*	*	*
District's covered-employee payroll	\$ 10,236,247	*	*	*	*	*	*	*	*	*
District's proportionate share of the collective net OPEB liability as a percentage of its covered-employee payroll	53.4%	*	*	*	*	*	*	*	*	*
Plan fiduciary net position as a percentage of the total OPEB liability	21.18%	*	*	*	*	*	*	*	*	*

* The amounts presented for each fiscal year were determined as of June 30. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Changes of benefit terms - With the passage of House Bill 471, the eligibility for non-single subsidies (NSS) for the KEHP-participating members who retired prior to July 1, 2010 is restored, but the state will only finance, via its KEHP "Shared Responsibility" contributions, the costs of the NSS related to those KEHP-participating members who retired on or after July 1, 2010.

Methods and assumptions used in the actuarially determined contributions - The actuarially determined contributions rates, as a percentage of payroll, used to determine the actuarially determined contribution amounts in the Schedule of Employer Contributions are calculated as of the indicated valuation date. The following actuarial methods and assumptions (from the indicated actuarial valuations) were used to determine contribution rates reported in that schedule for the year ending June 30, 2017:

Valuation date	June 30, 2016
Actuarial cost method	Entry Age Normal
Amortization method	Level Percent of Payroll
Amortization period	30 years, Open
Asset valuation method	Five-year smoothed value
Inflation	3.00%
Real wage growth	0.50%
Wage inflation	3.50%
Salary increases, including wage inflation	3.50% - 7.20%
Discount rate	8.00%
Health care cost trends	
Under 65	7.75% for FY 2017 decreasing to an ultimate rate of 5.00% by FY 2023
Ages 65 and older	5.75% for FY 2017 decreasing to an ultimate rate of 5.00% by FY 2020
Medicare Part B premiums	1.02% for FY 2017 with an ultimate rate of 5.00% by 2029
Under age 65 claims	the current premium charged by KEHP is used as the base cost and is projected forward using only the health care trend assumption (no implicit rate subsidy is recognized).

NEWPORT INDEPENDENT SCHOOL DISTRICT

Schedule of District Contributions – MIF

Last 10 Fiscal Years*

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	\$ 262,414	*	*	*	*	*	*	*	*	*
Contributions in relation to the contractually required contribution	(262,414)	*	*	*	*	*	*	*	*	*
Contribution deficiency	-	*	*	*	*	*	*	*	*	*
District's covered-employee payroll	\$ 9,434,495	*	*	*	*	*	*	*	*	*
Contributions as a percentage of covered-employee payroll	2.78%	*	*	*	*	*	*	*	*	*

* The amounts presented for each fiscal year were determined as of June 30. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Changes of benefit terms - With the passage of House Bill 471, the eligibility for non-single subsidies (NSS) for the KEHP-participating members who retired prior to July 1, 2010 is restored, but the state will only finance, via its KEHP "Shared Responsibility" contributions, the costs of the NSS related to those KEHP-participating members who retired on or after July 1, 2010.

Methods and assumptions used in the actuarially determined contributions - The actuarially determined contributions rates, as a percentage of payroll, used to determine the actuarially determined contribution amounts in the Schedule of Employer Contributions are calculated as of the indicated valuation date. The following actuarial methods and assumptions (from the indicated actuarial valuations) were used to determine contribution rates reported in that schedule for the year ending June 30, 2017:

Valuation date	June 30, 2016
Actuarial cost method	Entry Age Normal
Amortization method	Level Percent of Payroll
Amortization period	30 years, Open
Asset valuation method	Five-year smoothed value
Inflation	3.00%
Real wage growth	0.50%
Wage inflation	3.50%
Salary increases, including wage inflation	3.50% - 7.20%
Discount rate	8.00%
Health care cost trends	
Under 65	7.75% for FY 2017 decreasing to an ultimate rate of 5.00% by FY 2023
Ages 65 and older	5.75% for FY 2017 decreasing to an ultimate rate of 5.00% by FY 2020
Medicare Part B premiums	1.02% for FY 2017 with an ultimate rate of 5.00% by 2029
Under age 65 claims	the current premium charged by KEHP is used as the base cost and is projected forward using only the health care trend assumption (no implicit rate subsidy is recognized).

