

**NEWPORT INDEPENDENT  
SCHOOL DISTRICT**

**ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED JUNE 30, 2013**

**- WITH INDEPENDENT AUDITORS' REPORT -**

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## Independent Auditors' Report

To the Members of the Board of Education  
Newport Independent School District  
301 East 8<sup>th</sup> Street  
Newport, Kentucky 41071

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Newport Independent School District as of and for the year ended June 30, 2013, 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.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, 2013, 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.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4-11 and 18-19 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 introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

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

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2013 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 5, 2013

**NEWPORT INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
FOR THE YEAR ENDED JUNE 30, 2013**

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, 2013. 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 (40% of all students will be reading at grade level by Spring 2014 and 72% by 2017); 2. increase the use of academic monitoring/tracking of student progress to make data-driven decisions; 3. Develop a culture where all staff know our students and every child has an adult advocate.

The strategic goals of Newport Independent Schools align with evidence-based best practices in education and Northern Kentucky's Vision 2015 initiative focused on the alignment and support of P-16 education.

**ACADEMIC PROGRESS HIGHLIGHTS**

- The District continued the Measures of Academic Progress (MAP) assessment tool to monitor learning throughout the year over the entire K-12 period. 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, language usage, and mathematics. Students are also assessed in science in grades 3-12.
- The District's preschool program continues to show, through third party assessments (NKU) and screening data, that it is successfully preparing our students for Kindergarten and future academic success. Through a collaborative partnership with Brighton Center, Children Inc., NKU, United Way, and Head Start; the District continues to build on the strengths of the early childhood program.
- NECI (Newport Early Childhood Initiative)-A new Early Childhood Strategic Plan was developed which involved all partners. Goals include (1) Connect data base with Infinite Campus and expand data utilization; (2) increase the number of children participating in partner programs; (3) develop a sustainability plan; (4) implement more family engagement activities; and (5) increase the number of children in partner programs including HIPPPY, who will enter kindergarten ready for instruction; and (6) ensure all children will receive appropriate interventions. More emphasis is being placed on school readiness for kindergarten. The school readiness skills and behaviors are aligned to the Kentucky Early Childhood Standards and adapted from the Northern Kentucky Council of Partners in Education Kindergarten Readiness documents.

**NEWPORT INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2013**

**ACADEMIC PROGRESS HIGHLIGHTS (CONT'D)**

- The Newport Preschool Center at ACES continues to maintain a top Kentucky honor of being rated 4 Stars for child care. Operating in partnership with Children's Inc., the Newport Preschool Center received a 4-Star rating from STARS for KIDS NOW, part of the KIDS Now Early Childhood Initiative.
- As a District, based on K-PREP data, we 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 met growth, are vital to our overall academic achievement. The district increased its overall score from a 40.6 to a 41.9 for the 2012-13 academic school year.
- ACT scores showed a slight decrease for the 2013 school year from a 17.6 to a 17.2. Despite the decrease in the overall composite, the number of students who were college and career ready increased to 36.7 to 48.4.
- Parent involvement was encouraged with various parents attending the Prichard Committee parent meetings. The District continues to benefit from this program to assist in increasing parental involvement in Newport Independent Schools.
- The middle school continues to see success with the implementation of the 5A Program which provides incentives for students in the areas of attendance, academics, school activities, attire and attitudes/expectations.
- The high school implemented the Novel Stars Credit Recovery Program. Last year, all high school students, who were in need of credits, were able to participate and complete in order to attain credits for graduation requirements.
- Various instructional and behavioral interventions were implemented by our schools: Read to Achieve, ABRI (Academic and Behavioral RTI through the University of Louisville), ESS services including Daytime Waiver teachers, Gifted and Talented services, MAP testing with Descartes to support instruction, Family Resource services, Read 180, System 44, LLI, F & P assessment, Dreambox, Compass Learning, Everyday Math, Constructed Response staff development, ACT Readiness Standards implementation, ILP (Individual Learning Plan) implementation, parent involvement programs, Novel Stars Credit Recovery, Standards Based units, and Mental Health counselors.

**NEWPORT INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2013**

**ACADEMIC PROGRESS HIGHLIGHTS (CONT'D)**

- 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, along with Children's Inc., provides summer and after-school programs to assist with enrichment activities.
- ESS services continue to be offered through after-school tutoring services and day-waiver programs during the school day. The total students served in 2012-13 were 604
- The Nutritional and Physical Report Card showed that we served an average of 1,528 students per day for lunch, and 824 students per day for breakfast. There was also an after-school snack program which provided 5,641 snacks for our K-8 students. Students received the option of also purchasing a la carte food and beverage items.
- An innovative 2013-2014 school calendar was approved by KDE, in May of 2013, to facilitate increased and ongoing job embedded professional development through the use of 5 built in days. This will replace our early release days that gave time for additional professional growth opportunities.
- The District continues to use *SchoolPoint*, *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 development continued to be implemented with schools focusing on academic standards, literacy interventions, math interventions, small group instruction, data analysis, CIITS, and the alignment of the Kentucky Core Academic Standards with formative and summative assessments.
- The District continued to expand on technology by developing an initiative for 1:1 iPad's at Newport High School to begin in the Winter of 2013. Interactive whiteboards, instructional software, video projectors, clicker systems, iPads, and document cameras have been purchased to create 21<sup>st</sup> 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 the finest small urban school district in America.

**NEWPORT INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2013**

**FINANCIAL HIGHLIGHTS**

- The beginning cash balance for the District was \$4,145,437.
- The General Fund had \$16,596,134 in revenue, excluding inter-fund transfers, 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 \$15,882,414 in General Fund expenditures.

**OVERVIEW OF FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) 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 are also supported by taxes and intergovernmental revenues.

The district-wide financial statements can be found on pages 12 and 13 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 fund is our food service operations. All other activities of the District are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 14 through 24 of this report.

**NEWPORT INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2013**

**OVERVIEW OF FINANCIAL STATEMENTS (CONT'D)**

**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 25 through 39 of this report.

**DISTRICT-WIDE FINANCIAL ANALYSIS**

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$13,495,447 as of June 30, 2013.

The largest portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment, and construction in progress), less any related debt used to acquire those assets that are 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.

**NEWPORT INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2013**

**DISTRICT-WIDE FINANCIAL ANALYSIS (CONT'D)**

**Net Assets for the periods ending June 30, 2013 and 2012**

The following table presents a summary of net assets for the fiscal years ended June 30, 2013 and 2012.

	<b>2013</b>	<b>2012</b>
Current assets	\$ 4,949,045	\$ 5,153,660
Noncurrent assets	<u>12,759,360</u>	<u>12,131,433</u>
<b>Total assets</b>	<u>\$ 17,708,405</u>	<u>\$ 17,285,093</u>
Current liabilities	\$ 1,556,394	\$ 1,753,504
Noncurrent liabilities	<u>2,656,564</u>	<u>3,624,051</u>
<b>Total liabilities</b>	<u>\$ 4,212,958</u>	<u>\$ 5,377,555</u>
<b>Net position</b>		
Investment in capital assets (net of debt)	\$ 9,472,663	\$ 7,958,239
Restricted	432,944	1,269,570
Nonspendable	11,766	13,864
Assigned	17,365	5,173
Committed	50,000	50,000
Unassigned	<u>3,510,709</u>	<u>2,610,692</u>
<b>Total net position</b>	<u>\$ 13,495,447</u>	<u>\$ 11,907,538</u>

**Comments on Budget Comparisons**

- The District's total general fund revenues for the fiscal year ended June 30, 2013, net of Interfund transfers, were \$16,596,134.
- General fund budget compared to actual revenue varied from line item to line item with the ending actual balance being \$3,113,230 more than budget or approximately 22.4%. 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 \$15,851,084, net of debt service.
- General Fund actual expenditures were less than budgeted expenditures by \$1,031,394 in instruction. This is a result of the District better managing expenditures.

