

Newport Independent School District

Financial Statements with Supplementary Information

June 30, 2014

Independent Auditors' Report

NEWPORT INDEPENDENT SCHOOL DISTRICT
June 30, 2014

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NEWPORT INDEPENDENT SCHOOL DISTRICT
June 30, 2014

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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Newport Independent School District as of and for the year ended June 30, 2014, 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, 2014, 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.

OHIO OFFICE: 150 East Fourth Street | Cincinnati, OH 45202 | Phone (513) 241-8313 | Fax (513) 241-8303
KENTUCKY OFFICE: 2617 Legends Way | Crestview Hills, KY 41017 | Phone (859) 344-6400 | Fax (859) 578-7522

**Independent Auditors' Report
(Continued)**

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 3-9 and 16-18 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 combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by 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.

Reporting Other Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2014 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 14, 2014

NEWPORT INDEPENDENT SCHOOL DISTRICT

Management's Discussion and Analysis (MD&A) Year Ended June 30, 2014

As management of Newport Independent Board of Education (Board), the governing body for 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, 2014. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the financial statements and notes. All amounts used in this MD&A are approximate amounts, except where more specific.

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.
- 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.
- ACT scores showed a slight increase for the 2014 school year from a 17.2 to a 17.4. The number of students who were college and career ready increased from 48 to 55.
- Parent involvement was encouraged with various parents being invited to attend 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 implements a credit recovery program. Any high school students, who were in need of credits, are able to participate to attain credits for graduation requirements.

NEWPORT INDEPENDENT SCHOOL DISTRICT

Management's Discussion and Analysis (MD&A) (Continued)

Year Ended June 30, 2014

ACADEMIC PROGRESS HIGHLIGHTS (Continued)

- Various instructional strategies, assessments, and various 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, Plato Credit Recovery, Standards Based units, and Mental Health counselors.
- The 21st Century Community Learning Center grant continues to target at-risk students and provide intervention and enrichment programs/activities centered on reducing barriers to learning for students and increase college and career readiness. The grant, provides summer and after-school programs to assist with enrichment activities.
- ESS services continue to be offered through after-school tutoring services and day-waiver programs during the school day.
- For the third year in a row, Newport Independent Schools will be participating in the USDA's Community Eligibility Provision (CEP). During the 2014-2015 school year, all students will be served one breakfast and one lunch at no charge. There is also an after-school snack program that provides snacks for our K-8 students. Students receive the option of also purchasing a la carte food and beverage items.
- The district's 2014-2015 school calendar was approved by KDE, in the Spring of 2014, to facilitate increased and ongoing job embedded professional development through the use of five built in days. This will give time for additional professional growth opportunities.
- The District continues to use the District/School Websites, *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, PGES, and the alignment of the Kentucky Core Academic Standards with formative and summative assessments.
- In October of 2013, NIS received the Carol M. White Physical Education Program grant. As a result of these federal funds, the F.I.T. for Life Project was initiated and has provided many more health-related learning opportunities for our students. New programming includes additional fitness opportunities before and after school, taste tests of healthy foods in the cafeterias, wellness events and summer programming. Funds have also been used for additional staff, new health and physical education curriculum, new equipment in all schools and professional development for both teachers and food service staff.

NEWPORT INDEPENDENT SCHOOL DISTRICT

Management's Discussion and Analysis (MD&A) (Continued)

Year Ended June 30, 2014

ACADEMIC PROGRESS HIGHLIGHTS (Continued)

- The District expanded its technology by developing an initiative for 1:1 i-Pads at Newport High School that began in the Winter of 2013. The 1:1 i-Pad initiative is expanding to include grades 7 and 8 at Newport Middle School in the Winter of 2014. Teachers in grades K-6 will be utilizing six i-Pads in each of their classes. Interactive whiteboards, instructional software, video projectors, clicker systems, iPads, and document cameras have been purchased to create 21st Century Learning Classrooms that are interactive and engaging to students.

Newport Independent School District invites you to learn more about our ongoing efforts to become the finest small urban school district in America.

FINANCIAL HIGHLIGHTS

- The beginning cash balance for the District was \$3,382,065.
- The General Fund had \$16,716,643 in revenue, excluding inter-fund transfers and gains on sales of fixed assets, which primarily consisted of the state program (SEEK), property, local occupational license taxes, utilities, and motor vehicle taxes and the sale of a building. Excluding inter-fund transfers, there was \$16,205,225 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 are comprised of three components: 1) district-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

District-wide financial statements. The district-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

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

NEWPORT INDEPENDENT SCHOOL DISTRICT

Management's Discussion and Analysis (MD&A) (Continued) Year Ended June 30, 2014

OVERVIEW OF FINANCIAL STATEMENTS (Continued)

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

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

The basic governmental fund financial statements can be found on pages 12 through 23 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements. The notes to the financial statements can be found on pages 24 through 38 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 \$14,652,820 as of June 30, 2014.

