

Newport Independent School District

**Financial Statements
With Supplementary Information
Year Ended June 30, 2017
With Independent Auditors' Report**

NEWPORT INDEPENDENT SCHOOL DISTRICT

Year Ended June 30, 2017

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NEWPORT INDEPENDENT SCHOOL DISTRICT

Year Ended June 30, 2017

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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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Newport Independent School District as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the 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, 2017, 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.

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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), 44-46, and 51-54 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 42-43, 47-50, and 55-56 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 42-43, 47-50, and 55-56 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 pages 42-43, 47-50, and 55-56 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 November 15, 2017 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Newport Independent School District's internal control over financial reporting and compliance.



Crestview Hills, Kentucky
November 15, 2017

NEWPORT INDEPENDENT SCHOOL DISTRICT

Management's Discussion and Analysis (MD&A) Year Ended June 30, 2017

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, 2017. 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 averaged combined 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.
- The District utilizes the College Equipped Readiness Tool (CERT) assessment tool to monitor learning throughout grade 12. The CERT 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 while helping to prepare them for success on the ACT. Students are assessed Reading, English, Science, 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 2016-2017 school year from a 16.3 to 17.6. The score for the number of students who were college and career ready was 67.5.
- 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 93.2 in 2017, which has steadily increased from 67.2 in 2012.
- Newport High School made significant academic progress that allowed them to become a Proficient school and obtain High Progress Status in 2016.
- 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.

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Management's Discussion and Analysis (MD&A)
Year Ended June 30, 2017
(Continued)**

ACADEMIC PROGRESS HIGHLIGHTS (CONTINUED)

- For the fifth 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.
- 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.

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Management's Discussion and Analysis (MD&A)
Year Ended June 30, 2017
(Continued)**

FINANCIAL HIGHLIGHTS

- The beginning cash balance for the District was \$4,512,802.
- The General Fund had \$17,943,407 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 \$17,979,939 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, 2017 (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 41 of this report.

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Management's Discussion and Analysis (MD&A)
Year Ended June 30, 2017
(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 \$14,382,363 as of June 30, 2017.

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, 2017 and 2016

The following is a summary of net position for the fiscal years ended June 30, 2017 and 2016.

	<u>2017</u>	<u>2016</u>
Assets		
Current assets	\$ 8,255,271	\$ 6,039,437
Noncurrent assets	<u>25,061,560</u>	<u>24,568,051</u>
Total assets	<u>33,316,831</u>	<u>30,607,488</u>
Deferred outflows	<u>2,499,807</u>	<u>1,363,030</u>
Liabilities		
Current liabilities	1,638,134	1,642,733
Noncurrent liabilities	<u>19,508,741</u>	<u>18,940,984</u>
Total liabilities	<u>21,146,875</u>	<u>20,583,717</u>
Deferred inflows	<u>287,400</u>	<u>383,200</u>
Net position		
Investment in capital assets (net of debt)	12,260,847	11,164,837
Restricted	(4,266,943)	(3,387,188)
Unassigned	<u>6,388,459</u>	<u>3,225,952</u>
Total net position	<u>\$ 14,382,363</u>	<u>\$ 11,003,601</u>

Comments on General Fund Budget Comparisons

- The District's total general fund revenues for the fiscal year ended June 30, 2017, net of inter-fund transfer and sale of fixed assets, were \$17,943,407.
- General fund budget compared to actual revenue, net of inter-fund transfers and sale of fixed assets, varied from line item to line item with the ending actual balance being \$3,051,078, more than budget or approximately 20.5%. 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 \$17,979,939, net of inter-fund transfers.
- General Fund actual expenditures were less than budgeted expenditures by \$1,049,541.

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Management's Discussion and Analysis (MD&A)
Year Ended June 30, 2017
(Continued)**

DISTRICT-WIDE FINANCIAL ANALYSIS (CONTINUED)

The following table presents a summary of revenues and expenses for the fiscal years ended June 30, 2017 and 2016.

	<u>2017</u>	<u>2016</u>
Revenues:		
Program revenues:		
Charges for services	\$ 153,924	\$ 95,690
Operating grants and contributions	7,451,445	6,650,015
Capital grants and contributions	605,524	592,688
Total program revenues	<u>8,210,893</u>	<u>7,338,393</u>
General revenues:		
Taxes	8,576,960	8,461,836
Federal and state sources	15,378,302	11,588,816
Earnings on investments	48,675	23,667
Miscellaneous	3,965,041	1,441,851
Total general revenues	<u>27,968,978</u>	<u>21,516,170</u>
Total revenues	<u>36,179,871</u>	<u>28,854,563</u>
Expenses:		
Instruction	21,756,927	18,536,399
Student support services	759,064	670,771
Instructional support	943,510	884,299
District administration	1,580,823	1,597,215
School administration	1,186,790	1,325,075
Business support	1,016,612	879,862
Plant operations	2,495,727	2,728,495
Student transportation	632,233	493,107
Community support	518,000	428,851
Debt service	382,090	381,676
Food service	1,529,333	1,570,708
Total expenses	<u>32,801,109</u>	<u>29,496,458</u>
Change in net position	<u>\$ 3,378,762</u>	<u>\$ (641,895)</u>

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Management's Discussion and Analysis (MD&A)
Year Ended June 30, 2017
(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 \$3,000,000 in contingency (15.8%). The beginning cash balance of the fiscal year was \$4,512,802.

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, 2017**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Current			
Cash and cash equivalents	\$ 6,480,885	\$ 166,340	\$ 6,647,225
Accounts receivable	1,571,265	21,732	1,592,997
Inventories for consumption	-	15,049	15,049
Total current assets	<u>8,052,150</u>	<u>203,121</u>	<u>8,255,271</u>
Noncurrent			
Nondepreciated capital assets:			
Land and land improvements	1,489,992	-	1,489,992
Construction in progress	14,120,095	-	14,120,095
Depreciated capital assets:			
Buildings and improvements	23,021,951	-	23,021,951
Furniture and equipment	4,308,059	653,528	4,961,587
Less: accumulated depreciation	<u>(17,933,556)</u>	<u>(598,509)</u>	<u>(18,532,065)</u>
Total noncurrent	<u>25,006,541</u>	<u>55,019</u>	<u>25,061,560</u>
Total assets	<u>33,058,691</u>	<u>258,140</u>	<u>33,316,831</u>
Deferred outflows	<u>2,422,563</u>	<u>77,244</u>	<u>2,499,807</u>
Liabilities			
Current			
Current portion of bonds payable	611,539	-	611,539
Current portion of accrued sick leave	41,331	-	41,331
Accounts payable	483,473	7,583	491,056
Accrued payroll and related expenses	309,201	-	309,201
Assessed KISBIT liability	47,017	-	47,017
Accrued interest	92,161	-	92,161
Unearned revenues	<u>45,829</u>	<u>-</u>	<u>45,829</u>
Total current	<u>1,630,551</u>	<u>7,583</u>	<u>1,638,134</u>
Noncurrent			
Accrued sick leave	371,976	-	371,976
CERS net pension liability	6,732,910	214,681	6,947,591
Long term bonds payable	<u>12,189,174</u>	<u>-</u>	<u>12,189,174</u>
Total noncurrent	<u>19,294,060</u>	<u>214,681</u>	<u>19,508,741</u>
Total liabilities	<u>20,924,611</u>	<u>222,264</u>	<u>21,146,875</u>
Deferred inflows	<u>278,519</u>	<u>8,881</u>	<u>287,400</u>
Net Position			
Invested in capital assets, net of related debt	12,205,828	55,019	12,260,847
Restricted	(4,316,163)	49,220	(4,266,943)
Unrestricted	<u>6,388,459</u>	<u>-</u>	<u>6,388,459</u>
Total net position	<u>\$ 14,278,124</u>	<u>\$ 104,239</u>	<u>\$ 14,382,363</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, 2017**