NEWPORT INDEPENDENT SCHOOL DISTRICT

Schedule of the District's Proportionate Share of the Net OPEB Liability – MIF (CERS)

	Last 10 Fiscal Years*									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
District's proportion of the collective trust OPEB liability	0.136275%	*	*	*	*	*	*	*	*	*
District's proportionate share of the collective net OPEB liability	\$ 2,739,594	*	*	*	*	*	*	*	*	*
State's proportionate share of the collective net OPEB liability associated with the District	\$ -	*	*	*	*	*	*	*	*	*
Total net OPEB liability	\$ 2,739,594	*	*	*	*	*	*	*	*	*
District's covered-employee payroll	\$ 3,351,575	*	*	*	*	*	*	*	*	*
District's proportionate share of the collective net OPEB liability as a percentage of its covered-employee payroll	81.7%	*	*	*	*	*	*	*	*	*
Plan fiduciary net position as a percentage of the total OPEB liability	52.40%	*	*	*	*	*	*	*	*	*

* The amounts presented for each fiscal year were determined as of June 30. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Changes in assumptions:

1. The assumed investment return was changed from 7.50% to 6.25%.
2. The price inflation assumption was changed from 3.25% to 2.30%, which also resulted in a 0.95% decrease in the salary increase assumption at all years of service.
3. The payroll growth assumption (applicable for the amortization of unfunded actuarial accrued liabilities) was changed from 4.00% to 2.00%.
4. For the Non-Hazardous Plan, the single discount rate changed from 6.89% to 5.84%.

NEWPORT INDEPENDENT SCHOOL DISTRICT
Schedule of District Contributions – MIF (CERS)

	Last 10 Fiscal Years*									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	\$ 156,939	*	*	*	*	*	*	*	*	*
Contributions in relation to the contractually required contribution	<u>(156,939)</u>	*	*	*	*	*	*	*	*	*
Contribution deficiency	<u><u>-</u></u>	*	*	*	*	*	*	*	*	*
District's covered-employee payroll	\$ 2,981,885	*	*	*	*	*	*	*	*	*
Contributions as a percentage of covered-employee payroll	5.26%	*	*	*	*	*	*	*	*	*

* The amounts presented for each fiscal year were determined as of June 30. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available. No changes were made to the assumptions or benefit terms.