The largest portion of the District's net position reflects its investment in capital assets (i.e. land and improvements, buildings and improvements, vehicles, furniture and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions, including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Management's Discussion and Analysis (MD&A)
(Continued)
Year Ended June 30, 2014**

DISTRICT-WIDE FINANCIAL ANALYSIS (Continued)

Net Position for the periods ending June 30, 2014 and 2013

The following is a summary of net position for the fiscal years ended June 30, 2014 and 2013.

	<u>2014</u>	<u>2013</u>
Assets		
Current assets	\$ 6,264,367	\$ 4,949,045
Noncurrent assets	<u>14,680,248</u>	<u>12,759,360</u>
Total assets	<u>\$ 20,944,615</u>	<u>\$ 17,708,405</u>
Liabilities		
Current liabilities	\$ 1,177,918	\$ 1,556,394
Noncurrent liabilities	<u>4,553,458</u>	<u>2,656,564</u>
Total liabilities	<u>\$ 5,731,376</u>	<u>\$ 4,212,958</u>
Net position		
Investment in capital assets (net of debt)	\$ 10,291,948	\$ 9,472,663
Restricted	699,720	432,944
Unassigned	<u>4,221,571</u>	<u>3,589,840</u>
Total net position	<u>\$ 15,213,239</u>	<u>\$ 13,495,447</u>

Comments on General Fund Budget Comparisons

- The District's total general fund revenues for the fiscal year ended June 30, 2014, net of inter-fund transfers and sale of fixed assets, were \$16,716,643.
- General fund budget compared to actual revenue varied from line item to line item with the ending actual balance being \$3,074,360 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 \$16,205,225, net of inter-fund transfers.
- General Fund actual expenditures were less than budgeted expenditures by \$1,557,931. This is a result of the District better managing expenditures.

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Management's Discussion and Analysis (MD&A)
(Continued)**

Year Ended June 30, 2014

DISTRICT-WIDE FINANCIAL ANALYSIS (Continued)

The following table presents a summary of revenues and expenses for the fiscal years ended June 30, 2014 and 2013.

	<u>2014</u>	<u>2013</u>
Revenues:		
Program revenues:		
Charges for services	\$ 139,921	\$ 74,117
Operating grants and contributions	6,175,953	5,544,311
Capital grants and contributions	<u>603,194</u>	<u>542,560</u>
Total program revenues	6,919,068	6,160,988
General revenues:		
Taxes	8,224,592	8,546,805
Federal and state sources	8,754,588	8,199,312
Earnings on investments	2,046	3,925
Miscellaneous	<u>137,744</u>	<u>(138,171)</u>
Total general revenues	<u>17,118,970</u>	<u>16,611,871</u>
Total revenues	<u>24,038,038</u>	<u>22,772,859</u>
Expenses:		
Instruction	13,099,014	11,709,080
Student support services	654,565	680,724
Instructional support	887,259	966,828
District administration	1,277,632	1,190,347
School administration	1,364,482	1,332,312
Business support	940,774	869,760
Plant operations	1,599,709	2,036,181
Student transportation	540,187	510,201
Central office support	-	-
Community support	457,973	478,002
Facility acquisition and construction	-	-
Education specific	-	315
Other	-	4,417
Debt service	121,666	103,574
Food service	<u>1,350,844</u>	<u>1,303,209</u>
Total expenses	<u>22,294,105</u>	<u>21,184,950</u>
Revenue in excess/(deficit) of expense	<u>\$ 1,743,933</u>	<u>\$ 1,587,909</u>

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Management's Discussion and Analysis (MD&A)
(Continued)**

Year Ended June 30, 2014

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 \$2,740,639 in contingency (15.4%). The beginning cash balance for the beginning of the fiscal year was \$3,382,065.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the District's finances and to reflect the District's accountability for the funds it receives. Questions or comments about this report should be directed to Mr. Kelly Middleton, Superintendent, or Mr. Tete Turner, Finance Director, by telephone at 859-292-3001 or by mail to the Central Office, 30 West 8th Street, Newport, KY 41071.