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	\$ 21,756,927	\$ 60,920	\$ 4,990,536	\$ -	\$ (16,705,471)	\$ -	\$ (16,705,471)
Student support services	759,064	-	81,879	-	(677,185)	-	(677,185)
Staff support services	943,510	-	229,139	-	(714,371)	-	(714,371)
District administration	1,580,823	-	-	-	(1,580,823)	-	(1,580,823)
School administration	1,186,790	-	1,565	-	(1,185,225)	-	(1,185,225)
Business support services	1,016,612	-	-	-	(1,016,612)	-	(1,016,612)
Plant operation and maintenance	2,495,727	-	38,566	-	(2,457,161)	-	(2,457,161)
Student transportation	632,233	126	-	-	(632,107)	-	(632,107)
Community service operations	518,000	-	492,150	-	(25,850)	-	(25,850)
Facility acquisition and construction	-	-	-	605,524	605,524	-	605,524
Interest on long-term debt	382,090	-	-	-	(382,090)	-	(382,090)
Total governmental activities	<u>31,271,776</u>	<u>61,046</u>	<u>5,833,835</u>	<u>605,524</u>	<u>(24,771,371)</u>	<u>-</u>	<u>(24,771,371)</u>
Business-type Activities							
Food service	1,529,333	92,878	1,617,610	-	-	181,155	181,155
Total business-type activities	<u>1,529,333</u>	<u>92,878</u>	<u>1,617,610</u>	<u>-</u>	<u>-</u>	<u>181,155</u>	<u>181,155</u>
Total school district	<u>\$ 32,801,109</u>	<u>\$ 153,924</u>	<u>\$ 7,451,445</u>	<u>\$ 605,524</u>	<u>(24,771,371)</u>	<u>181,155</u>	<u>(24,590,216)</u>
			General Revenues				
			Taxes		8,576,960	-	8,576,960
			Federal and state sources		15,378,302	-	15,378,302
			Investment earnings		48,675	-	48,675
			Miscellaneous		1,349,348	-	1,349,348
			Interfund transfer		85,590	(85,590)	-
			Gain on disposal of fixed assets		2,615,693	-	2,615,693
			Total general and special revenues		<u>28,054,568</u>	<u>(85,590)</u>	<u>27,968,978</u>
			Change in net position		3,283,197	95,565	3,378,762
			Net position - beginning		<u>10,994,927</u>	<u>8,674</u>	<u>11,003,601</u>
			Net position - ending		<u>\$ 14,278,124</u>	<u>\$ 104,239</u>	<u>\$ 14,382,363</u>

The accompanying notes are an integral part of these financial statements

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Balance Sheet – Governmental Funds
As of June 30, 2017**

	<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)	\$ 7,262,572	\$ (1,135,732)	\$ 261,072	\$ 92,973	\$ 6,480,885
Accounts receivable	<u>356,916</u>	<u>1,214,349</u>	<u>-</u>	<u>-</u>	<u>1,571,265</u>
Total current	<u><u>\$ 7,619,488</u></u>	<u><u>\$ 78,617</u></u>	<u><u>\$ 261,072</u></u>	<u><u>\$ 92,973</u></u>	<u><u>\$ 8,052,150</u></u>
Liabilities and Fund Balance					
Current					
Accounts payable	\$ 189,044	\$ 32,788	\$ 261,072	\$ 569	\$ 483,473
Accrued payroll and related expenses	309,201	-	-	-	309,201
Deferred revenues	<u>-</u>	<u>45,829</u>	<u>-</u>	<u>-</u>	<u>45,829</u>
Total current	<u>498,245</u>	<u>78,617</u>	<u>261,072</u>	<u>569</u>	<u>838,503</u>
Fund Balance					
Restricted					
Capital projects	-	-	-	48,561	48,561
Committed					
Accrued sick leave	150,000	-	-	-	150,000
Assigned					
Purchase obligations	180,299	-	-	43,843	224,142
Unassigned	<u>6,790,944</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,790,944</u>
Total fund balances	<u>7,121,243</u>	<u>-</u>	<u>-</u>	<u>92,404</u>	<u>7,213,647</u>
Total liabilities and fund balances	<u><u>\$ 7,619,488</u></u>	<u><u>\$ 78,617</u></u>	<u><u>\$ 261,072</u></u>	<u><u>\$ 92,973</u></u>	<u><u>\$ 8,052,150</u></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, 2017**

Total fund balance per fund financial statements		\$ 7,213,647
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	14,120,095	
Cost of capital assets	28,820,002	
Accumulated depreciation	<u>(17,933,556)</u>	25,006,541
Deferred outflows		
Related to CERS	1,815,834	
CERS contributions made after the measurement date	<u>606,729</u>	2,422,563
Deferred inflows related to CERS		(278,519)
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	(12,800,713)	
Assessed KISBIT liability	(47,017)	
Accrued interest	(92,161)	
Net pension liability	(6,732,910)	
Accrued sick leave	<u>(413,307)</u>	<u>(20,086,108)</u>
Net position for governmental activities		<u><u>\$ 14,278,124</u></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, 2017**

	<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	\$ 8,153,784	\$ -	\$ -	\$ 423,176	\$ 8,576,960
Earnings on investments	48,675	-	-	-	48,675
State sources	9,092,475	1,804,086	-	605,524	11,502,085
Federal sources	372,370	3,964,559	-	-	4,336,929
Other sources	276,103	65,190	-	29,924	371,217
	<u>17,943,407</u>	<u>5,833,835</u>	<u>-</u>	<u>1,058,624</u>	<u>24,835,866</u>
Expenditures:					
Instructional	9,858,474	4,992,372	-	23,034	14,873,880
Student support services	640,770	81,879	-	-	722,649
Staff support services	647,645	229,139	-	-	876,784
District administration	1,564,449	-	-	-	1,564,449
School administration	1,169,266	1,565	-	-	1,170,831
Business support services	1,015,184	-	-	-	1,015,184
Plant operation and maintenance	2,421,774	38,566	-	-	2,460,340
Student transportation	610,536	-	-	-	610,536
Community service operation	25,750	492,150	-	-	517,900
Facility acquisition and construction	-	-	569,993	-	569,993
Debt service:					
Principal	22,581	-	-	580,000	602,581
Interest	3,510	-	-	385,129	388,639
	<u>17,979,939</u>	<u>5,835,671</u>	<u>569,993</u>	<u>988,163</u>	<u>25,373,766</u>
Excess (deficit) of revenues over expenditures	<u>(36,532)</u>	<u>(1,836)</u>	<u>(569,993)</u>	<u>70,461</u>	<u>(537,900)</u>
Other financing sources (uses)					
Proceeds from sale of assets	2,624,964	-	-	-	2,624,964
Operating transfers in	1,018,092	36,768	428,506	679,443	2,162,809
Operating transfers out	(465,274)	(34,932)	-	(1,577,013)	(2,077,219)
	<u>3,177,782</u>	<u>1,836</u>	<u>428,506</u>	<u>(897,570)</u>	<u>2,710,554</u>
Net change in fund balances	3,141,250	-	(141,487)	(827,109)	2,172,654
Fund balance, July 1, 2016	3,979,993	-	141,487	919,513	5,040,993
Fund balance, June 30, 2017	<u>\$ 7,121,243</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 92,404</u>	<u>\$ 7,213,647</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, 2017**