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018**

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Agreement Number	Federal Expenditures for FYE 6/30/2018
U.S. Department of Education			
Passed through Kentucky Department of Education			
Special Education Cluster			
Special Education Grants to States	84.027	3810002 15	\$ 280
Special Education Grants to States	84.027	3810002 16	75,537
Special Education Grants to States	84.027	3810002 17	448,262
Special Education Preschool Grants	84.173	3800002 16	2,816
Special Education Preschool Grants	84.173	3800002 17	18,131
Total Special Education Cluster			<u>545,026</u>
Title I Grants to Local Educational Agencies	84.010	3100002 16	420,466
Title I Grants to Local Educational Agencies	84.010	3100002 17	831,350
Title I Grants to Local Educational Agencies	84.010	320CE	2,257
Title I Grants to Local Educational Agencies	84.010	320DE	53,621
Title I Grants to Local Educational Agencies	84.010	3100102 16	4,838
Title I Grants to Local Educational Agencies	84.010	3100102 17	89,045
Total for CFDA #84.010			<u>1,401,577</u>
Career and technical Education -Basic Grants to States	84.048	3710002 16	10,546
Career and technical Education -Basic Grants to States	84.048	3710002 17	30,358
Total for CFDA #84.048			<u>40,904</u>
Education for Homeless Children and Youth	84.196	3990002 16	7,731
Education for Homeless Children and Youth	84.196	3990002 17	88,005
Total for CFDA #84.196			<u>95,736</u>
Fund for the Improvement of Education	84.215F	532BF	24,792
Total for CFDA #84.215			<u>24,792</u>
Twenty-First Century Community Learning Centers	84.287	550B	21,307
Twenty-First Century Community Learning Centers	84.287	550C	211,458
Total for CFDA #84.287			<u>232,765</u>
School Improvement Grants	84.377	460A	344,194
Total School Improvement Grants Cluster			<u>344,194</u>
Adult Education - Basic Grants to States	84.002	373D	80,234
Adult Education - Basic Grants to States	84.002	373DR	33,596
Total for CFDA #84.002			<u>113,830</u>
English Language Acquisition State Grants	84.365	3300002 15	408
English Language Acquisition State Grants	84.365	3300002 16	8,685
English Language Acquisition State Grants	84.365	3300002 17	8,349
Total for CFDA #84.365			<u>17,442</u>
Title II Improving Teacher Quality State Grants	84.367	3230002 15	1,136
Title II Improving Teacher Quality State Grants	84.367	3230002 16	16,232
Total for CFDA #84.367			<u>17,368</u>
Direct Federal Program			
Fund for the Improvement of Education	84.215G	S215G160105	923,854
Total for CFDA #84.367			<u>923,854</u>
Total U.S. Department of Education			<u>3,757,488</u>
U.S. Department of Agriculture			
Child Nutrition Cluster			
Passed through Kentucky Department of Education			
National School Lunch Program	10.555	7750002 17	111,077
National School Lunch Program	10.555	7750002 18	616,137
School Breakfast Program	10.553	7760005 17	36,086
School Breakfast Program	10.553	7760005 18	207,433
Summer Food Program for Children	10.559	7690024 17	263
Summer Food Program for Children	10.559	7690024 18	884
Summer Food Program for Children	10.559	7740023 17	2,771
Summer Food Program for Children	10.559	7740023 18	8,555
Passed through Kentucky Department of Agriculture			
National School Lunch Program - Food Donation	10.555	4800014	85,625
Total Child Nutrition Cluster			<u>1,068,831</u>
Passed through Kentucky Department of Education			
Child and Adult Care Food Program	10.558	7790021 17	5,724
Child and Adult Care Food Program	10.558	7790021 18	63,799
Child and Adult Care Food Program	10.558	7800016 17	412
Child and Adult Care Food Program	10.558	7800016 18	4,592
Total for CFDA #10.558			<u>74,527</u>
Fresh Fruit and Vegetable Program	10.582	7720012 17	6,269
Fresh Fruit and Vegetable Program	10.582	7720012 18	28,687
Total for CFDA #10.582			<u>34,956</u>
Child Nutrition Discretionary Grants Limited Availability	10.579	7840027 16	16,823
Total for CFDA #10.579			<u>16,823</u>
Total U.S. Department of Agriculture			<u>1,195,137</u>
Total Expenditures of Federal Awards			<u>\$ 4,952,625</u>

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018**

NOTE 1 BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Newport Independent School District under programs of the federal government for the year ended June 30, 2018, and is reported on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Because the schedule presents only a selected portion of the operations of Newport Independent School District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting in accordance with generally accepted accounting principles. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed. For the year ended June 30, 2018, the District reported food commodities expended in the amount of \$85,625.

NOTE 4 INDIRECT COST RATE

The District has elected not to use the 10% de minimus indirect cost rate allowed under Uniform Guidance.

NOTE 5 SUBRECIPIENTS

The District did not have any subrecipients during the year ended June 30, 2018.

**INDEPENDENT AUDITORS' 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 Members of the Board of Education
Newport Independent School District
Newport, 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Newport Independent School District, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Newport Independent School District's basic financial statements, and have issued our report thereon dated December 14, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Newport Independent School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Newport Independent School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Newport 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questions costs as 2018-01 and 2018-02 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Newport 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*.