**NEWPORT INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2013**

**DISTRICT-WIDE FINANCIAL ANALYSIS (CONT'D)**

The following table presents a summary of revenues and expenses for the fiscal years ended June 30, 2013 and 2012.

	<b>2013</b>	<b>2012</b>
<b>Revenues:</b>		
Program Revenues:		
Charges for services	\$ 74,117	\$ 105,930
Operating grants and contributions	5,544,311	5,685,523
Capital grants and contributions	<u>542,560</u>	<u>317,507</u>
Total grant revenues	<u>6,160,988</u>	<u>6,108,960</u>
General Revenues:		
Taxes	8,546,805	8,056,730
Grants and entitlements	8,199,312	8,609,145
Earnings on investments	3,925	8,398
Miscellaneous	<u>(138,171)</u>	<u>326,336</u>
Total general revenues	<u>16,611,871</u>	<u>17,000,609</u>
Total revenues	<u>22,772,859</u>	<u>23,109,569</u>
<b>Expenses:</b>		
Instruction	11,709,080	12,650,154
Student support services	680,724	685,997
Instructional support	966,828	1,009,537
District administration	1,190,347	1,308,227
School administration	1,332,312	1,329,042
Business support	869,760	722,955
Plant operations	2,036,181	1,937,462
Student transportation	510,201	622,770
Central office support	-	647
Community support	478,002	371,120
Education specific	315	316
Other	4,417	6,716
Debt service	103,574	73,621
Food service	<u>1,303,209</u>	<u>1,204,410</u>
Total expenses	<u>21,184,950</u>	<u>21,922,974</u>
<b>Revenue in excess of expense</b>	<u>\$ 1,587,909</u>	<u>\$ 1,186,595</u>

**NEWPORT INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2013**

**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 \$1,927,433 in contingency (13.4%). The beginning cash balance for beginning the fiscal year is \$4,145,437.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

Questions regarding this report should be directed to Tete Turner, Director of Financial Services at (859) 292-3034 or by mail at 301 E. 8<sup>th</sup> Street, Newport, Kentucky 41071.

**NEWPORT INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET POSITION - DISTRICT WIDE  
AS OF JUNE 30, 2013**

	<b>GOVERNMENTAL ACTIVITIES</b>	<b>BUSINESS-TYPE ACTIVITIES</b>	<b>TOTAL</b>
<b>ASSETS</b>			
<b>CURRENT</b>			
Cash and cash equivalents	\$ 3,249,959	\$ (20,092)	\$ 3,229,867
Accounts receivable	1,564,861	142,551	1,707,412
Inventories for consumption	-	11,766	11,766
Investments	-	-	-
Total current	<u>4,814,820</u>	<u>134,225</u>	<u>4,949,045</u>
<b>NONCURRENT</b>			
Bond issuance costs - net	26,141	-	26,141
Nondepreciated capital assets:			
Land	1,109,955	-	1,109,955
Construction in progress	1,690,857	-	1,690,857
Depreciated capital assets:			
Land improvements	-	-	-
Buildings and improvements	25,739,525	-	25,739,525
Furniture and equipment	3,004,543	593,016	3,597,559
Less: accumulated depreciation	<u>(18,815,125)</u>	<u>(589,552)</u>	<u>(19,404,677)</u>
Total noncurrent	<u>12,755,896</u>	<u>3,464</u>	<u>12,759,360</u>
Total assets	<u>\$ 17,570,716</u>	<u>\$ 137,689</u>	<u>\$ 17,708,405</u>
<b>LIABILITIES</b>			
<b>CURRENT</b>			
Current portion of bonds payable	\$ 1,023,397	\$ -	\$ 1,023,397
Current portion of accrued sick leave	43,696	-	43,696
Accounts payable	44,896	-	44,896
Accrued payroll and related expenses	17,082	-	17,082
Assessed KISBIT liability	171,506	-	171,506
Accrued interest	11,645	-	11,645
Deferred revenues	<u>244,172</u>	<u>-</u>	<u>244,172</u>
Total current	<u>1,556,394</u>	<u>-</u>	<u>1,556,394</u>
<b>NONCURRENT</b>			
Accrued sick leave	393,264	-	393,264
Long term bonds payable	<u>2,263,300</u>	<u>-</u>	<u>2,263,300</u>
Total noncurrent	<u>2,656,564</u>	<u>-</u>	<u>2,656,564</u>
Total liabilities	<u>4,212,958</u>	<u>-</u>	<u>4,212,958</u>
<b>NET POSITION</b>			
Invested in capital assets, net of related debt	9,469,199	3,464	9,472,663
Restricted			
Net position	-	122,459	122,459
Capital projects	310,485	-	310,485
Nonspendable	-	11,766	11,766
Committed			
Accrued sick leave	50,000	-	50,000
Assigned			
Purchase obligations	17,365	-	17,365
Unassigned	<u>3,510,709</u>	<u>-</u>	<u>3,510,709</u>
Total net position	<u>13,357,758</u>	<u>137,689</u>	<u>13,495,447</u>
Total liabilities and net position	<u>\$ 17,570,716</u>	<u>\$ 137,689</u>	<u>\$ 17,708,405</u>

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**NEWPORT INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES - DISTRICT WIDE  
FOR THE YEAR ENDED JUNE 30, 2013**

FUNCTION/PROGRAMS	PROGRAM REVENUES				NET(EXPENSE) REVENUE AND CHANGES IN NET POSITION		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
<b>Governmental Activities:</b>							
Instructional	\$ 11,709,080	\$ -	\$ 3,345,883	\$ -	\$ (8,363,197)	\$ -	\$ (8,363,197)
Student support services	680,724	-	18,850	-	(661,874)	-	(661,874)
Staff support services	966,828	-	406,519	-	(560,309)	-	(560,309)
District administration	1,190,347	-	-	-	(1,190,347)	-	(1,190,347)
School administration	1,332,312	-	11,613	-	(1,320,699)	-	(1,320,699)
Business support services	869,760	-	1,720	-	(868,040)	-	(868,040)
Plant operation and maintenance	2,036,181	-	-	-	(2,036,181)	-	(2,036,181)
Student transportation	510,201	-	-	-	(510,201)	-	(510,201)
Central office	-	-	-	-	-	-	-
Community service operations	478,002	-	464,946	-	(13,056)	-	(13,056)
Facility acquisition and construction	-	-	-	542,560	542,560	-	542,560
Education specific	315	-	-	-	(315)	-	(315)
Other	4,417	-	-	-	(4,417)	-	(4,417)
Interest on long-term debt	103,574	-	-	-	(103,574)	-	(103,574)
<b>Total governmental activities</b>	<b>19,881,741</b>	<b>-</b>	<b>4,249,531</b>	<b>542,560</b>	<b>(15,089,650)</b>	<b>-</b>	<b>(15,089,650)</b>
<b>Business-type Activities</b>							
Food service	1,303,209	74,117	1,294,780	-	-	65,688	65,688
<b>Total business-type activities</b>	<b>1,303,209</b>	<b>74,117</b>	<b>1,294,780</b>	<b>-</b>	<b>-</b>	<b>65,688</b>	<b>65,688</b>
<b>Total school district</b>	<b>\$ 21,184,950</b>	<b>\$ 74,117</b>	<b>\$ 5,544,311</b>	<b>\$ 542,560</b>	<b>\$ (15,089,650)</b>	<b>\$ 65,688</b>	<b>\$ (15,023,962)</b>
			<b>General Revenues</b>				
			Taxes		\$ 8,546,805	\$ -	\$ 8,546,805
			State aid formula grants		8,199,312	-	8,199,312
			Investment earnings		3,925	-	3,925
			Miscellaneous		331,097	-	331,097
			Special items:				
			Loss on bond refunding - principal		-	-	-
			Loss on disposal of fixed assets		(297,762)	-	(297,762)
			Loss due to KISBIT assessment		(171,506)	-	(171,506)
			<b>Total general and special revenues</b>		<b>16,611,871</b>	<b>-</b>	<b>16,611,871</b>
			Change in net position		1,522,221	65,688	1,587,909
			Net position - beginning		11,835,537	72,001	11,907,538
			Net position - ending		<b>\$ 13,357,758</b>	<b>\$ 137,689</b>	<b>\$ 13,495,447</b>