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

Net change in total fund balances per fund financial statements		\$ 2,172,654
<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	577,285	
Depreciation expense	(790,707)	
Capital outlays	681,218	
Retirements of capital assets	<u>(9,271)</u>	458,525
<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>602,581</u>	602,581
Deferred outflow related to pensions		1,104,241
Deferred inflows related to pensions		92,112
<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>(1,146,916)</u>
Changes in net position of governmental activities		<u><u>\$ 3,283,197</u></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, 2017**

	Food Service Fund	Total
	<u> </u>	<u> </u>
Assets		
Current		
Cash and cash equivalents	\$ 166,340	\$ 166,340
Accounts receivable	21,732	21,732
Inventories for consumption	<u>15,049</u>	<u>15,049</u>
Total current	<u>203,121</u>	<u>203,121</u>
Noncurrent		
Furniture and equipment	653,528	653,528
Less: accumulated depreciation	<u>(598,509)</u>	<u>(598,509)</u>
Total noncurrent	<u>55,019</u>	<u>55,019</u>
Total assets	<u>258,140</u>	<u>258,140</u>
Deferred outflows	<u>77,244</u>	<u>77,244</u>
Liabilities		
Current		
Accounts payable	<u>7,583</u>	<u>7,583</u>
Total current	<u>7,583</u>	<u>7,583</u>
Noncurrent		
CERS net pension liability	<u>214,681</u>	<u>214,681</u>
Total noncurrent	<u>214,681</u>	<u>214,681</u>
Total liabilities	<u>222,264</u>	<u>222,264</u>
Deferred inflows	<u>8,881</u>	<u>8,881</u>
Net Position		
Invested in assets, net of debt	55,019	55,019
Restricted	<u>49,220</u>	<u>49,220</u>
Total net position	<u>\$ 104,239</u>	<u>\$ 104,239</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, 2017**

	Food Service Fund	Total
	<u> </u>	<u> </u>
Operating revenues		
Lunchroom sales	\$ 60,554	\$ 60,554
Other operating revenues	32,324	32,324
	<u> </u>	<u> </u>
Total operating revenues	<u>92,878</u>	<u>92,878</u>
Operating expenses		
Salaries and benefits	778,695	778,695
Contract services	50,272	50,272
Materials and supplies	696,748	696,748
Depreciation	3,618	3,618
	<u> </u>	<u> </u>
Total operating expenses	<u>1,529,333</u>	<u>1,529,333</u>
Operating loss	<u>(1,436,455)</u>	<u>(1,436,455)</u>
Nonoperating revenues (expenses)		
Federal grants	1,190,441	1,190,441
State grants	267,075	267,075
Donated commodities and other donations	160,094	160,094
Transfers	(85,590)	(85,590)
	<u> </u>	<u> </u>
Total nonoperating revenues (expenses)	<u>1,532,020</u>	<u>1,532,020</u>
Net income	95,565	95,565
Total net position, July 1, 2016	<u>8,674</u>	<u>8,674</u>
Total net position, June 30, 2017	<u>\$ 104,239</u>	<u>\$ 104,239</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, 2017**

	Food Service Fund	Total
	<u> </u>	<u> </u>
Cash flows from operating activities		
Cash received from lunchroom sales	\$ 60,554	\$ 60,554
Cash received from other activities	10,592	10,592
Cash payments to employees for services	(792,211)	(792,211)
Cash payments to suppliers for goods and services	(740,748)	(740,748)
Cash transfers	<u>(85,590)</u>	<u>(85,590)</u>
Net cash used in operating activities	<u>(1,547,403)</u>	<u>(1,547,403)</u>
Cash flows from noncapital financing activities		
Non-operating revenues received	<u>1,617,610</u>	<u>1,617,610</u>
Net cash provided by noncapital financing activities	<u>1,617,610</u>	<u>1,617,610</u>
Net decrease in cash and cash equivalents	31,605	31,605
Cash and cash equivalents - beginning	<u>134,735</u>	<u>134,735</u>
Cash and cash equivalents - ending	<u><u>\$ 166,340</u></u>	<u><u>\$ 166,340</u></u>
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (1,436,455)	\$ (1,436,455)
Adjustment to reconcile operating loss to net cash used in operating activities		
Depreciation	3,618	3,618
Interfund transfers	(85,590)	(85,590)
Changes in assets and liabilities:		
(Increase) in deferred outflows	(32,536)	(32,536)
Decrease in deferred inflows	(3,688)	(3,688)
(Increase) in accounts receivable	(21,732)	(21,732)
Increase in CERS net pension liability	22,708	22,708
(Decrease) in accounts payable	<u>6,272</u>	<u>6,272</u>
Net cash used in operating activities	<u><u>\$ (1,547,403)</u></u>	<u><u>\$ (1,547,403)</u></u>
Schedule of non-cash transactions		
Donated commodities received from the federal government	<u><u>\$ 160,094</u></u>	<u><u>\$ 160,094</u></u>
On-behalf payments	<u><u>\$ 255,934</u></u>	<u><u>\$ 255,934</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, 2017**

	<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	\$ 16,465	\$ 176,437	\$ 114,375	\$ 307,277
Investments	-	812,688	-	812,688
	<u>16,465</u>	<u>989,125</u>	<u>114,375</u>	<u>1,119,965</u>
Total current assets				
Liabilities				
Current				
Accounts payable	16,465	408	-	16,873
Due to student groups	-	-	114,375	114,375
	<u>16,465</u>	<u>408</u>	<u>114,375</u>	<u>131,248</u>
Total current				
Net Position				
Restricted	-	988,717	-	988,717
	<u>-</u>	<u>988,717</u>	<u>-</u>	<u>988,717</u>
Total net position	<u>\$ -</u>	<u>\$ 988,717</u>	<u>\$ -</u>	<u>\$ 988,717</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, 2017**

	<u>Trust/Agency Fund</u>	<u>Chester Davis Scholarship Fund</u>	<u>Total</u>
Additions			
Net interest and investment gains	\$ -	\$ 75,872	\$ 75,872
Taxes	152,902	-	152,902
Private donations and other	11,700	-	11,700
Student activities	<u>568</u>	<u>-</u>	<u>568</u>
Total additions	<u>165,170</u>	<u>75,872</u>	<u>241,042</u>
Deductions			
Instruction	166,590	-	166,590
Community services	<u>-</u>	<u>47,697</u>	<u>47,697</u>
Total deductions	<u>166,590</u>	<u>47,697</u>	<u>214,287</u>
Change in net position	(1,420)	28,175	26,755
Net position - July 1, 2016	<u>1,420</u>	<u>960,542</u>	<u>961,962</u>
Net position - June 30, 2017	<u><u>\$ -</u></u>	<u><u>\$ 988,717</u></u>	<u><u>\$ 988,717</u></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 55. 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 does not have any committed funds for construction contracts for ongoing projects at June 30, 2017.