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Statement of Net Position – District Wide
Year Ended June 30, 2014**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Current			
Cash and cash equivalents	\$ 4,269,187	\$ 126,693	\$ 4,395,880
Accounts receivable	1,840,451	12,987	1,853,438
Interfund receivables	-	-	-
Inventories for consumption	-	15,049	15,049
Total current assets	<u>6,109,638</u>	<u>154,729</u>	<u>6,264,367</u>
Noncurrent			
Nondepreciated capital assets:			
Land	1,109,955	-	1,109,955
Construction in progress	3,733,995	-	3,733,995
Depreciated capital assets:			
Land improvements	-	-	-
Buildings and improvements	25,739,525	-	25,739,525
Furniture and equipment	3,459,569	603,011	4,062,580
Less: accumulated depreciation	<u>(19,375,622)</u>	<u>(590,185)</u>	<u>(19,965,807)</u>
Total noncurrent	<u>14,667,422</u>	<u>12,826</u>	<u>14,680,248</u>
Total assets	<u>20,777,060</u>	<u>167,555</u>	<u>20,944,615</u>
Liabilities			
Current			
Current portion of bonds payable	219,642	-	219,642
Current portion of accrued sick leave	42,756	-	42,756
Accounts payable	310,001	-	310,001
Accrued payroll and related expenses	277,960	-	277,960
Assessed KISBIT liability	125,380	-	125,380
Accrued interest	46,215	-	46,215
Unearned revenues	155,964	-	155,964
Total current	<u>1,177,918</u>	<u>-</u>	<u>1,177,918</u>
Noncurrent			
Accrued sick leave	384,800	-	384,800
Long term bonds payable	4,168,658	-	4,168,658
Total noncurrent	<u>4,553,458</u>	<u>-</u>	<u>4,553,458</u>
Total liabilities	<u>5,731,376</u>	<u>-</u>	<u>5,731,376</u>
Net Position			
Invested in capital assets, net of related debt	10,279,122	12,826	10,291,948
Restricted	684,671	15,049	699,720
Unassigned	4,081,891	139,680	4,221,571
Total net position	<u>\$ 15,045,684</u>	<u>\$ 167,555</u>	<u>\$ 15,213,239</u>

See notes to the financial statements

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Balance Sheet – Governmental Funds
Year Ended June 30, 2014**

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Construction Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Current					
Cash and cash equivalents (deficit)	\$ 4,771,955	\$ (1,348,099)	\$ 824,633	\$ 20,698	\$ 4,269,187
Accounts receivable	310,833	1,529,618	-	-	1,840,451
Total current	<u>\$ 5,082,788</u>	<u>\$ 181,519</u>	<u>\$ 824,633</u>	<u>\$ 20,698</u>	<u>\$ 6,109,638</u>
Liabilities and Fund Balance					
Current					
Accounts payable	\$ 123,786	\$ 25,555	\$ 160,660	\$ -	\$ 310,001
Accrued payroll and related expenses	277,960	-	-	-	277,960
Deferred revenues	-	155,964	-	-	155,964
Total current	<u>401,746</u>	<u>181,519</u>	<u>160,660</u>	<u>-</u>	<u>743,925</u>
Fund Balance					
Restricted					
Capital projects	-	-	663,973	20,698	684,671
Committed					
Accrued sick leave	150,000	-	-	-	150,000
Assigned					
Purchase obligations	196,509	-	-	-	196,509
Unassigned	4,334,533	-	-	-	4,334,533
Total fund balances	<u>4,681,042</u>	<u>-</u>	<u>663,973</u>	<u>20,698</u>	<u>5,365,713</u>
Total liabilities and fund balances	<u>\$ 5,082,788</u>	<u>\$ 181,519</u>	<u>\$ 824,633</u>	<u>\$ 20,698</u>	<u>\$ 6,109,638</u>

See 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, 2014**

Total governmental fund balance		\$ 5,365,713
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds		
Construction in progress	3,733,995	
Cost of capital assets	30,309,049	
Accumulated depreciation	<u>(19,375,622)</u>	14,667,422
Certain liabilities (such as bonds payable, the long-term portion of accrued sick leaaave and accrued interest) are not reported in this funds.		
Long-term liabilities at year end consist of:		
Bonds payable	(4,388,300)	
Assessed KISBIT liability	(125,380)	
Accrued interest	(46,215)	
Accrued sick leave	<u>(427,556)</u>	<u>(4,987,451)</u>
Net assets for governmental activities		<u>\$ 15,045,684</u>

See notes to the financial statements

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
Year Ended June 30, 2014**

	General Fund	Special Revenue Fund	Construction Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	\$ 7,745,754	\$ -	\$ -	\$ 478,838	\$ 8,224,592
Earnings on investments	2,046	-	-	-	2,046
State sources	8,696,130	1,308,802	-	603,194	10,608,126
Federal sources	58,458	3,563,804	-	-	3,622,262
Other sources	214,255	16,608	-	-	230,863
Total revenues	16,716,643	4,889,214	-	1,082,032	22,687,889
Expenditures:					
Instructional	9,005,811	4,119,694	-	-	13,125,505
Student support services	589,559	24,962	-	-	614,521
Staff support services	600,631	273,818	-	-	874,449
District administration	1,260,698	-	-	-	1,260,698
School administration	1,336,862	14,149	-	-	1,351,011
Business support services	936,404	3,248	-	-	939,652
Plant operation and maintenance	1,937,273	-	-	-	1,937,273
Student transportation	509,294	-	-	-	509,294
Community service operation	232	457,426	-	-	457,658
Facility acquisition and construction	-	-	1,750,814	-	1,750,814
Other	-	-	-	-	-
Debt service:					
Principal	25,634	-	-	1,000,000	1,025,634
Interest	2,827	-	-	82,032	84,859
Total expenditures	16,205,225	4,893,297	1,750,814	1,082,032	23,931,368
Excess (deficit) of revenues over expenditures	511,418	(4,083)	(1,750,814)	-	(1,243,479)
Other financing sources (uses)					
Proceeds from sale of assets	2,791	-	-	-	2,791
Proceeds from sale of bonds	-	-	2,125,000	-	2,125,000
Operating transfers in	57,262	15,395	-	816,012	888,669
Operating transfers out	(88,614)	(11,312)	-	(816,012)	(915,938)
Total other financing sources (uses)	(28,561)	4,083	2,125,000	-	2,100,522
Net change in fund balances	482,857	-	374,186	-	857,043
Fund balance, July 1, 2013	4,198,185	-	289,787	20,698	4,508,670
Fund balance, June 30, 2014	\$ 4,681,042	\$ -	\$ 663,973	\$ 20,698	\$ 5,365,713