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**NEWPORT INDEPENDENT SCHOOL DISTRICT  
BALANCE SHEET - GOVERNMENTAL FUNDS  
AS OF JUNE 30, 2013**

	<u>GENERAL FUND</u>	<u>SPECIAL REVENUE FUND</u>	<u>CONSTRUCTION FUND</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<b>ASSETS</b>					
<b>CURRENT</b>					
Cash and cash equivalents (deficit)	\$ 4,011,763	\$ (1,072,289)	\$ 289,787	\$ 20,698	\$ 3,249,959
Investments	-	-	-	-	-
Accounts receivable	246,849	1,318,012	-	-	1,564,861
Total current	<u>\$ 4,258,612</u>	<u>\$ 245,723</u>	<u>\$ 289,787</u>	<u>\$ 20,698</u>	<u>\$ 4,814,820</u>
<b>LIABILITIES AND FUND BALANCE</b>					
<b>CURRENT</b>					
Accounts payable	\$ 43,345	\$ 1,551	\$ -	\$ -	\$ 44,896
Accrued payroll and related expenses	17,082	-	-	-	17,082
Deferred revenues	-	244,172	-	-	244,172
Total current	<u>60,427</u>	<u>245,723</u>	<u>-</u>	<u>-</u>	<u>306,150</u>
<b>FUND BALANCE</b>					
Restricted					
Capital projects	-	-	289,787	20,698	310,485
Committed					
Accrued sick leave	50,000	-	-	-	50,000
Assigned					
Purchase obligations	17,365	-	-	-	17,365
Unassigned	4,130,820	-	-	-	4,130,820
Total fund balances	<u>4,198,185</u>	<u>-</u>	<u>289,787</u>	<u>20,698</u>	<u>4,508,670</u>
Total liabilities and fund balances	<u>\$ 4,258,612</u>	<u>\$ 245,723</u>	<u>\$ 289,787</u>	<u>\$ 20,698</u>	<u>\$ 4,814,820</u>

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**NEWPORT INDEPENDENT SCHOOL DISTRICT  
RECONCILIATION OF THE BALANCE SHEET -  
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION  
AS OF JUNE 30, 2013**

Total governmental fund balance		\$ 4,508,670
Amounts reported for governmental activities in the statement of net position are different because:		
Bond issuance costs - net of amortization		26,141
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Construction in progress	1,690,857	
Cost of capital assets	29,854,023	
Accumulated depreciation	<u>(18,815,125)</u>	
		12,729,755
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		(3,286,697)
Assessed KISBIT liability		(171,506)
Accrued interest		(11,645)
Accrued sick leave		<u>(436,960)</u>
Total net position - governmental		<u>\$ 13,357,758</u>

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**NEWPORT INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2013**

	<b>GENERAL FUND</b>	<b>SPECIAL REVENUE FUND</b>	<b>CONSTRUCTION FUND</b>	<b>OTHER GOVERNMENTAL FUNDS</b>	<b>TOTAL GOVERNMENTAL FUNDS</b>
<b>REVENUES:</b>					
Taxes	\$ 8,043,105	\$ -	\$ -	\$ 503,700	\$ 8,546,805
Earnings on investments	3,925	-	-	-	3,925
State sources	8,140,909	1,253,142	-	542,560	9,936,611
Federal sources	58,403	2,881,964	-	-	2,940,367
Other sources	240,020	114,425	-	-	354,445
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total revenues	16,486,362	4,249,531	-	1,046,260	21,782,153
<b>EXPENDITURES:</b>					
Instructional	8,582,660	3,293,427	-	-	11,876,087
Student support services	625,422	18,850	-	-	644,272
Staff support services	556,918	406,519	-	-	963,437
District administration	1,173,350	-	-	-	1,173,350
School administration	1,308,291	11,613	-	-	1,319,904
Business support services	866,918	1,720	-	-	868,638
Plant operation and maintenance	2,132,046	-	-	-	2,132,046
Student transportation	592,423	-	-	-	592,423
Central office	-	-	-	-	-
Community service operation	13,056	464,946	-	-	478,002
Facility acquisition and construction	-	-	702,495	-	702,495
Educational specific	-	-	-	-	-
Debt service:					
Principal	24,786	-	-	970,000	994,786
Interest	6,544	-	-	107,132	113,676
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total expenditures	15,882,414	4,197,075	702,495	1,077,132	21,859,116
Excess (deficit) of revenues over expenditures	603,948	52,456	(702,495)	(30,872)	(76,963)
<b>OTHER FINANCING SOURCES(USES):</b>					
Proceeds from sale of assets	1,483	-	-	-	1,483
Proceeds from sale of bonds	108,289	-	-	-	108,289
Operating transfers in	441,381	37,186	-	818,180	1,296,747
Operating transfers out	(41,079)	(89,642)	-	(1,074,949)	(1,205,670)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	510,074	(52,456)	-	(256,769)	200,849
Net change in fund balances	1,114,022	-	(702,495)	(287,641)	123,886
Fund balance, July 1, 2012	3,084,163	-	992,282	308,339	4,384,784
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Fund balance, June 30, 2013	\$ 4,198,185	\$ -	\$ 289,787	\$ 20,698	\$ 4,508,670

**NEWPORT INDEPENDENT SCHOOL DISTRICT  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2013**

Net changes-governmental funds \$ 123,886

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

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 additions exceed depreciation expense for the year.

Construction in progress	191,173	
Depreciation expense	(531,158)	
Capital outlays	1,272,697	
Retirements of capital assets	<u>(299,245)</u>	
		633,467

Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position however issuing debt increases 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.

Proceeds from sale of bonds	(108,289)
Loss on bond sale	-
Principal paid	994,786

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.