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.

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, 2017 was as follows:

<u>Governmental Activities</u>	Balance June 30, 2016	Additions	Deductions	Balance June 30, 2017
Land	\$ 1,109,955	\$ -	\$ -	\$ 1,109,955
Land improvements	353,512	26,525	-	380,037
Buildings and improvements	25,774,419	163,451	2,915,919	23,021,951
Technology equipment	2,414,483	296,430	62,382	2,648,531
Vehicles	702,639	5,029	-	707,668
General equipment	766,686	189,783	4,609	951,860
Construction in progress	13,542,810	577,285	-	14,120,095
Totals at historical cost	44,664,504	1,258,503	2,982,910	42,940,097
Less: accumulated depreciation				
Land improvements	13,208	18,673	-	31,881
Buildings and improvements	17,472,397	397,248	2,915,919	14,953,726
Technology equipment	1,474,900	320,857	54,677	1,741,080
Vehicles	528,000	24,319	-	552,319
General equipment	627,983	29,610	3,043	654,550
Total accumulated depreciation	20,116,488	790,707	2,973,639	17,933,556
Governmental activities capital assets - net	\$ 24,548,016	\$ 467,796	\$ 9,271	\$ 25,006,541
 <u>Business - Type Activities</u>				
General equipment	\$ 608,800	\$ 37,348	\$ -	\$ 646,148
Technology equipment	6,126	1,254	-	7,380
Totals at historical cost	614,926	38,602	-	653,528
Less: accumulated depreciation				
General equipment	588,860	3,294	-	592,154
Technology equipment	6,031	324	-	6,355
Total accumulated depreciation	594,891	3,618	-	598,509
Business - type activities capital assets - net	\$ 20,035	\$ 34,984	\$ -	\$ 55,019

Depreciation expense by function for the fiscal year ended June 30, 2017 was as follows:

	<u>Governmental</u>	<u>Business-Type</u>
Instructional	\$ 560,247	\$ -
Student support services	36,415	-
Staff support services	66,726	-
District administration	16,374	-
School administration	15,959	-
Business support services	1,428	-
Plant operation and maintenance	66,732	-
Student transportation	26,726	-
Community service operations	100	-
Food service	-	3,618
Total	\$ 790,707	\$ 3,618

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, 2017 this amount totaled approximately \$413,307 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 2018 and 2022. Expenditures for the equipment under these operating leases totaled \$139,988 for the year ended June 30, 2017.

Future minimum lease payments under capital leases as of June 30, 2017, in the aggregate are as follows:

Year Ending <u>June 30,</u>	
2017-2018	\$ 58,767
2018-2019	52,619
2019-2020	52,619
2020-2021	52,619
Thereafter	<u>30,695</u>
Total minimum payments	<u>\$ 247,319</u>

NOTE 7 LEASE OBLIGATIONS AND 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%

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 16 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 LEASE OBLIGATIONS AND 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, 2017 for debt service (principal and interest) are reported in Note 16.

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. Five years' 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 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% 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:

	<u>Required contribution</u>
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, 2017, was \$805,525, which consisted of \$626,075 from the District and \$179,450 from the employees. Total contributions for the year ended June 30, 2016 and 2015 were \$753,695 and \$727,187, respectively. The contributions have been contributed in full for fiscal years 2017, 2016 and 2015.

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, 2017, was \$1,821,352 which consisted of \$505,165 from the District and \$1,316,187 from the employees. Total contributions for the year ended June 30, 2016 and 2015 were \$11,786,028 and \$1,600,860, respectively. The contributions have been contributed in full for fiscal years 2017, 2016 and 2015.

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, 2017, 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	\$ 6,947,591
Commonwealth's proportionate share of the KTRS net pension liability associated with the District	<u>90,960,338</u>
	<u>\$ 97,907,929</u>

The net pension liability for each plan was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

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, 2016, the District's proportion was 0.141107% percent.

For the year ended June 30, 2017, the District recognized pension expense of \$998,965 related to CERS and \$5,913,583 related to KTRS. The District also recognized revenue of \$5,913,583 for KTRS support provided by the Commonwealth. At June 30, 2017, 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	\$ 69,242	\$ -
Net difference between projected and actual earnings on pension plan investments	695,117	287,400
Change of Assumptions	840,200	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	269,173	-
District contributions subsequent to the measurement date	<u>626,075</u>	<u>-</u>
Total	<u><u>\$ 2,499,807</u></u>	<u><u>\$ 287,400</u></u>

\$626,075 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. 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>
2017	\$ 310,472
2018	310,472
2019	310,472
2020	406,272
2021	248,644

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, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>CERS</u>	<u>KTRS</u>
Inflation	3.25%	3.50%
Projected salary increases	4.00%	4.0-8.2%
Investment rate of return, net of investment expense and inflation	7.50%	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 AA to 2020 with a setback of 1 year for females. The last experience study was performed in 2011 and the next experience study is scheduled to be conducted in 2016 and will be reflected in the June 30, 2017 GASB 68 reports.

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	45%	6.40%		
Non-US equity	17%	6.50%		
Combined equity			44%	5.40%
Emerging market equity				
Private equity			10%	8.50%
Core US fixed income				
High yield US fixed income				
Non-US fixed incomes				
Commodities				
TIPS				
Fixed income	24%	1.60%	19%	1.50%
Real return (diversified inflation strategies)			10%	3.50%
High yield bonds	4%	3.10%		
Real estate	4%	5.80%	5%	4.50%
Absolute return (diversified hedge funds)			10%	4.25%
Alternatives	4%	6.80%		
Cash	2%	1.50%	2%	-0.25%
Total	<u>100%</u>		<u>100%</u>	

Discount rate

For CERS, the discount rate used to measure the total pension liability was 7.5%. 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 7.5%. 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 4.20%. 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 2040 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2039 and a municipal bond index rate of 3.01% was applied to all periods of projected benefit payments after 2039. The Single Equivalent Interest Rate (SEIR) that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability.

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	6.50%	7.50%	8.50%
District's proportionate share of net pension liability	\$ 8,657,823	\$ 6,947,591	\$ 5,481,581
KTRS	3.20%	4.20%	5.20%
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 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 10 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.