See notes to the financial statements

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds to the Statement of Activities
Year Ended June 30, 2014**

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

Net changes - governmental funds	\$ 857,043
Proceeds from sale of bonds	(2,125,000)
Loss on bond sale	(2,237)

Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which depreciation exceeds capital outlays and retirements

Construction in progress	2,043,138	
Depreciation expense	(639,273)	
Capital outlays	539,885	
Retirements of capital assets	<u>(6,083)</u>	
		1,937,667

Net bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reducts of liabilities in the statement of net assets.

Principal paid	<u>1,025,634</u>	
		<u>1,025,634</u>

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.

20,960

Changes in net position of governmental activities	<u>\$ 1,714,067</u>
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See notes to the financial statements

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Statement of Revenues, Expenditures and Changes in Fund Balance –
Budget to Actual – General Fund
Year Ended June 30, 2014**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Revenues				
Taxes	\$ 7,579,585	\$ 7,579,585	\$ 7,745,754	\$ 166,169
Other local sources	149,900	163,102	216,301	53,199
State sources	5,724,162	5,724,162	8,696,130	2,971,968
Federal sources	35,000	35,000	58,458	23,458
Other sources	200,487	200,487	60,053	(140,434)
Total revenues	13,689,134	13,702,336	16,776,696	3,074,360
Expenditures				
Instructional	7,392,766	7,469,497	9,005,811	(1,536,314)
Student support services	574,594	577,379	589,559	(12,180)
Staff support services	536,098	626,306	600,631	25,675
District administration	1,651,922	1,549,501	1,260,698	288,803
School administration	1,139,645	1,165,104	1,336,862	(171,758)
Business support services	768,856	785,885	936,404	(150,519)
Plant operation and maintenance	2,211,793	2,223,830	1,937,273	286,557
Student transportation	520,929	520,929	509,294	11,635
Community service operation	-	-	232	(232)
Contingency	2,456,854	2,740,639	-	2,740,639
Other	192,700	192,700	117,075	75,625
Total expenditures	17,446,157	17,851,770	16,293,839	1,557,931
Net change in fund balance	(3,757,023)	(4,149,434)	482,857	4,632,291
Fund balance, July 1, 2013	3,757,023	4,149,434	4,198,185	(48,751)
Fund balance, June 30, 2014	\$ -	\$ -	\$ 4,681,042	\$ 4,681,042

See notes to the financial statements

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Statement of Revenues, Expenditures and Changes in Fund Balance –
Budget to Actual – Special Revenue
Year Ended June 30, 2014**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Revenues				
Taxes	\$ -	\$ -	\$ -	\$ -
Other local sources	60,471	58,547	16,608	(41,939)
State sources	1,199,095	1,202,938	1,308,802	105,864
Federal sources	2,851,071	4,301,252	3,563,804	(737,448)
Other sources	29,540	24,632	15,395	(9,237)
Total revenues	<u>4,140,177</u>	<u>5,587,369</u>	<u>4,904,609</u>	<u>(682,760)</u>
Expenditures				
Instructional	3,341,927	4,721,349	4,119,694	601,655
Student support services	60,991	11,834	24,962	(13,128)
Staff support services	344,591	374,559	273,818	100,741
School administration	-	21,597	14,149	7,448
Business support services	3,971	1,194	3,248	(2,054)
Student transportation	2,000	-	-	-
Community service operation	304,141	418,767	457,426	(38,659)
Other	82,556	49,904	11,312	38,592
Total expenditures	<u>4,140,177</u>	<u>5,599,204</u>	<u>4,904,609</u>	<u>694,595</u>
Net change in fund balance	-	(11,835)	-	11,835
Fund balance, July 1, 2013	-	-	-	-
Fund balance, June 30, 2014	<u>\$ -</u>	<u>\$ (11,835)</u>	<u>\$ -</u>	<u>\$ 11,835</u>