	<u>(121,629)</u>
Changes in net position of governmental activities	<u><u>\$ 1,522,221</u></u>

**NEWPORT INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
<b>REVENUES:</b>				
Taxes	\$ 7,461,987	\$ 7,461,987	\$ 8,043,105	\$ 581,118
Other local sources	472,372	537,805	243,945	(293,860)
State sources	5,372,695	5,435,919	8,140,909	2,704,990
Federal sources	35,000	35,000	58,403	23,403
Other sources	164,833	453,574	551,153	97,579
Total revenues	<u>13,506,887</u>	<u>13,924,285</u>	<u>17,037,515</u>	<u>3,113,230</u>
<b>EXPENDITURES:</b>				
Instructional	7,223,011	7,332,449	8,582,660	(1,250,211)
Student support services	576,946	572,519	625,422	(52,903)
Staff support services	528,806	539,466	556,918	(17,452)
District administration	1,386,864	1,386,864	1,173,350	213,514
School administration	1,118,191	1,121,354	1,308,291	(186,937)
Business support services	638,424	662,424	866,918	(204,494)
Plant operation and maintenance	2,197,811	2,283,449	2,132,046	151,403
Student transportation	545,030	545,030	592,423	(47,393)
Food service operation	-	-	-	-
Community service operation	-	-	13,056	(13,056)
Facility acquisition and construction	-	-	-	-
Contingency	1,927,433	2,263,267	-	2,263,267
Other	148,066	248,066	72,409	175,657
Total expenditures	<u>16,290,582</u>	<u>16,954,888</u>	<u>15,923,493</u>	<u>1,031,395</u>
Net change in fund balance	(2,783,695)	(3,030,603)	1,114,022	4,144,625
Fund balance, July 1, 2012	<u>2,783,695</u>	<u>3,030,603</u>	<u>3,084,163</u>	<u>(53,560)</u>
Fund balance, June 30, 2013	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,198,185</u>	<u>\$ 4,091,065</u>

**NEWPORT INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL - SPECIAL REVENUE FUND**  
**FOR THE YEAR ENDED JUNE 30, 2013**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
<b>REVENUES:</b>				
Other local sources	\$ 75,092	\$ 60,471	\$ -	\$ (60,471)
State sources	1,249,063	1,244,585	1,253,141	8,556
Federal sources	2,259,552	2,403,579	2,881,964	478,385
Other sources	42,833	37,186	151,611	114,425
	<u>3,626,540</u>	<u>3,745,821</u>	<u>4,286,716</u>	<u>540,895</u>
<b>EXPENDITURES:</b>				
Instructional	2,841,113	2,920,287	3,293,427	(373,140)
Student support services	19,000	17,842	18,850	(1,008)
Staff support services	398,220	443,087	406,519	36,568
School administration	-	-	11,613	(11,613)
Business support services	6,935	2,539	1,720	819
Plant operation and maintenance	5,683	-	-	-
Student transportation	11,000	2,000	-	2,000
Community service operation	301,756	310,433	464,946	(154,513)
Other	42,833	49,633	89,642	(40,009)
	<u>3,626,540</u>	<u>3,745,821</u>	<u>4,286,717</u>	<u>(540,896)</u>
Net change in fund balance	-	-	-	-
Fund balance, July 1, 2012	-	-	-	-
Fund balance, June 30, 2013	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**NEWPORT INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET POSITION - PROPRIETARY FUND  
AS OF JUNE 30, 2013**

	<u>FOOD SERVICE</u>	<u>TOTAL</u>
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash and cash equivalents (deficit)	\$ (20,092)	\$ (20,092)
Accounts receivable	142,551	142,551
Inventories for consumption	11,766	11,766
	<hr/>	<hr/>
Total current	134,225	134,225
	<hr/>	<hr/>
<b>NONCURRENT</b>		
Furniture and equipment	593,016	593,016
Less: accumulated depreciation	(589,552)	(589,552)
	<hr/>	<hr/>
Total noncurrent	3,464	3,464
	<hr/>	<hr/>
Total assets	<u>\$ 137,689</u>	<u>\$ 137,689</u>
	<hr/>	<hr/>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable	<u>\$ -</u>	<u>\$ -</u>
	<hr/>	<hr/>
Total current	-	-
	<hr/>	<hr/>
<b>NET POSITION</b>		
Capital assets, net of related debt	3,464	3,464
Nonspendable - inventories	11,766	11,766
Restricted net position	122,459	122,459
	<hr/>	<hr/>
Total net position	137,689	137,689
	<hr/>	<hr/>
Total liabilities and net position	<u>\$ 137,689</u>	<u>\$ 137,689</u>
	<hr/>	<hr/>

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**NEWPORT INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - PROPRIETARY FUND  
FOR THE YEAR ENDED JUNE 30, 2013**

	<b>FOOD SERVICE</b>	<b>TOTAL</b>
<b>OPERATING REVENUES:</b>		
Lunchroom sales	\$ 67,068	\$ 67,068
Other operating revenues	7,049	7,049
	74,117	74,117
<b>OPERATING EXPENSES:</b>		
Salaries and benefits	564,958	564,958
Contract services	15,855	15,855
Materials and supplies	630,196	630,196
Depreciation	1,123	1,123
Other operating expenses	-	-
	1,212,132	1,212,132
Total operating expenses	1,212,132	1,212,132
Operating loss	(1,138,015)	(1,138,015)
<b>NONOPERATING REVENUES (EXPENSES):</b>		
Federal grants	1,138,383	1,138,383
State grants	100,961	100,961
Donated commodities and other donations	55,436	55,436
Gain on disposal of fixed assets	-	-
Transfers	(91,077)	(91,077)
Interest income	-	-
	1,203,703	1,203,703
Total nonoperating revenues (expenses)	1,203,703	1,203,703
Net income	65,688	65,688
Total net position, July 1, 2012	72,001	72,001
Total net position, June 30, 2013	\$ 137,689	\$ 137,689

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**NEWPORT INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS - PROPRIETARY FUND  
FOR THE YEAR ENDED JUNE 30, 2013**

	<b>FOOD SERVICE FUND</b>	<b>TOTAL</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from lunchroom sales	\$ 67,068	\$ 67,068
Cash received from other activities	7,049	7,049
Cash payments to employees for services	(564,958)	(564,958)
Cash payments to suppliers for goods and services	(663,515)	(663,515)
Cash transfers	(91,077)	(91,077)
Net cash used in operating activities	(1,245,433)	(1,245,433)
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>		
Acquisition of capital assets	-	-
Net cash used in capital financing activities	-	-
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Non-operating revenues received	1,171,427	1,171,427
Net cash provided by noncapital financing activities	1,171,427	1,171,427
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on investments	-	-
Net cash flows provided by investing activities	-	-
Net decrease in cash and cash equivalents	(74,006)	(74,006)
Cash and cash equivalents - beginning	53,914	53,914
Cash and cash equivalents (deficit) - ending	\$ (20,092)	\$ (20,092)
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES</b>		
Operating loss	\$ (1,138,015)	\$ (1,138,015)
<b>ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES</b>		
Depreciation	1,123	1,123
Interfund transfers	(91,077)	(91,077)
Changes in assets and liabilities:		
Increase in inventories for consumption	(6,425)	(6,425)
Decrease in accounts payable	(11,039)	(11,039)
Net cash used in operating activities	\$ (1,245,433)	\$ (1,245,433)
<b>SCHEDULE OF NON-CASH TRANSACTIONS:</b>		
Donated commodities received from the federal government	\$ 55,436	\$ 55,436

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**NEWPORT INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET POSITION  
AS OF JUNE 30, 2013**