**INDEPENDENT AUDITORS' 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**

(Continued)

Newport Independent School District's Response to Findings

Newport Independent School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Newport Independent School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Barnes, Dennig & Co., Ltd.

Crestview Hills, Kentucky
December 14, 2018

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

Members of the Board of Education
Newport Independent School District
Newport, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Newport Independent School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Newport Independent School District's major federal programs for the year ended June 30, 2018. Newport Independent School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Newport Independent School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Newport 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 Newport Independent School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Newport 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, 2018.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE
(Continued)**

Report on Internal Control Over Compliance

Management of Newport 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 Newport Independent School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Newport Independent School District's internal control over compliance.

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

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

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

Barnes, Dennig & Co., Ltd.

Crestview Hills, Kentucky
December 14, 2018

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2018**

SECTION I -SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No

- Significant deficiency(ies) identified that are not considered to be material weaknesses? X Yes _____ None noted

- Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ Yes X No

- Significant deficiency(ies) identified that are not considered to be material weaknesses? X Yes _____ None noted

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR Section 200.516(a)? _____ Yes X No

Identification of major programs

CFDA No.	Name of Federal Program or Clusters
84.215	Fund for the Improvement of Education
84.377	School Improvement Grants

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? X Yes _____ No

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2018**

SECTION II – FINANCIAL STATEMENT FINDINGS

2018-01 Cash Reconciliation

Criteria: The District is responsible for establishing and maintaining effective internal control over financial reporting.

Condition and Context: During the course of the audit, we identified misstatements in the financial statements for the year under audit that were not initially identified by the organization's internal controls. Adjustments were necessary to correct the errors in the financial statements in order for the financial statements to be presented in accordance with Government Auditing Standards. Those adjustments included the following:

- \$277,144 decrease of cash
- \$225,217 decrease of accrued liabilities
- \$51,927 increase to expense

Effect: Misstatement of financial statements

Cause: Lack of review of the cash balance and cash reconciliation to match actual cash account.

Recommendation: Completing the cash reconciliation monthly to balance with the actual cash amounts in Munis to ensure all cash activity is being properly recorded and accounted for.

Views of Responsible Officials and Planned Corrective Actions: The District Finance Officer understands the importance of correct financial statements and timely cash reconciliations. An additional internal control such as a second review of month-end cash reconciliations and a quarterly review with a financial consultant outside the district will be added. Any year end audit entries requiring reversal will be made immediately upon the final audit being filed with KDE.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COST

2018-02 Controls over Expenditures

Criteria: The District is responsible for establishing and following controls that prevent, detect, and correct errors in a timely manner.

Condition and Context: During the course of the audit, we identified errors in invoice and stipend payments that were not initially identified by the District's internal controls. The errors resulted in incorrect amounts being charged to grants.

Effect: Overcharge of grants

Cause: Lack of review of invoice and stipend payments and general ledger coding.

Recommendation: Secondary review of payments made and general ledger coding.

Views of Responsible Officials and Planned Corrective Actions: Each individual stipend payment will be reviewed by both the federal funds clerk and the district finance officer. Grant payments will now be reviewed monthly as opposed to quarterly. All stipend payments of more than \$1,000 will have an additional check with the payroll clerk.

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Summary Schedule of Prior Audit Findings
Year Ended June 30, 2018**

SECTION I – SUMMARY OF PRIOR YEAR AUDITOR’S RESULTS

No matters are reportable

SECTION II – PRIOR YEAR FINANCIAL STATEMENT FINDINGS

No matters are reportable

SECTION III – PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COST

No matters are reportable

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Management Letter Comments
Year Ended June 30, 2018**

In planning and performing our audit of the financial statements of Newport Independent School District for the year ended June 30, 2018, we considered the District's internal control structure 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 structure.

This letter summarizes our comments and suggestions regarding those matters. A separate report dated December 14, 2018 contains our report on significant deficiencies and material weaknesses in the District's internal control structure. This letter does not affect our report dated December 14, 2018, on the financial statements of the Newport Independent School District.