NEWPORT INDEPENDENT SCHOOL DISTRICT

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

NOTE 11 DEFICIT OPERATING/FUND BALANCES

There are no funds of the District that currently have a deficit fund balance. However, 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 Middle School	\$ 13,130
Building Fund	503,606
Construction Fund	141,487
Newport High School	9,987
Capital Outlay Fund	330,393
Newport Intermediate School	33,012
Newport Alternative High School	3,820

NOTE 12 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 13 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, 2017, 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 \$47,017. This contingent liability has been recorded in the District Wide Financial Statements but not included in the Governmental Financial Statements.

NOTE 14 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	\$ 85,590
Special Revenue Fund	General Fund	Indirect Costs	34,932
Building Fund	Debt Service Fund	Debt Service	667,404
General Fund	Special Revenue Fund	Operating Costs	36,768
Capital Outlay Fund	General Fund	Operating Costs	469,501
General Fund	Construction Fund	Construction	278,767
Capital Outlay Fund	Debt Service Fund	Debt Service	12,039
Building Fund	General Fund	Operating Costs	428,069
General Fund	Construction Fund	Construction	149,739

NEWPORT INDEPENDENT SCHOOL DISTRICT

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

NOTE 15 ON-BEHALF PAYMENTS

For the year ended June 30, 2017 total payments of \$3,796,365 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	\$ 3,254,745
Debt Service Fund	285,686
Food Service Fund	<u>255,934</u>
 Total On-Behalf	 <u><u>\$ 3,796,365</u></u>

NOTE 16 SCHEDULE OF LONG-TERM DEBT

A summary of the changes in the outstanding principal for the District during the fiscal year ended June 30, 2017 is as follows:

Fiscal Year	2012, 2014, 2014B and KISTA Bus Loans						Total Requirements
	Newport Independent School District			KY School Facilities Construction Commission			
	Principal	Interest	Total	Principal	Interest	Total	
2017-2018	\$ 424,581	\$ 267,577	\$ 692,158	\$ 186,958	\$ 98,728	\$ 285,686	\$ 977,844
2018-2019	432,385	259,434	691,819	189,644	96,042	285,686	977,505
2019-2020	439,398	250,969	690,367	192,814	92,871	285,685	976,052
2020-2021	449,937	242,146	692,083	196,269	89,417	285,686	977,769
2021-2022	456,133	233,026	689,159	200,256	85,429	285,685	974,844
2022-2023	452,223	223,024	675,247	204,578	81,106	285,684	960,931
2023-2024	465,883	212,029	677,912	209,232	76,452	285,684	963,596
2024-2025	475,729	198,923	674,652	214,693	70,992	285,685	960,337
2025-2026	484,509	184,436	668,945	220,491	65,194	285,685	954,630
2026-2027	503,164	169,560	672,724	226,836	58,849	285,685	958,409
2027-2028	511,522	154,088	665,610	233,478	52,208	285,686	951,296
2028-2029	529,072	137,015	666,087	240,928	44,756	285,684	951,771
2029-2030	551,205	118,113	669,318	248,795	36,890	285,685	955,003
2030-2031	567,649	98,457	666,106	257,351	28,333	285,684	951,790
2031-2032	588,762	78,105	666,867	266,238	19,447	285,685	952,552
2032-2033	604,177	57,008	661,185	125,823	10,255	136,078	797,263
2033-2034	632,507	35,189	667,696	127,493	5,411	132,904	800,600
2034-2035	652,285	11,410	663,695	37,715	661	38,376	702,071
	<u>\$ 9,221,121</u>	<u>\$ 2,930,509</u>	<u>\$ 12,151,630</u>	<u>\$ 3,579,592</u>	<u>\$ 1,013,041</u>	<u>\$ 4,592,633</u>	<u>\$ 16,744,263</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, 2017 is as follows:

Governmental Activities	Balance July 1, 2016	Additions	Payments	Balance June 30, 2017
Bond Obligations	<u>\$ 13,403,294</u>		<u>\$ 602,581</u>	<u>\$ 12,800,713</u>
Sick Leave	<u>\$ 300,634</u>	<u>\$ 199,980</u>	<u>\$ 87,307</u>	<u>\$ 413,307</u>

NEWPORT INDEPENDENT SCHOOL DISTRICT

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

NOTE 17 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.

Investments consisted of the following at June 30, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash Equivalents	\$ 17,097	\$ -	\$ -	\$ 17,097
Equity Securities	795,590	-	-	795,590
Total Investments	<u>\$ 812,687</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 812,687</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 18 SUBSEQUENT EVENTS

Subsequent events were considered through November 15, 2017, which represents the release date of our report.

SUPPLEMENTARY
INFORMATION

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Combining Balance Sheet – Nonmajor Governmental Funds
As of June 30, 2017**

	<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	\$ -	\$ 48,561	\$ -	\$ 44,412	\$ 92,973
Total assets	<u>\$ -</u>	<u>\$ 48,561</u>	<u>\$ -</u>	<u>\$ 44,412</u>	<u>\$ 92,973</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ -	\$ -	\$ -	\$ 569	\$ 569
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>569</u>	<u>569</u>
Fund balances					
Restricted:					
SFCC Escrow	-	48,561	-	-	48,561
Assigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>43,843</u>	<u>43,843</u>
Total fund balances	<u>-</u>	<u>48,561</u>	<u>-</u>	<u>43,843</u>	<u>92,404</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 48,561</u>	<u>\$ -</u>	<u>\$ 44,412</u>	<u>\$ 92,973</u>

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Combining Statement of Revenues Expenditures and
Changes in Fund Balances – Nonmajor Governmental Funds
Year Ended June 30, 2017**

	Capital Outlay Fund	Building Fund	Debt Service Fund	District Activity Fund	Total Nonmajor Government Funds
Revenues					
Taxes	\$ -	\$ 423,176	\$ -	\$ -	\$ 423,176
State sources	151,147	168,691	285,686	-	605,524
Other sources	-	-	-	29,924	29,924
Total revenues	<u>151,147</u>	<u>591,867</u>	<u>285,686</u>	<u>29,924</u>	<u>1,058,624</u>
Expenditures					
Instructional	-	-	-	23,034	23,034
Debt service:					
Principal	-	-	580,000	-	580,000
Interest	-	-	385,129	-	385,129
Total expenditures	<u>-</u>	<u>-</u>	<u>965,129</u>	<u>23,034</u>	<u>988,163</u>
Excess of expenditures over revenues	<u>151,147</u>	<u>591,867</u>	<u>(679,443)</u>	<u>6,890</u>	<u>70,461</u>
Other Financing Sources (Uses)					
Operating transfers in	-	-	679,443	-	679,443
Operating transfers out	<u>(481,540)</u>	<u>(1,095,473)</u>	<u>-</u>	<u>-</u>	<u>(1,577,013)</u>
Total other financing sources (uses)	<u>(481,540)</u>	<u>(1,095,473)</u>	<u>679,443</u>	<u>-</u>	<u>(897,570)</u>
Net change in fund balance	(330,393)	(503,606)	-	6,890	(827,109)
Total fund balance, July 1, 2016	<u>330,393</u>	<u>552,167</u>	<u>-</u>	<u>36,953</u>	<u>919,513</u>
Total fund balance, June 30, 2017	<u><u>\$ -</u></u>	<u><u>\$ 48,561</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 43,843</u></u>	<u><u>\$ 92,404</u></u>