	<b>TRUST/AGENCY FUND</b>	<b>CHESTER DAVIS SCHOLARSHIP FUND</b>	<b>TOTAL</b>
<b>ASSETS</b>			
<b>CURRENT</b>			
Cash and cash equivalents	\$ 4,635	\$ 32,000	\$ 36,635
Investments	-	586,721	586,721
Accounts receivable	-	-	-
Total current assets	4,635	618,721	623,356
<b>NONCURRENT</b>			
Total noncurrent assets	-	-	-
Total assets	\$ 4,635	\$ 618,721	\$ 623,356
<b>LIABILITIES</b>			
<b>CURRENT</b>			
Accounts payable	\$ 1,392	\$ 7,000	\$ 8,392
Total current	1,392	7,000	8,392
<b>NONCURRENT</b>			
Total noncurrent	-	-	-
Total liabilities	1,392	7,000	8,392
<b>NET POSITION</b>			
<b>UNRESTRICTED</b>	3,243	611,721	614,964
Total net position	3,243	611,721	614,964
Total liabilities and net position	\$ 4,635	\$ 618,721	\$ 623,356

**NEWPORT INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>TRUST/AGENCY FUND</u>	<u>CHESTER DAVIS SCHOLARSHIP FUND</u>	<u>TOTAL</u>
<b>ADDITIONS</b>			
Net interest and investment gains	\$ -	\$ 69,663	\$ 69,663
Private donations and other	33,167	17,000	50,167
Fund transfers	-	-	-
Student activities	150	-	150
	<u>33,317</u>	<u>86,663</u>	<u>119,980</u>
<b>DEDUCTIONS</b>			
Instruction	30,074	-	30,074
Community services	-	28,921	28,921
Fund transfer	-	-	-
	<u>30,074</u>	<u>28,921</u>	<u>58,995</u>
Change in net position	3,243	57,742	60,985
Net position - July 1, 2012	<u>-</u>	<u>553,979</u>	<u>553,979</u>
Net position - June 30, 2013	<u>\$ 3,243</u>	<u>\$ 611,721</u>	<u>\$ 614,964</u>

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**NEWPORT INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

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

Reporting Entity

The 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 Band Boosters, Parent-Teacher Associations, etc.

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

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

Newport Independent School District Finance Corporation - On December 2, 1988, the Newport Independent Board of Education resolved to authorize 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 (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2013**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

Basis of Presentation (cont'd)

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 statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

I. Governmental Fund Types

- (A) 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 46. This is a major fund of the District.

**NEWPORT INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2013**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

Basis of Presentation (cont'd)

I. Governmental Fund Types (cont'd)

(C) 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 Technology Fund accounts for the Kentucky Education Technology System (KETS) allocation and local district matching funds restricted for the purchase of technology consistent with the District's approved technology plan. The balance in the fund represents additional local money in excess of required matching funds.
4. 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.

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.

**NEWPORT INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2013**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

Basis of Presentation (cont'd)

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). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service fund is a major fund of the District.

The District applies all Government 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.

IV. Fiduciary Fund Type (Agency and Trust Funds)

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

Basis of Accounting

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, are 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.

**NEWPORT INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2013**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

Basis of Accounting (cont'd)

Deferred Revenue – Deferred 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 deferred 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.

Property Taxes

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

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (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 Board considers demand deposits, money market funds and other investments with an original maturity of 90 days or less, to be cash equivalents.

**NEWPORT INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2013**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

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.

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 assets 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 assets 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.

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

**NEWPORT INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2013**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

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 assets, 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 (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2013**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

Fund Balance Reserves

Beginning with fiscal year 2011, 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 a government'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 positions represent 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 positions are 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 (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2013**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

Interfund Activity

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

**NOTE B - ESTIMATES**

The 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 C - CASH AND CASH EQUIVALENTS**

At year end, the District had on deposit, cash and cash equivalents totaling \$3,696,116. Of the total cash balance, \$250,000 was covered by the Federal Deposit Insurance Corporation (FDIC), with the remainder covered by a collateral agreement and collateral held by the pledging banks' trust department in the District's name. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

Cash and cash equivalents at June 30, 2013 consist of the following:

	<u>Bank Balance</u>	<u>Book Balance</u>
Citizens Bank of Northern Kentucky	<u>\$ 3,696,116</u>	<u>\$ 3,382,065</u>

Breakdown per financial statements:

Governmental funds	\$	3,249,959
Proprietary funds		(20,092)
Trust and Agency funds		36,635
Activity funds		<u>115,563</u>
Total cash and cash equivalents	\$	<u><u>3,382,065</u></u>

**NOTE D - 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, 2013, this amount totaled approximately \$436,960 for all employees. The Board has reserved \$50,000 of its General Fund for unpaid sick leave benefits.

**NEWPORT INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2013**

**NOTE E - CAPITAL ASSETS**

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

<u>Governmental Activities</u>	Balance June 30, 2012	Additions	Deductions	Balance June 30, 2013
Land	\$ 1,109,955	\$ -	\$ -	\$ 1,109,955
Buildings and improvements	25,228,149	511,376	-	25,739,525
Technology equipment	1,334,769	551,282	358,810	1,527,241
Vehicles	597,995	108,958	550	706,403
General equipment	671,246	101,081	1,428	770,899
Totals at historical cost	<u>28,942,114</u>	<u>1,272,697</u>	<u>360,788</u>	<u>29,854,023</u>
Less: accumulated depreciation				
Buildings and improvements	16,173,105	369,229	-	16,542,334
Technology equipment	1,077,064	104,132	60,337	1,120,859
Vehicles	558,916	21,811	550	580,177
General equipment	536,425	35,986	656	571,755
Total accumulated depreciation	<u>18,345,510</u>	<u>531,158</u>	<u>61,543</u>	<u>18,815,125</u>
Governmental activities capital assets - net	<u>\$ 10,596,604</u>	<u>\$ 741,539</u>	<u>\$ 299,245</u>	<u>\$ 11,038,898</u>
 <u>Business - Type Activities</u>				
General equipment	\$ 586,100	\$ -	\$ -	\$ 586,100
Technology equipment	6,916	-	-	6,916
Totals at historical cost	<u>593,016</u>	<u>-</u>	<u>-</u>	<u>593,016</u>
Less: accumulated depreciation				
General equipment	586,100	-	-	586,100
Technology equipment	2,329	1,123	-	3,452
Total accumulated depreciation	<u>588,429</u>	<u>1,123</u>	<u>-</u>	<u>589,552</u>
Business - type activities capital assets - net	<u>\$ 4,587</u>	<u>\$ (1,123)</u>	<u>\$ -</u>	<u>\$ 3,464</u>

**NEWPORT INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2013**

**NOTE F - 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>
March 1, 2003	\$ 8,140,000	3.00% - 3.25%
January 1, 2006	\$ 150,291	3.00% - 3.625%
January 12, 2012	\$ 2,365,000	1.50% - 3.250%
September 1, 2012	\$ 108,289	3.500%

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 Campbell County Fiscal Court and the City of Newport to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The 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. The table in Note P 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 outstanding has been recorded in the financial statements.

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, 2013, for debt service (principal and interest) are as reported on Note P on page 39.

**NOTE G - RETIREMENT PLANS**

Kentucky Teachers Retirement System

The Kentucky Local School District contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by KY Department of Education. Job classifications that permit experience to substitute for either of these requirements do not participate in KTRS.