CURRENT YEAR RECOMMENDATIONS

CENTRAL OFFICE

No matters are reportable

ACTIVITY FUNDS

NEWPORT HIGH SCHOOL

2018-03: Principal not provided with annual budgets

Criteria – Per best practices recommended by the Kentucky Department of Education, each club, organization and activity account shall prepare a tentative budget for the next school year on the Individual Activity Account Budget Worksheet (Form F-SA-4A) and submit to the principal by April 15.

Condition – During the testing of the Activity Fund, it was noted that budgets were not provided to the principal by April 15.

Effect – Proper procedures of budgeting process were not being followed.

Cause – Internal controls were not properly followed as designed by the District.

Recommendation – We recommend that budgets be submitted to the principal by April 15.

Board Response – The District Finance Officer and high school treasurer will assist the high school principal preparation of a tentative budget for each club or organization. All athletic team budgets will involve the high school athletic director.

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Management Letter Comments (Continued)
Year Ended June 30, 2018**

CURRENT YEAR RECOMMENDATIONS (CONTINUED)

NEWPORT ALTERNATIVE HIGH SCHOOL

2018-04: Monthly Financial Reports were not signed off on by the proper District personnel

Criteria – Per best practices recommended by the Kentucky Department of Education, Monthly Financial Reports should be reviewed and signed off on by the proper district personnel on a timely basis.

Condition – During the testing of the Activity Fund, it was noted that there were multiple instances of the School's Monthly Financial Reports not being signed off on by the proper District personnel in a timely manner.

Effect – Proper documentation of the preparation and review of the Monthly Financial Reports were not documented.

Cause – Internal controls were not properly followed as designed by the District.

Recommendation – We recommend that the proper District personnel properly review and sign off on the School's Monthly Financial Reports on a timely basis.

Board Response – Monthly financial reports from the Alternative High School will be reviewed and signed off on by the District Finance Officer within 10 days after receiving the reports.

2018-05: Requirement of dual signatures on checks

Criteria – Per best practices recommended by the Kentucky Department of Education, two signatures should be required on all checks that result in a disbursement from the school activity fund.

Condition – During the testing of the Activity Fund, it was noted that there was a check that had only one signature.

Effect – Best practices for cash disbursements were not followed.

Cause – Internal controls were not properly followed as designed by the District.

Recommendation – We recommend that all cash disbursements by check be signed by two authorized signors of the activity cash account.

Board Response – The District Finance Officer will review this check signing practice with the Alternate High School principal and bookkeeper and emphasize the importance of this procedure. District Finance Officer will review all copies of checks for two signatures.

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Management Letter Comments (Continued)
Year Ended June 30, 2018**

CURRENT YEAR RECOMMENDATIONS (CONTINUED)

NEWPORT INTERMEDIATE SCHOOL

2018-06: Payments made without an invoice

Criteria – Per best practices recommended by the Kentucky Department of Education, invoices should be received before a payment is made.

Condition – During the testing of the Activity Fund, it was noted that several payments did not have an associated invoice.

Effect – Best practices of cash disbursements notes to ensure an invoice is received prior to payment to avoid the possibility of a duplicate payment.

Cause – Best practices were not properly followed as designed by the District.

Recommendation – We recommend that payments of expenses be held until an invoice has been received.

Board Response – The District Finance Officer will review this practice with the NIS principal and bookkeeper and will review quarterly to verify this practice is being followed.

2018-07: Proper support of cash receipts

Criteria – Per best practices recommended by the Kentucky Department of Education, individual checks should be listed on the deposit slip or a copy of checks should be made.

Condition – During the testing of the Activity Fund, it was noted that deposit slips did not individually list checks and a copy of the checks was not retained.

Effect – Best practices of cash receipts were not followed.

Cause – Best practices were not properly followed as designed by the District.

Recommendation – We recommend that individual checks be listed on deposit slips or copies of checks be retained.

Board Response – The District Finance Officer will review this practice with the NIS principal, and bookkeeper and the District Finance Officer will review deposit slips on the monthly report to verify checks are listed individually.