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Statement of Revenues, Expenditures and Changes in Fund
Balance – Budget to Actual – General Fund
Year Ended June 30, 2017**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance With Final Budget Positive (Negative)
Revenues				
Taxes	\$ 8,457,911	\$ 8,457,911	\$ 8,153,784	\$ (304,127)
Other local sources	188,452	288,002	324,778	36,776
State sources	5,982,091	5,982,091	9,092,475	3,110,384
Federal sources	97,415	97,415	372,370	274,955
Other sources	66,910	66,910	3,643,056	3,576,146
Total revenues	<u>14,792,779</u>	<u>14,892,329</u>	<u>21,586,463</u>	<u>6,694,134</u>
Expenditures				
Instructional	8,234,340	8,253,604	9,858,474	(1,604,870)
Student support services	566,798	566,798	640,770	(73,972)
Staff support services	608,417	609,125	647,645	(38,520)
District administration	1,451,345	1,785,637	1,564,449	221,188
School administration	969,083	969,083	1,169,266	(200,183)
Business support services	820,421	820,421	1,015,184	(194,763)
Plant operation and maintenance	2,323,221	2,403,221	2,421,774	(18,553)
Student transportation	532,866	532,866	610,536	(77,670)
Debt Service	59,185	59,185	26,091	33,094
Other	3,029,540	3,029,540	465,274	2,564,266
Total expenditures	<u>18,595,216</u>	<u>19,029,480</u>	<u>18,445,213</u>	<u>584,267</u>
Net change in fund balance	(3,802,437)	(4,137,151)	3,141,250	7,278,401
Fund balance, July 1, 2016	<u>3,802,437</u>	<u>3,802,437</u>	<u>3,979,993</u>	<u>(177,556)</u>
Fund balance, June 30, 2017	<u>\$ -</u>	<u>\$ (334,714)</u>	<u>\$ 7,121,243</u>	<u>\$ 7,455,957</u>

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Statement of Revenues, Expenditures and Changes in Fund
Balance – Budget to Actual – Special Revenue Fund
Year Ended June 30, 2017**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance With Final Budget Positive (Negative)
Revenues				
Other local sources	\$ 56,937	\$ 76,541	\$ 65,190	\$ (11,351)
State sources	1,639,095	1,899,297	1,804,086	(95,211)
Federal sources	2,313,707	4,471,381	3,964,559	(506,822)
Other sources	<u>29,540</u>	<u>395,096</u>	<u>36,768</u>	<u>(358,328)</u>
Total revenues	<u>4,039,279</u>	<u>6,842,315</u>	<u>5,870,603</u>	<u>(971,712)</u>
Expenditures				
Instructional	2,242,333	5,632,649	4,992,372	640,277
Student support services	-	87,431	81,879	5,552
Staff support services	1,364,074	289,462	229,139	60,323
School administration	4,548	4,548	1,565	2,983
Business support services	40,000	-	-	-
Plant operation and maintenance	-	40,180	38,566	1,614
Community service operation	349,872	335,575	492,150	(156,575)
Other	<u>38,452</u>	<u>87,351</u>	<u>34,932</u>	<u>52,419</u>
Total expenditures	<u>4,039,279</u>	<u>6,477,196</u>	<u>5,870,603</u>	<u>606,593</u>
Net change in fund balance	-	365,119	-	(365,119)
Fund balance, July 1, 2016	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, June 30, 2017	<u>\$ -</u>	<u>\$ 365,119</u>	<u>\$ -</u>	<u>\$ (365,119)</u>

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Statement of Revenues, Expenditures and Changes in Fund
Balance – Budget to Actual – Construction Fund
Year Ended June 30, 2017**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance With Final Budget Positive (Negative)
Revenues				
Other sources	<u>\$ -</u>	<u>\$ 3,728,244</u>	<u>\$ 428,506</u>	<u>\$ (3,299,738)</u>
Total revenues	<u>-</u>	<u>3,728,244</u>	<u>428,506</u>	<u>(3,299,738)</u>
Expenditures				
Facility acquisition and construction	<u>-</u>	<u>500,000</u>	<u>569,993</u>	<u>(69,993)</u>
Total expenditures	<u>-</u>	<u>500,000</u>	<u>569,993</u>	<u>(69,993)</u>
Net change in fund balance	-	3,228,244	(141,487)	(3,369,731)
Fund balance, July 1, 2016	<u>-</u>	<u>-</u>	<u>141,487</u>	<u>(141,487)</u>
Fund balance, June 30, 2017	<u><u>\$ -</u></u>	<u><u>\$ 3,228,244</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (3,228,244)</u></u>

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Statement of Receipts, Disbursements and Fund Balances
Bond and Interest Redemption Funds
Year Ended June 30, 2017**

	<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>Total</u>
Cash at July 1, 2016	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Receipts:						
Transfers and miscellaneous deposits	153,281	11,960	148,106	663,742	14,131	977,089
Disbursements:						
Bonds paid	105,000	10,627	90,000	385,000	11,954	602,581
Interest coupons	48,281	1,333	58,106	278,742	2,177	388,639
Total disbursements	153,281	11,960	148,106	663,742	14,131	991,220
Excess of receipts over disbursements	-	-	-	-	-	-
Cash at June 30, 2017	-	-	-	-	-	-
Accounts Receivable and Payable						
Matured interest and bonds outstanding	-	-	-	-	-	-
Due from other funds	-	-	-	-	-	-
Due to other funds	-	-	-	-	-	-
Total accounts receivable and payable	-	-	-	-	-	-
Fund balance at June 30, 2017	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Statement of Receipts, Disbursements and Fund Balances
Newport High School Activity Funds
Year Ended June 30, 2017**

	Fund Balance July 1, 2016	Receipts	Disbursements	Fund Balance June 30, 2017
Academic team	\$ 44	\$ -	\$ -	\$ 44
Alumni fund	618	-	-	618
Annual	3,850	1,282	3,879	1,253
Archery club	1,442	-	1,014	428
Art	158	-	-	158
Band	183	-	15	168
Baseball	1,441	-	1,359	82
Basketball	2,879	410	2,374	915
Business	380	-	-	380
Carpentry	929	-	364	565
Cats café	17	-	-	17
Charitable donations and payments	965	-	-	965
Cheerleading	1,669	6,673	8,069	273
Cheerleading 2014-2015	137	-	137	-
Children's Inc. donation	500	-	-	500
Class of 2015	148	-	148	-
Coke account	1,302	-	-	1,302
Commercial art	451	-	-	451
Digital photography club	323	-	-	323
Donna Murphy Invitational Tour	524	842	309	1,057
F.B.L.A.	571	17,650	18,147	74
F.C.C.L.A.	245	395	482	158
Fine arts	11	-	-	11
Fishing Club	200	213	413	-
Football activities	4,982	2,143	2,533	4,592
Girls basketball	159	2,905	2,109	955
Graphic arts	1,158	5,422	3,607	2,973
Home economics-Jessica Cope	11	-	-	11
Inauguration	391	-	-	391
Interest account	559	583	-	1,142
iPad take home fee	16,085	-	100	15,985
John Turner memorial donations	2,933	1,950	1,092	3,791
Key club	71	-	-	71
Library	46	455	-	501
Math	120	-	-	120
Media	117	-	-	117
MSD	40	-	-	40
National Honor's Society	428	134	411	151
Newport Strong	-	1,440	900	540
Newport Mason Donation	500	-	-	500
Officials	18,319	32,971	39,417	11,873
PE and health	116	-	-	116
Pep Club	67	200	-	267
Prom	1,957	9,486	9,543	1,900
Recycling	125	-	-	125
Records and Postage	625	255	-	880
Retirement donations	68	-	-	68
Roger Johnson Foundation	2,812	-	-	2,812
School newspaper	121	-	121	-