See notes to the financial statements

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Statement of Revenues, Expenditures and Changes in Fund Balance –
Budget to Actual – Construction Fund
Year Ended June 30, 2014**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Revenues				
Taxes	\$ -	\$ -	\$ -	\$ -
Other sources	564	-	2,125,000	2,125,000
Total revenues	<u>564</u>	<u>-</u>	<u>2,125,000</u>	<u>2,125,000</u>
Expenditures				
Facility acquisition and construction	36,676	-	1,750,814	(1,750,814)
Contingency	-	-	-	-
Other	-	-	-	-
Total expenditures	<u>36,676</u>	<u>-</u>	<u>1,750,814</u>	<u>(1,750,814)</u>
Net change in fund balance	(36,112)	-	374,186	374,186
Fund balance, July 1, 2013	<u>-</u>	<u>-</u>	<u>289,787</u>	<u>(289,787)</u>
Fund balance, June 30, 2014	<u>\$ (36,112)</u>	<u>\$ -</u>	<u>\$ 663,973</u>	<u>\$ 663,973</u>

See notes to the financial statements

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Statement of Net Position – Proprietary Funds
As of June 30, 2014**

	Food Service Fund	Total
	<u> </u>	<u> </u>
Assets		
Current		
Cash and cash equivalents (defecit)	\$ 126,693	\$ 126,693
Accounts receivable	12,987	12,987
Inventories for consumption	15,049	15,049
	<u> </u>	<u> </u>
Total current	154,729	154,729
	<u> </u>	<u> </u>
Noncurrent		
Furniture and equipment	603,011	603,011
Less: accumulated depreciation	(590,185)	(590,185)
	<u> </u>	<u> </u>
Total noncurrent	12,826	12,826
	<u> </u>	<u> </u>
Total assets	167,555	167,555
	<u> </u>	<u> </u>
Liabilities		
Current		
Accounts payable	-	-
	<u> </u>	<u> </u>
Total current	-	-
	<u> </u>	<u> </u>
Net Position		
Invested in assets, net of debt	12,826	12,826
Nonspendable - inventories	15,049	15,049
Unrestricted	139,680	139,680
	<u> </u>	<u> </u>
Total net position	\$ 167,555	\$ 167,555
	<u> </u>	<u> </u>

See notes to the financial statements

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds
Year Ended June 30, 2014**

	Food Service Fund	Total
	<u> </u>	<u> </u>
Operating revenues		
Lunchroom sales	\$ 130,843	\$ 130,843
Other operating revenues	9,078	9,078
	<u> </u>	<u> </u>
Total operating revenues	139,921	139,921
	<u> </u>	<u> </u>
Operating expenses		
Salaries and benefits	553,669	553,669
Contract services	22,708	22,708
Materials and supplies	773,044	773,044
Depreciation	1,423	1,423
	<u> </u>	<u> </u>
Total operating expenses	1,350,844	1,350,844
	<u> </u>	<u> </u>
Operating loss	(1,210,923)	(1,210,923)
	<u> </u>	<u> </u>
Nonoperating revenues (expenses)		
Federal grants	1,100,457	1,100,457
State grants	62,055	62,055
Donated commodities and other donations	124,227	124,227
Transfers	(45,950)	(45,950)
	<u> </u>	<u> </u>
Total nonoperating revenues (expenses)	1,240,789	1,240,789
	<u> </u>	<u> </u>
Net income	29,866	29,866
	<u> </u>	<u> </u>
Total net position, July 1, 2013	137,689	137,689
	<u> </u>	<u> </u>
Total net position, June 30, 2014	<u><u>\$ 167,555</u></u>	<u><u>\$ 167,555</u></u>

See notes to the financial statements

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Statement of Cash Flows – Proprietary Funds
Year Ended June 30, 2014**

	<u>Food Service Fund</u>	<u>Total</u>
Cash flows from operating activities		
Cash received from lunchroom sales	\$ 130,843	\$ 130,843
Cash received from other activities	138,642	138,642
Cash payments to employees for services	(553,669)	(553,669)
Cash payments to suppliers for goods and services	(799,035)	(799,035)
Cash transfers	<u>(45,950)</u>	<u>(45,950)</u>
Net cash used in operating activities	<u>(1,129,169)</u>	<u>(1,129,169)</u>
Cash flows from capital financing activities		
Acquisition of capital assets	<u>(10,785)</u>	<u>(10,785)</u>
Net cash used in capital financing activities	<u>(10,785)</u>	<u>(10,785)</u>
Cash flows from noncapital financing activities		
Non-operating revenues received	<u>1,286,739</u>	<u>1,286,739</u>
Net cash provided by noncapital financing activities	<u>1,286,739</u>	<u>1,286,739</u>
Cash flows from investing activities		
Interest on investments	<u>-</u>	<u>-</u>
Net cash flows provided by investing activities	<u>-</u>	<u>-</u>
Net decrease in cash and cash equivalents	146,785	146,785
Cash and cash equivalents - beginning	<u>(20,092)</u>	<u>(20,092)</u>
Cash and cash equivalents (deficit) - ending	<u>\$ 126,693</u>	<u>\$ 126,693</u>
Reconciliation of operatin loss to net cash used in operating activities		
Operating loss	\$ (1,210,923)	\$ (1,210,923)
Adjustment to reconcile operating loss to net cash used in operating activities		
Depreciation	1,423	1,423
Interfund transfers	(45,950)	(45,950)
Changes in assets and liabilities:		
Decrease in accounts receivable	129,564	129,564
Increase in inventories for consumption	<u>(3,283)</u>	<u>(3,283)</u>
Net cash used in operating activities	<u>\$ (1,129,169)</u>	<u>\$ (1,129,169)</u>
Schedule of non-cash transactions		
Donated commodities received from the federal government	<u>\$ 124,227</u>	<u>\$ 124,227</u>