Funding policy – Contribution rates are established by Kentucky Revised Statutes. Members are required to contribute 10.855% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% of salaries for members in a state retirement before July 1, 2008 and 14.105% of salaries for members who started their account after July 1, 2008. The federal program for any salaries paid by that program pays the matching contributions. The contribution requirement for KTRS for the year ended June 30, 2013, was \$1,278,117, which consisted of \$276,073 from the District and \$1,002,044 from the employees. Total contributions for the year ended June 30, 2012 and 2011 were \$1,258,751 and \$999,491, respectively. The contributions have been contributed in full for fiscal years 2013, 2012 and 2011.

**NEWPORT INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2013**

**NOTE G - RETIREMENT PLANS (CONT'D)**

County Employees Retirement System

Classified employees who work an average of 80 hours per month over the actual days worked during the school year participate in the County Employees Retirement System (CERS). This is a cost sharing, multiple-employer, public employers retirement plan created and maintained by Kentucky legislature and provides retirement, death and disability benefits to Plan members.

Participating employees contribute 5% of creditable compensation. Participants hired after August 31, 2008 are required to contribute 6%. Matching contributions are made by the state at a rate as required by the Board of Trustees to be necessary for the actuarial soundness per Kentucky Revised Statute 61.565. The contribution requirement for CERS for the year ended June 30, 2013, was \$750,263, which consisted of \$593,095 from the District and \$157,168 from the employees. Total contributions for the year ended June 30, 2012 and 2011 were \$777,250 and \$694,345, respectively. The contributions have been contributed in full for fiscal years 2013, 2012 and 2011.

The District's total payroll for the year was \$12,302,307. The payroll for employees covered under KTRS was \$9,223,450 and for CERS was \$3,033,739.

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

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits which is adjusted for the effects of projected salary increases and step-rate benefits that are estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the pensions' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among the plans and employers.

KTRS and CERS do not make separate measurements of assets and pension benefit obligations for individual employers. KTRS and CERS both issue a publicly available financial report that includes all financial statements and required supplementary information. The reports can be obtained in writing from the Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601-3800 and the County Employee Retirement System, 1260 Louisville Road, Perimeter Park West, Frankfort, KY 40601.

**NOTE H - 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 grantor 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.

**NEWPORT INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2013**

**NOTE I - 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 include workers' compensation insurance.

**NOTE J - RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the members on a pro rata basis.

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

**NOTE K - DEFICIT OPERATING/FUND BALANCES**

The District ended the year with no funds having a deficit fund balance. However, the following funds have operations that resulted in a current year deficit of revenues over expenditures, not including interfund transfers. Debt Service fund deficit was supplemented with transfers from the Capital Outlay and Building funds.

Construction Fund	\$	702,495
Debt Service Fund	\$	814,287
Newport High School	\$	2,201
Newport Middle School	\$	1,297
Newport Intermediate School	\$	3,212
Newport Primary School	\$	1,732

**NOTE L - 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).

**NEWPORT INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2013**

**NOTE M – 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, 2013, 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 \$171,506. This contingent liability has been recorded in the District Wide Financial Statements but not included in the Governmental Financial Statements.

**NOTE N - 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>
51	1	Indirect	\$ 91,077
1	2	Matching	\$ 37,186
320	400	Debt Service	\$ 657,377
2	1	Indirect	\$ 89,642
1	310	Operating	\$ 3,893
320	1	Operating	\$ 260,662
310	400	Debt Service	\$ 156,910

**NOTE O - ON-BEHALF PAYMENTS**

For the year ended June 30, 2013 total payments of \$3,050,242 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 as revenues and expenses in the following funds:

General Fund	\$ 2,686,436
Debt Service Fund	262,845
Food Service Fund	100,961
	<hr/>
Total On-Behalf	<u>\$ 3,050,242</u>

**NEWPORT INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2013**

**NOTE P - SCHEDULE OF LONG-TERM OBLIGATIONS**

**2003 BOND ISSUE, 2006 KISTA ISSUE, 2012 BOND ISSUE, 2012 KISTA ISSUE**

FISCAL YEAR	NEWPORT INDEPENDENT SCHOOL DISTRICT			KY. SCHOOL FACILITIES CONSTRUCTION COMMISSION			TOTAL REQUIREMENTS
	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL	
2013-2014	\$ 815,960	\$ 28,513	\$ 844,473	\$ 207,437	\$ 58,582	\$ 266,019	\$ 1,110,492
2014-2015	24,642	2,164	26,806	100,000	51,281	151,281	178,087
2015-2016	10,444	1,489	11,933	100,000	49,781	149,781	161,714
2016-2017	10,627	1,333	11,960	105,000	48,281	153,281	165,241
2017-2018	10,811	1,147	11,958	105,000	46,706	151,706	163,664
2018-2019	10,994	957	11,951	110,000	45,131	155,131	167,082
2019-2020	11,177	738	11,915	110,000	43,206	153,206	165,121
2020-2021	9,711	480	10,191	110,000	41,281	151,281	161,472
2021-2022	9,894	247	10,141	115,000	39,082	154,082	164,223
2022-2023	-	-	-	115,000	36,781	151,781	151,781
2023-2024	-	-	-	120,000	34,481	154,481	154,481
2024-2025	-	-	-	120,000	31,631	151,631	151,631
2025-2026	-	-	-	125,000	28,781	153,781	153,781
2026-2027	-	-	-	130,000	25,500	155,500	155,500
2027-2028	-	-	-	130,000	22,088	152,088	152,088
2028-2029	-	-	-	135,000	18,188	153,188	153,188
2029-2030	-	-	-	140,000	14,138	154,138	154,138
2030-2031	-	-	-	145,000	9,588	154,588	154,588
2031-2032	-	-	-	150,000	4,875	154,875	154,875
2032-2033	-	-	-	-	-	-	-
	<u>\$ 914,260</u>	<u>\$ 37,068</u>	<u>\$ 951,328</u>	<u>\$ 2,372,437</u>	<u>\$ 649,382</u>	<u>\$ 3,021,819</u>	<u>\$ 3,973,147</u>

**NOTE Q - SUBSEQUENT EVENTS**

Subsequent events were considered through November 15, 2013, which represents the release date of the audit report.

**NEWPORT INDEPENDENT SCHOOL DISTRICT  
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS  
AS OF JUNE 30, 2013**

<b>ASSETS</b>	<b>CAPITAL OUTLAY FUND</b>	<b>BUILDING FUND</b>	<b>DEBT SERVICE FUND</b>	<b>TOTAL NONMAJOR GOVERNMENTAL FUNDS</b>
<b>CURRENT</b>				
Cash and cash equivalents	\$ 20,698	\$ -	\$ -	\$ 20,698
Total assets	<u>\$ 20,698</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,698</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES</b>				
Restricted:				
SFCC Escrow	20,698	-	-	20,698
Unassigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>20,698</u>	<u>-</u>	<u>-</u>	<u>20,698</u>
Total liabilities and fund balances	<u>\$ 20,698</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,698</u>