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Statement of Receipts, Disbursements and Fund Balances
Newport High School Activity Funds (Continued)
Year Ended June 30, 2017**

	Fund Balance July 1, 2016	Receipts	Disbursements	Fund Balance June 30, 2017
Science	\$ 210	\$ -	\$ -	\$ 210
Skills USA	586	2,072	2,263	395
Snack machine	47	-	-	47
Soccer	-	184	-	184
Social studies	362	-	-	362
Softball	794	-	-	794
Spanish honor society	266	-	-	266
Student activity	948	720	635	1,033
Student council	951	1,776	1,139	1,588
Sunshine	549	-	123	426
Target - take charge of education	81	-	-	81
Teacher supply fund	205	-	-	205
Teacher survey	110	-	-	110
Teachers lounge coke	268	1,025	613	680
Textbooks	1,610	-	-	1,610
Track	2,410	2,373	1,724	3,059
Visual Communications	157	100	-	257
Volleyball	467	654	892	229
World Travel Club	23	-	-	23
Wrestling	1,383	280	600	1,063
Youth basketball league	2,000	-	-	2,000
YSC big stef school supplies	12	-	-	12
YSC Fundraisers	492	1,530	1,443	579
Mac Book Covers	-	914	-	914
Class of 2017	-	7,659	7,659	-
YSC Holiday	1,049	100	1,149	-
	<u>1,049</u>	<u>100</u>	<u>1,149</u>	<u>-</u>
Total	\$ 85,777	\$ 104,796	\$ 114,783	\$ 75,790

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Statement of Receipts, Disbursements and Fund Balances
Year Ended June 30, 2017**

	<u>Newport Alternative High School</u>	<u>Newport Middle School</u>	<u>Newport Intermediate School</u>	<u>Newport Primary School</u>	<u>Total</u>
Fund balances at July 1, 2016	\$ 11,263	\$ 13,130	\$ 41,557	\$ 18,709	\$ 84,659
Add: receipts	3,765	1,226	17,364	23,858	46,213
Less: disbursements	<u>(7,585)</u>	<u>(14,356)</u>	<u>(50,376)</u>	<u>(19,970)</u>	<u>(92,287)</u>
Fund balances at June 30, 2017	<u>\$ 7,443</u>	<u>\$ -</u>	<u>\$ 8,545</u>	<u>\$ 22,597</u>	<u>\$ 38,585</u>

NEWPORT INDEPENDENT SCHOOL DISTRICT

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

	Last 10 Fiscal Years*									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
District's proportion of the net pension liability	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	90,960,338	72,203,325	63,244,526	*	*	*	*	*	*	*
Total	\$ 90,960,338	\$ 72,203,325	\$ 63,244,526	*	*	*	*	*	*	*
District's covered-employee payroll	\$ 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%	*	*	*	*	*	*	*
Plan fiduciary net position as a percentage of the total pension liability	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.

NEWPORT INDEPENDENT SCHOOL DISTRICT

Schedule of the District Contributions - KTRS

	Last 10 Fiscal Years*									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually required contribution	\$ 505,164	\$ 464,624	\$ 378,727	\$ 342,523	\$ 276,073	\$ 264,260	*	*	*	*
Contributions in relation to the contractually required contribution	<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>	<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	\$ 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	4.94%	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*									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
District's proportion of net pension liability	0.141107%	0.136127%	0.132373%	*	*	*	*	*	*	*
District's proportionate share of the net pension liability	\$ 6,947,591	\$ 5,852,826	\$ 4,295,000	*	*	*	*	*	*	*
Total net pension liability	\$ 4,923,618,237	\$ 4,299,525,565	\$ 3,244,377,000	*	*	*	*	*	*	*
District's covered-employee payroll	\$ 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	206.2%	184.5%	141.5%	*	*	*	*	*	*	*
Plan fiduciary net position as a percentage of the total pension liability	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.

NEWPORT INDEPENDENT SCHOOL DISTRICT

Schedule of the District Contributions – CERS

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>
Contractually required contribution	\$ 626,075	\$ 574,902	\$ 560,614	\$ 573,336	\$ 593,095	\$ 612,032	*	*	*	*
Contributions in relation to the contractually required contribution	<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>	<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	\$ 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	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 Expenditures of Federal Awards
Year Ended June 30, 2017**

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Agreement Number	Federal Expenditures for FYE 6/30/2017
U.S. Department of Education			
Passed through Kentucky Department of Education			
Special Education Cluster			
Special Education Grants to States	84.027	3810002 15	\$ 156,688
Special Education Grants to States	84.027	3810002 16	445,261
Special Education Preschool Grants	84.173	3800002 15	12,846
Total Special Education Cluster			<u>614,795</u>
Title I Grants to Local Educational Agencies	84.010	3100002 14	60,592
Title I Grants to Local Educational Agencies	84.010	3100002 15	342,009
Title I Grants to Local Educational Agencies	84.010	3100002 16	1,045,789
Title I Grants to Local Educational Agencies	84.010	320BE	32,937
Title I Grants to Local Educational Agencies	84.010	320CE	101,162
Title I Grants to Local Educational Agencies	84.010	3100102 14	5,924
Title I Grants to Local Educational Agencies	84.010	3100102 15	42,461
Title I Grants to Local Educational Agencies	84.010	3100102 16	55,417
Total for CFDA #84.010			<u>1,686,291</u>
Career and technical Education -Basic Grants to States	84.048	3710002 16	27,005
Total for CFDA #84.048			<u>27,005</u>
Education for Homeless Children and Youth	84.196	3990002 15	4,590
Education for Homeless Children and Youth	84.196	3990002 16	70,140
Total for CFDA #84.196			<u>74,730</u>
Fund for the Improvement of Education	84.215F	532AF	1,792
Fund for the Improvement of Education	84.215F	532BF	183,090
Total for CFDA #84.215			<u>184,882</u>
Twenty-First Century Community Learning Centers	84.287	550A	26,840
Twenty-First Century Community Learning Centers	84.287	550B	155,693
Total for CFDA #84.287			<u>182,533</u>
School Improvement Grants	84.377	460A	522,424
Total School Improvement Grants Cluster			<u>522,424</u>
Adult Education - Basic Grants to States	84.002	373C	72,554
Adult Education - Basic Grants to States	84.002	373CR	42,428
Total for CFDA #84.002			<u>114,982</u>
English Language Acquisition State Grants	84.365	3300002 14	1,427
English Language Acquisition State Grants	84.365	3300002 15	9,532
English Language Acquisition State Grants	84.365	3300002 16	5,434
Total for CFDA #84.365			<u>16,393</u>
Title II Improving Teacher Quality State Grants	84.367	3230002 15	51,605
Title II Improving Teacher Quality State Grants	84.367	3230002 16	12,531
Total for CFDA #84.367			<u>64,136</u>
Direct Federal Program			
Fund for the Improvement of Education	84.215G	S215G160105	483,171
Total U.S. Department of Education			<u>3,971,342</u>
U.S. Department of Agriculture			
Child Nutrition Cluster			
Passed through Kentucky Department of Education			
National School Lunch Program	10.555	7750002 16	143,888
National School Lunch Program	10.555	7750002 17	623,506
School Breakfast Program	10.553	7760005 16	50,782
School Breakfast Program	10.553	7760005 17	212,429
Summer Food Program for Children	10.559	7740023 16	10,228
Summer Food Program for Children	10.559	7740023 17	15,788
Total for CFDA #10.555			<u>78,340</u>
Fresh Fruit and Vegetable Program	10.582	7720012 16	31,955
Total for CFDA #10.582			<u>31,955</u>
State Administrative Expenses for Child Nutrition	10.560	7700001 15	345
Total for CFDA #10.560			<u>345</u>
Child Nutrition Discretionary Grants Limited Availability	10.579	7840027 14	33,646
Total for CFDA #10.579			<u>33,646</u>
Total U.S. Department of Agriculture			<u>1,361,001</u>
Total Expenditures of Federal Awards			<u>\$ 5,332,343</u>