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Management Letter Comments (Continued)
Year Ended June 30, 2018**

CURRENT YEAR RECOMMENDATIONS (CONTINUED)

NEWPORT INTERMEDIATE SCHOOL (CONTINUED)

2018-08: Requirement of dual signatures on checks

Criteria – Per best practices recommended by the Kentucky Department of Education, two signatures should be required on all checks that result in a disbursement from the school activity fund.

Condition – During the testing of the Activity Fund, it was noted that there was a check that had only one signature.

Effect – Best practices for cash disbursements were not followed.

Cause – Internal controls were not properly followed as designed by the District.

Recommendation – We recommend that all cash disbursements by check be signed by two authorized signors of the activity cash account.

Board Response – The District Finance Officer will review this check signing practice with the Intermediate School principal and bookkeeper and emphasize the importance of this procedure. District Finance Officer will review all copies of checks for two signatures.

NEWPORT PRIMARY SCHOOL

2018-09: Monthly financial statements not prepared and reviewed timely

Criteria – Per best practices recommended by the Kentucky Department of Education, schools should have a process in place to prepare and review the monthly financial reports each month.

Condition – During the testing of the Activity Fund, it was noted that several of the monthly reports were not prepared timely.

Effect – Proper documentation of the monthly financial process was not followed.

Cause – Internal controls were not properly followed as designed by the District.

Recommendation – We recommend that the financial secretary prepare and submit the monthly financial reports to the principal for review each month. Further, we recommend the district finance officer to work with the financial secretary to ensure the monthly reports are being prepared timely.

Board Response – The District Finance Officer will review this procedure with the NPS principal and bookkeeper. The District Finance Officer will monitor the timeliness of the monthly financial reports and review with the bookkeeper and principal.

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Management Letter Comments (Continued)
Year Ended June 30, 2018**

NEWPORT PRIMARY SCHOOL (CONTINUED)

2018-10: Outstanding checks over a year old

Criteria – Per best practices recommended by the Kentucky Department of Education, outstanding checks with an issuance date older than one year should be voided to stop payment.

Condition – During the testing of the Activity Fund, it was noted that there were checks that had an issuance date that were over a year old.

Effect – Best practices for cash disbursements were not followed.

Cause – Internal controls were not properly followed as designed by the District.

Recommendation – We recommend that all outstanding checks with an issuance date over a year old be voided in order to stop payment.

Board Response – The District Finance Officer will review this practice with the NPS principal and bookkeeper. We will immediately void outstanding checks over a year old and start a collection process to collect the funds. Moving forward, the District Finance Officer will monitor the outstanding check list of this school.

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Management Letter Comments (Continued)
Year Ended June 30, 2018**

STATUS OF PRIOR YEAR RECOMMENDATIONS

CENTRAL OFFICE

No matters are reportable

ACTIVITY FUNDS

NEWPORT HIGH SCHOOL

Statement of prior year deficiency:

- It was noted that the principal was not provided with annual budgets.

Current year follow-up: Item still exists at this school.

NEWPORT ALTERNATIVE HIGH SCHOOL

Statement of prior year deficiency:

- It was noted that monthly financial reports were not signed off on by the proper District personnel.
- It was noted that not all checks had dual signatures.

Current year follow-up: Items still exist at the school.

Statement of prior year deficiency:

- It was noted that deposits were not made timely.

Current year follow-up: No issues were reportable in the current year.

NEWPORT INTERMEDIATE SCHOOL

Statement of prior year deficiency:

- It was noted that invoices were not marked paid.

Current year follow-up: No issues were reportable in the current year.

NEWPORT PRIMARY SCHOOL

Statement of prior year deficiency:

- It was noted that monthly financial reports were not prepared and reviewed timely.

Current year follow-up: Item still exists at the school

Statement of prior year deficiency:

- It was noted the school was not using pre-numbered or computer-generated POs.

Current year follow-up: No issues were reportable in the current year.