**NEWPORT INDEPENDENT SCHOOL DISTRICT**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2013**

	<b>CAPITAL OUTLAY FUND</b>	<b>BUILDING FUND</b>	<b>DEBT SERVICE FUND</b>	<b>TOTAL NONMAJOR GOVERNMENT FUNDS</b>
<b>REVENUES:</b>				
Taxes	\$ -	\$ 503,700	\$ -	\$ 503,700
Earnings on investments	-	-	-	-
State sources	153,017	126,698	262,845	542,560
Federal sources	-	-	-	-
Other sources	-	-	-	-
Total revenues	<u>153,017</u>	<u>630,398</u>	<u>262,845</u>	<u>1,046,260</u>
<b>EXPENDITURES:</b>				
Instructional	-	-	-	-
Student support services	-	-	-	-
Staff support services	-	-	-	-
District administration	-	-	-	-
School administration	-	-	-	-
Business support services	-	-	-	-
Plant operation and maintenance	-	-	-	-
Student transportation	-	-	-	-
Central office	-	-	-	-
Community service operations	-	-	-	-
Facility acquisition and construction	-	-	-	-
Debt service:				
Principal	-	-	970,000	970,000
Interest	-	-	107,132	107,132
Total expenditures	<u>-</u>	<u>-</u>	<u>1,077,132</u>	<u>1,077,132</u>
Excess of expenditures over revenues	<u>153,017</u>	<u>630,398</u>	<u>(814,287)</u>	<u>(30,872)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating transfers in	3,893	-	814,287	818,180
Operating transfers out	<u>(156,910)</u>	<u>(918,039)</u>	<u>-</u>	<u>(1,074,949)</u>
Total other financing sources (uses)	<u>(153,017)</u>	<u>(918,039)</u>	<u>814,287</u>	<u>(256,769)</u>
Excess of expenditures and other financing uses over revenues and other financing sources	-	(287,641)	-	(287,641)
Fund balance, July 1, 2012	<u>20,698</u>	<u>287,641</u>	<u>-</u>	<u>308,339</u>
Fund balance, June 30, 2013	<u>\$ 20,698</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,698</u>

**NEWPORT INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES  
BOND AND INTEREST REDEMPTION FUNDS  
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>ISSUE OF 2003</u>	<u>2006 KISTA</u>	<u>ISSUE OF 2012</u>	<u>ISSUE OF 2012 KISTA</u>	<u>TOTAL</u>
<b>Cash at July 1, 2012</b>	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Receipts:</b>					
Transfers and miscellaneous deposits	<u>927,525</u>	<u>17,814</u>	<u>149,607</u>	<u>13,516</u>	<u>1,108,462</u>
<b>Disbursements:</b>					
Bonds paid	870,000	12,143	100,000	12,643	994,786
Interest coupons	<u>57,525</u>	<u>5,671</u>	<u>49,607</u>	<u>873</u>	<u>113,676</u>
Total disbursements	<u>927,525</u>	<u>17,814</u>	<u>149,607</u>	<u>13,516</u>	<u>1,108,462</u>
Excess of receipts over disbursements	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Cash at June 30, 2013</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Accounts Receivable and Payable</b>					
Matured interest and bonds outstanding	-	-	-	-	-
Due from other funds	-	-	-	-	-
Due to other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total accounts receivable and payable	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund balance at June 30, 2013</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**NEWPORT INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE  
NEWPORT HIGH SCHOOL ACTIVITY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2013**

	<b>FUND BALANCE JUNE 30, 2012</b>	<b>RECEIPTS</b>	<b>DISBURSEMENTS</b>	<b>FUND BALANCE JUNE 30, 2013</b>
Academic team	\$ 44	\$ -	\$ -	\$ 44
Alumni fund	1,517	4,600	5,895	222
Annual	3,330	6,074	3,640	5,764
Art	102	-	-	102
Baseball	1,303	313	672	944
Basketball	-	3,669	2,769	900
Business	230	-	-	230
Charitable donations and Payme	-	965	-	965
Cheerleading	56	6,894	6,905	45
Children's Inc. donation	-	500	-	500
Class of 2012	1,143	122	1,265	-
Class of 2013	837	6,339	7,176	-
Class of 2014	-	6,110	5,701	409
Coke account	3,118	2,271	3,729	1,660
Commercial art	76	-	-	76
D.E.C.A.	63	-	63	-
Digital photography club	323	-	-	323
Drama	769	-	769	-
F.B.L.A.	(116)	3,726	3,448	162
F.C.C.L.A.	1,770	546	1,640	676
Fine arts	11	-	-	11
Football activities	332	2,262	2,350	244
Graphic arts	7,210	23,380	27,164	3,426
Guidance - early admission	572	-	572	-
Home economics-Jessica Cope	131	3,559	3,220	470
Industrial shop	927	-	-	927
Interest account	251	89	194	146
John Turner memorial donations	-	535	-	535
Key club	2,948	750	1,080	2,618
Library	576	635	1,075	136
Math	692	-	-	692
Media	117	-	-	117
MSD	17	307	324	-
National Honor's Society	407	-	-	407
Officials	7,030	32,200	29,004	10,226
PE and health	116	-	-	116
Pep Club	-	67	-	67
Recycling	107	-	-	107
Retirement donations	67	-	-	67
School newspaper	121	-	-	121
Science	3,118	-	2,516	602
Skills USA	4,182	79	908	3,353
Snack machine	170	-	117	53
Social studies	362	-	-	362
Softball	805	-	-	805

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**NEWPORT INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE  
NEWPORT HIGH SCHOOL ACTIVITY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2013**

	<b>FUND BALANCE JUNE 30, 2012</b>	<b>RECEIPTS</b>	<b>DISBURSEMENTS</b>	<b>FUND BALANCE JUNE 30, 2013</b>
Softball club	\$ 284	\$ -	\$ 284	\$ -
SOS club	67	-	67	-
Spanish foreign language	71	-	-	71
Spanish honor society	266	-	-	266
Student activity	2,712	6,066	4,077	4,701
Student council	411	989	766	634
Student incentive donations	250	-	250	-
Sunshine	456	120	-	576
Target - take charge of education	995	74	91	978
Teachers lounge coke	1,389	2,150	3,528	11
Textbooks	1,210	-	-	1,210
Track	1,356	-	-	1,356
Transcripts and records	212	5,540	3,537	2,215
Wal-Mart activities fund	300	-	300	-
Washing inauguration	-	2,560	2,544	16
Wrestling	-	1,108	1,028	80
Youth basketball league	-	3,763	1,895	1,868
<b>Total</b>	<b>\$ 54,813</b>	<b>\$ 128,362</b>	<b>\$ 130,563</b>	<b>\$ 52,612</b>

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**NEWPORT INDEPENDENT SCHOOL DISTRICT  
 STATEMENTS OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES  
 SCHOOL ACTIVITY FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2013**

	<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 01, 2012	\$ 2,655	\$ 15,644	\$ 34,338	\$ 15,941	\$ 68,578
Add: receipts	37,737	38,176	41,955	12,382	130,250
Less: disbursements	<u>(37,123)</u>	<u>(39,473)</u>	<u>(45,167)</u>	<u>(14,114)</u>	<u>(135,877)</u>
Fund balances at June 30, 2013	<u>\$ 3,269</u>	<u>\$ 14,347</u>	<u>\$ 31,126</u>	<u>\$ 14,209</u>	<u>\$ 62,951</u>

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**NEWPORT INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2013**