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017**

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, 2017, 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, 2017, the District reported food commodities expended in the amount of \$160,094.

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, 2017.

**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, 2017, 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 November 15, 2017.

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. However, material weaknesses may exist that have not been identified.

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*.

We noted other matters that we reported to management of the District in pages 63 to 68 of the audited financial statements.

**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)

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
November 15, 2017

**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, 2017. 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, 2017.

**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.



Crestview Hills, Kentucky
November 15, 2017

NEWPORT INDEPENDENT SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

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? Yes X 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? Yes X 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
10.553/10.555/10.559	Child Nutrition Cluster

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

Auditee qualified as low-risk auditee? X Yes No

SECTION II – FINANCIAL STATEMENT FINDINGS

No matters are reportable

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COST

No matters are reportable

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Summary Schedule of Prior Audit Findings
Year Ended June 30, 2017**

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, 2017**

In planning and performing our audit of the financial statements of Newport Independent School District for the year ended June 30, 2017, 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 November 15, 2017 contains our report on significant deficiencies and material weaknesses in the District's internal control structure. This letter does not affect our report dated November 15, 2017, on the financial statements of the Newport Independent School District.

CURRENT YEAR RECOMMENDATIONS

CENTRAL OFFICE

No matters are reportable

ACTIVITY FUNDS

NEWPORT HIGH SCHOOL

2017-01: 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 will meet with the Newport High School bookkeeper and principal and develop budgets for the individual clubs prior to April 15 of the school year.

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Management Letter Comments
Year Ended June 30, 2017**

CURRENT YEAR RECOMMENDATIONS (CONTINUED)

NEWPORT ALTERNATIVE HIGH SCHOOL

2017-02: 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 – The District Finance Officer will review the Monthly Financial Reports of the Alternative High School and sign off on the reports in addition to the Director.

2017-03: 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 the internal controls with the Newport Alternative High School Director and verify dual signatures are in use each month.

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Management Letter Comments
Year Ended June 30, 2017**

CURRENT YEAR RECOMMENDATIONS (CONTINUED)

NEWPORT ALTERNATIVE HIGH SCHOOL (CONTINUED)

2017-04: Timely deposits not made

Criteria – Per best practices recommended by the Kentucky Department of Education, the school should have a process in place to properly collect and deposit receipts in a timely and organized manner.

Condition – During the testing of the Activity Fund, it was noted that some deposits were not being made in a timely manner.

Effect – Best practices for cash receipts were not followed.

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

Recommendation – We recommend that the District personnel refer to the 2013 Redbook best practices for handling of deposits.

Board Response – The District Finance Officer will review all deposits for timeliness and verify deposits are made correctly.

NEWPORT INTERMEDIATE SCHOOL

2017-05: Invoices were not marked paid

Criteria – Per best practices recommended by the Kentucky Department of Education, invoices should be marked paid after a check has been issued for that particular expense.

Condition – During the testing of the Activity Fund, it was noted that several invoices were not marked as paid.

Effect – Best practices of cash disbursements notes to mark invoice paid once the check is paid.

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

Recommendation – We recommend that the proper District start stamping their invoices as “Paid” after checks have been issued for particular expenses.

Board Response – The District Finance Officer will review with the school bookkeeper all internal controls and verify invoices are being correctly marked paid. Stamp will be used and in the proper area of the invoice.

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Management Letter Comments
Year Ended June 30, 2017**

CURRENT YEAR RECOMMENDATIONS (CONTINUED)

NEWPORT PRIMARY SCHOOL

2017-06: 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 meet with the school bookkeeper and the principal to make sure all reports are completed and filed timely.

2017-07: Use of pre-numbered or computer generated POs

Criteria – Per best practices recommended by the Kentucky Department of Education, purchase orders issued by the school should be pre-numbered or computer generated as to not recreate and pay old expenses.

Condition – During our testing of cash disbursements, it was noted PO numbers were hand written and not pre-numbered.

Effect – Proper procedures for cash disbursements were not followed.

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

Recommendation – We recommend that all POs be either pre-numbered or computer generated to prevent payments on the same PO.

Board Response – The District Finance Office will work with the Newport Primary School to make sure only MUNIS generated POs are used in the future.

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Management Letter Comments
Year Ended June 30, 2017**

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 invoices were not marked as paid.
- It was noted that there was an account with a negative balance at year-end.
- It was noted that pre-numbered tickets and ticket sales form were not being used consistently.
- It was noted that timely deposits were not being made.

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

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 documentation of receipts were not properly made.
- It was noted that there was sales tax paid on certain expenses.
- It was noted that gift cards were purchased during the year.
- It was noted that the bookkeeper was opening mail.

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

NEWPORT MIDDLE 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 gift cards were purchased through the activity fund accounts.
- It was noted that there were outstanding checks over a year old.
- It was noted that documentation of receipts were not properly made.

Current year follow-up: No issues were reportable in the current year. School closed after the year ended June 30, 2016.

NEWPORT INTERMEDIATE SCHOOL

No matters are reportable.

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Management Letter Comments
Year Ended June 30, 2017**

STATUS OF PRIOR YEAR RECOMMENDATIONS (CONTINUED)

NEWPORT PRIMARY SCHOOL

Statement of prior year deficiency:

- It was noted that there were outstanding checks over a year old.

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