See notes to the financial statements

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Statement of Net Position – Fiduciary Funds
As of June 30, 2014**

	<u>Trust/Agency Fund</u>	<u>Chester Davis Scholarship Fund</u>	<u>Total</u>
Assets			
Current			
Cash and cash equivalents	\$ 244	\$ 24,000	\$ 24,244
Investments	-	665,649	665,649
Accounts receivable	-	-	-
	<u>244</u>	<u>689,649</u>	<u>689,893</u>
Total current assets			
Noncurrent			
Total noncurrent assets	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u><u>244</u></u>	<u><u>689,649</u></u>	<u><u>689,893</u></u>
Liabilities			
Current			
Accounts payable	<u>244</u>	<u>2,000</u>	<u>2,244</u>
Total current	<u>244</u>	<u>2,000</u>	<u>2,244</u>
Noncurrent			
Total noncurrent	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>244</u>	<u>2,000</u>	<u>2,244</u>
Net Position			
Unrestricted	<u>-</u>	<u>687,649</u>	<u>687,649</u>
Total net position	<u>-</u>	<u>687,649</u>	<u>687,649</u>
Total liabilities and net position	<u><u>\$ 244</u></u>	<u><u>\$ 689,649</u></u>	<u><u>\$ 689,893</u></u>

See notes to the financial statements

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Statement of Revenues, Expenses and Changes in Net Position – Fiduciary Funds
Year Ended June 30, 2014**

	<u>Trust/Agency Fund</u>	<u>Chester Davis Scholarship Fund</u>	<u>Total</u>
Additions			
Net interest and investment gains	\$ -	\$ 95,928	\$ 95,928
Private donations and other	4,202	1,000	5,202
Fund transfers	73,219	-	73,219
Student activities	174	-	174
	<hr/>	<hr/>	<hr/>
Total additions	77,595	96,928	174,523
Deductions			
Instruction	80,838	-	80,838
Community services	-	21,000	21,000
Fund transfer	-	-	-
	<hr/>	<hr/>	<hr/>
Total deductions	80,838	21,000	101,838
Change in net position	(3,243)	75,928	72,685
Net position - July 1, 2013	<hr/> 3,243	<hr/> 611,721	<hr/> 614,964
Net position - June 30, 2014	<hr/> <u>\$ -</u>	<hr/> <u>\$ 687,649</u>	<hr/> <u>\$ 687,649</u>

See notes to the financial statements

NEWPORT INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

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

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

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

Basis of Presentation

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

The district-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the district-wide statements and the statements for governmental funds.

NEWPORT INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

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

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

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

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund and any unrestricted fund balances are considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue Fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the schedule of expenditures of federal awards included in this report on pages 44. This is a major fund of the District.

NEWPORT INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

I. Governmental Fund Types (Continued)

- (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 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.

III. Proprietary Fund (Enterprise Fund)

The School Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). The Food Service fund is a major fund of the District.

IV. Fiduciary Fund Type (Agency and Trust Funds)

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

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

NEWPORT INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting

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

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

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

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

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

Taxes

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

NEWPORT INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary Process

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

Inventories

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

Capital Assets

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

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

NEWPORT INDEPENDENT SCHOOL DISTRICT

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets (Continued)

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

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

Accumulated Unpaid Sick Leave Benefits

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

Interfund Balances

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

Accrued Liabilities and Long-Term Obligations

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

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

NEWPORT INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance Reserves

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

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

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

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

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

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

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

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

Net Position

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

Operating Revenues and Expenses

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

NEWPORT INDEPENDENT SCHOOL DISTRICT

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interfund Activity

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

NOTE 2 - ESTIMATES

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

NOTE 3 – CASH AND CASH EQUIVALENTS

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

NEWPORT INDEPENDENT SCHOOL DISTRICT

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

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2014 was as follows:

<u>Governmental Activities</u>	Balance June 30, 2013	Additions	Deductions	Balance June 30, 2014
Land	\$ 1,109,955	\$ -	\$ -	\$ 1,109,955
Buildings and improvements	25,739,525	-	-	25,739,525
Technology equipment	1,527,241	509,882	72,674	1,964,449
Vehicles	706,403	-	-	706,403
General equipment	770,899	30,003	12,185	788,717
Construction in progress	1,690,857	2,043,138	-	3,733,995
Totals at historical cost	<u>31,544,880</u>	<u>2,583,023</u>	<u>84,859</u>	<u>34,043,044</u>
Less: accumulated depreciation				
Buildings and improvements	16,542,334	387,980	-	16,930,314
Technology equipment	1,120,859	184,748	67,759	1,237,848
Vehicles	580,177	26,308	-	606,485
General equipment	571,755	40,237	11,017	600,975
Total accumulated depreciation	<u>18,815,125</u>	<u>639,273</u>	<u>78,776</u>	<u>19,375,622</u>
Governmental activities capital assets - net	<u>\$ 12,729,755</u>	<u>\$ 1,943,750</u>	<u>\$ 6,083</u>	<u>\$ 14,667,422</u>
 <u>Business - Type Activities</u>				
General equipment	\$ 586,100	\$ 10,785	\$ -	\$ 596,885
Technology equipment	6,916	-	790	6,126
Totals at historical cost	<u>593,016</u>	<u>10,785</u>	<u>790</u>	<u>603,011</u>
Less: accumulated depreciation				
General equipment	586,100	300	-	586,400
Technology equipment	3,452	1,123	790	3,785
Total accumulated depreciation	<u>589,552</u>	<u>1,423</u>	<u>790</u>	<u>590,185</u>
Business - type activities capital assets - net	<u>\$ 3,464</u>	<u>\$ 9,362</u>	<u>\$ -</u>	<u>\$ 12,826</u>

NEWPORT INDEPENDENT SCHOOL DISTRICT

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

NOTE 5 - ACCUMULATED UNPAID SICK LEAVE BENEFITS

Upon providing proof of qualification as an annuitant from the Kentucky Teacher's Retirement System, certified and classified employees will receive from the District an amount equal to 30% of the value of accumulated sick leave. At June 30, 2014 this amount totaled approximately \$427,556 for those employees with twenty-seven or more years of experience or fifty-nine and a half years old.

NOTE 6 – COMMITMENTS UNDER CAPITAL LEASES

The District is the lessee of equipment under operating leases expiring in various years through 2018. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are depreciated over the lower of their related lease terms or the estimated productive lives. Depreciation of assets under capital leases is included in depreciation expense.

Future minimum lease payments under capital leases as of June 30, 2014, for each of the next five years and in the aggregate are as follows:

Year Ending <u>June 30.</u>	Capital Lease <u>Payable</u>
2014-2015	\$ 137,793
2015-2016	137,793
2016-2017	118,063
2017-2018	6,147
2018-2019	-
Thereafter	<u>-</u>
Total minimum payments	399,796
Less amount representing interest	<u>10,116</u>
Present value of net minimum lease payments	<u><u>\$ 389,680</u></u>

NOTE 7 - LEASE OBLIGATIONS AND BONDED DEBT

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

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

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
March 1, 2003	\$ 8,140,000	3.000% - 3.250%
January 1, 2006	\$ 150,291	3.00% - 3.625%
January 12, 2012	\$ 2,365,000	1.500% - 3.250%
September 1, 2012	\$ 108,289	3.500%
March 6, 2014	\$ 2,125,000	0.350% - 4.000%

NEWPORT INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements (Continued)

NOTE 7 - LEASE OBLIGATIONS AND BONDED DEBT (Continued)

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

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

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, 2014 for debt service (principal and interest) are reported in Note 17.

NOTE 8 - 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 11.355% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% of salaries for members in a state retirement system 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, 2014, was \$1,437,893, which consisted of \$342,523 from the District and \$1,095,370 from the employees. Total contributions for the year ended June 30, 2013 and 2012 were \$1,278,117 and \$1,258,751, respectively. The contributions have been contributed in full for fiscal years 2014, 2013 and 2012.

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, 2014, was \$732,085, which consisted of \$573,336 from the District and \$158,749 from the employees. Total contributions for the year ended June 30, 2013 and 2012 were \$750,263 and \$777,250 respectively. The contributions have been contributed in full for fiscal years 2014, 2013 and 2012.

NEWPORT INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements (Continued)

NOTE 8 - RETIREMENT PLANS (Continued)

The District's total payroll for the year was \$12,704,650. The payroll for employees covered under KTRS was \$9,642,589 and for CERS was \$3,035,128.

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 9 - CONTINGENCIES

Grant Fund Approval

The District receives funding from federal, state, and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue the programs.

NOTE 10 - INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated, which includes workers' compensation insurance.

NOTE 11 - 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 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. 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 member on a pro rata basis.