	CFDA NUMBER	PASS- THROUGH GRANTOR'S NUMBER	EXPENDITURES	PROGRAM / CLUSTER TOTALS
<b>U.S. DEPARTMENT OF EDUCATION</b>				
Safe and Drug-Free Schools and Communities - National Programs	84.184	N/A	\$ 37,226	\$ 37,226
<i>Passed through the Kentucky Department of Education:</i>				
Education of Homeless Children and Youth	84.196	3990002 12	29,624	29,624
Career and Technical Education - Basic Grants to States	84.048	4621232 10	406	
Career and Technical Education - Basic Grants to States	84.048	4621232 12	24,952	
Career and Technical Education - Basic Grants to States	84.048	4621232 11	5,016	30,374
Improving Teacher Quality State Grants	84.367	3230002 09	755	
Improving Teacher Quality State Grants	84.367	3230002 12	165,228	
Improving Teacher Quality State Grants	84.367	3230002 10	5,976	
Improving Teacher Quality State Grants	84.367	3230002 11	3,938	175,897
Innovative Education Program Strategies	84.298	3500002 07	2,599	2,599
Race to the Top	84.413	3960002 11	18,883	18,883
Twenty-First Century Community Learning Centers	84.287	3400002 10	56,066	
Twenty-First Century Community Learning Centers	84.287	3400002 11	114,768	
Twenty-First Century Community Learning Centers	84.287	3400002 08	442	
Twenty-First Century Community Learning Centers	84.287	3400002 12	5,815	177,091
Education Jobs Fund	84.410	EJOB00 10	2,901	2,901
School Improvement Grants Cluster:				
School Improvement Grants	84.377	3100302 11	449,252	
School Improvement Grants	84.377	3100302 10	208,012	
School Improvement Grants - Recovery Act	84.388	4100302 09	133,142	790,406
Title I - Grants to Local Educational Agencies	84.010	3100002 12	980,062	
Title I - Grants to Local Educational Agencies	84.010	3100002 11	105,712	1,085,774
Special Education Cluster:				
Special Education Grants to States	84.027	3810002 10	557,633	
Special Education Grants to States	84.027	3810002 11	27,859	
Special Education Preschool Grants	84.173	3800002 12	4,586	590,078
<b>Total U.S. Department of Education</b>			<b>2,940,853</b>	<b>2,940,853</b>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>				
<i>Passed through the Kentucky Department of Education:</i>				
Fresh Fruit and Vegetable Program	10.582	7720012 13	58,349	
Fresh Fruit and Vegetable Program	10.582	7720012 12	12,525	70,874
Child Nutrition Cluster:				
National School Lunch Program	10.555	7750002 12	118,578	
National School Lunch Program	10.555	7750002 13	660,726	
School Breakfast Program	10.553	7760005 12	39,236	
School Breakfast Program	10.553	7760005 13	230,207	
Summer Food Service Program for Children	10.559	7690024 12	852	
Summer Food Service Program for Children	10.559	7740023 12	8,262	
<i>Passed through the Kentucky Department of Agriculture</i>				
National School Lunch Program - Food Donation	10.555	019-0203	55,436	1,113,297
<b>Total U.S. Department of Agriculture</b>			<b>1,184,171</b>	<b>1,184,171</b>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>				
<i>Passed through the Kentucky Department of Education:</i>				
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	2000001 11	1,423	1,423
<b>Total U.S. Department of Health and Human Services</b>			<b>1,423</b>	<b>1,423</b>
<b>Total Expenditures of Federal Awards</b>			<b>\$ 4,126,447</b>	<b>\$ 4,126,447</b>

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**NEWPORT INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2013**

**NOTE A – BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Newport Independent School District under programs of the federal government for the year ended June 30, 2013, and is reported on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *U.S. OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. 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 B – FOOD DISTRIBUTION**

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed. For the year ended June 30, 2013, the District reported food commodities expended in the amount of \$55,436.

**NEWPORT INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**SUMMARY OF AUDITORS' RESULTS**

1. The Independent Auditors' Report expresses an unmodified opinion on the basic financial statements of the Newport Independent School District.
2. No significant deficiencies were disclosed during the audit of the financial statements or reported in the 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. No material weaknesses are reported.
3. No instances of noncompliance material to the financial statements of the Newport Independent School District, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.
4. No significant deficiencies in internal control over major federal award programs were disclosed during the audit or reported in the Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133. No material weaknesses are reported.
5. The Independent Auditors' Report on Compliance with Requirements Applicable for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133 for Newport Independent School District expresses an unmodified opinion on all major federal programs.
6. The audit did not disclose any findings required to be reported under section 510 (a) of OMB Circular A-133.
7. The programs tested as major programs were: School Breakfast Program, CFDA #10.553; National School Lunch Program, CFDA #10.555; Summer Food Service Program for Children, CFDA #10.559; National School Lunch Program - Food Donation, CFDA #10.555; School Improvement Grants – Recovery Act, CFDA #84.388; School Improvement Grants, CFDA #84.377; Twenty-First Century Community Learning Centers, CFDA #84.287; Improving Teacher Quality State Grants, CFDA #84.367 and Race to the Top, CFDA #84.413
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. Newport Independent School District does not qualify as a low-risk auditee.

**FINDINGS – FINANCIAL STATEMENTS AUDIT**

None

**FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT**

None

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

None

**NEWPORT INDEPENDENT SCHOOL DISTRICT  
BOARD MEMBERS AND ADMINISTRATIVE PERSONNEL  
FOR THE YEAR ENDED JUNE 30, 2013**

**BOARD MEMBERS**

Shaun Thacker  
Term Expires - December 31, 2014

Dr. Julie Smith-Morrow  
Term Expires - December 31, 2016

Ramona Malone  
Term Expires - December 31, 2014

Melissa Sheffel  
Term Expires – December 31, 2016

Theresa Miller  
Term Expires - December 31, 2016

**ADMINISTRATIVE PERSONNEL**

Mr. Kelly Middleton  
Superintendent

Tete Turner  
Treasurer and Chief Finance Officer

Kim Klosterman  
Secretary to the Board of Education



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

Members of the Board of Education  
Newport Independent School District  
301 East 8<sup>th</sup> Street  
Newport, Kentucky 41071

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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Newport Independent School District, as of and for the year ended June 30, 2013, 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 5, 2013.

**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*.

**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.



Crestview Hills, Kentucky  
November 5, 2013



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

Members of the Board of Education  
Newport Independent School District  
301 East 8<sup>th</sup> Street  
Newport, Kentucky 41071

**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 Circular A-133 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, 2013. 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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, 2013.

## 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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Crestview Hills, Kentucky  
November 5, 2013

**NEWPORT INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT LETTER COMMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

In planning and performing our audit of the financial statements of Newport Independent School District for the year ended June 30, 2013, 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 does not affect our report dated November 5, 2013 on the financial statements of the Newport Independent School District.

**CURRENT YEAR RECOMMENDATIONS**

**Central Office**

Any exceptions noted in testing appeared to be isolated incidents only.

...

**ACTIVITY FUNDS**

**Newport High School**

Any exceptions noted in testing appeared to be isolated incidents only.

...

**Newport Alternative High School**

Any exceptions noted in testing appeared to be isolated incidents only.

...

**Newport Middle School**

Any exceptions noted in testing appeared to be isolated incidents only.

...

**Newport Intermediate School**

Any exceptions noted in testing appeared to be isolated incidents only.

...

**Newport Primary School**

Any exceptions noted in testing appeared to be isolated incidents only.

NEWPORT INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT LETTER COMMENTS (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2013

**STATUS OF PRIOR YEAR RECOMMENDATIONS**

**Central Office**

None noted

...

**Newport High School**

None noted

...

**Newport Alternative High School**

None noted

...

**Newport Middle School**

None noted

...

**Newport Intermediate School**

None noted

...

**Newport Primary School**

None noted