NEWPORT INDEPENDENT SCHOOL DISTRICT

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

NOTE 11 - RISK MANAGEMENT (Continued)

The District is self-insured for unemployment insurance benefits. The District reimburses the state for any claims paid. The District purchases workers' compensation insurance through the Kentucky School Boards Insurance Trust. 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 12 - DEFICIT OPERATING/FUND BALANCES

There are no funds of the District that currently have a deficit fund balance. However, the following funds have operations that resulted in a current year deficit of revenues over expenditures, resulting in a corresponding reduction of fund balance:

Trust/Agency Fund	\$	3,243
Newport Intermediate School		1,810
Newport Primary School		1,044

NOTE 13 - COBRA

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

NOTE 14 - CONTINGENT LIABILITY

The District is a participant in the Kentucky School Board Insurance Trust in which the District purchases general liability and workers' compensation insurance. As of June 30, 2014, 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 \$125,380. This contingent liability has been recorded in the District Wide Financial Statements but not included in the Governmental Financial Statements.

NOTE 15 - TRANSFER OF FUNDS

The following transfers were made during the year.

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Food Service Fund	General Fund	Indirect Costs	\$ 45,950
Special Revenue Fund	General Fund	Indirect Costs	11,312
General Fund	Special Revenue Fund	Matching	15,395
General Fund	Trust/Agency Fund	Operating Costs	73,219
Building Fund	Debt Service Fund	Debt Service	656,156
Capital Outlay Fund	Debt Service Fund	Debt Service	159,856

NEWPORT INDEPENDENT SCHOOL DISTRICT

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

NOTE 16 - ON-BEHALF PAYMENTS

For the year ended June 30, 2014 total payments of \$3,134,645 were made for life insurance, health insurance, KTRS matching and administrative fees by the Commonwealth of Kentucky on behalf of the District. These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expense accounts on the statement of activities.

General Fund	\$ 2,806,570
Debt Service Fund	266,020
Food Service Fund	<u>62,055</u>
 Total On-Behalf	 <u><u>\$ 3,134,645</u></u>

NOTE 17 - SCHEDULE OF LONG-TERM DEBT

A summary of the changes in the outstanding principal for the District during the fiscal year ended June 30, 2014 is as follows:

FISCAL YEAR	2003, 2006, 2012, 2014 and KISTA Bus Loans						
	NEWPORT INDEPENDENT SCHOOL DISTRICT			KY. SCHOOL FACILITIES CONSTRUCTION COMMISSION			TOTAL REQUIREMENTS
	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL	
2014-2015	\$ 63,317	\$ 24,183	\$ 87,500	\$ 156,325	\$ 82,426	\$ 238,751	\$ 326,251
2015-2016	45,775	25,743	71,518	154,669	84,083	238,752	310,270
2016-2017	49,184	25,410	74,594	156,443	82,310	238,753	313,347
2017-2018	47,433	24,954	72,387	158,378	80,375	238,753	311,140
2018-2019	50,507	24,399	74,906	160,487	78,266	238,753	313,659
2019-2020	48,109	23,665	71,774	163,068	75,685	238,753	310,527
2020-2021	48,789	22,762	71,551	165,922	72,831	238,753	310,304
2021-2022	50,598	21,708	72,306	169,296	69,458	238,754	311,060
2022-2023	37,047	20,443	57,490	172,953	65,799	238,752	296,242
2023-2024	43,154	19,424	62,578	176,846	61,906	238,752	301,330
2024-2025	38,597	18,130	56,727	181,403	57,350	238,753	295,480
2025-2026	43,813	16,914	60,727	186,187	52,566	238,753	299,480
2026-2027	48,513	15,468	63,981	191,487	47,266	238,753	302,734
2027-2028	47,948	13,770	61,718	197,052	41,701	238,753	300,471
2028-2029	46,702	12,092	58,794	203,298	35,454	238,752	297,546
2029-2030	50,176	10,399	60,575	209,824	28,928	238,752	299,327
2030-2031	53,008	8,517	61,525	216,992	21,760	238,752	300,277
2031-2032	55,559	6,503	62,062	224,441	14,312	238,753	300,815
2032-2033	52,463	4,392	56,855	82,537	6,608	89,145	146,000
2033-2034	57,335	2,293	59,628	82,665	3,307	85,972	145,600
	<u>\$ 978,027</u>	<u>\$ 341,169</u>	<u>\$ 1,319,196</u>	<u>\$ 3,410,273</u>	<u>\$ 1,062,391</u>	<u>\$ 4,472,664</u>	<u>\$ 5,791,860</u>

NEWPORT INDEPENDENT SCHOOL DISTRICT

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

NOTE 17 - SCHEDULE OF LONG-TERM DEBT (Continued)

A summary of the changes in principal of the outstanding bond obligations and the capital leases for the District during the year ended June 30, 2014 is as follows:

<u>Governmental Activities</u>	<u>Balance July 01, 2013</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance June 30, 2014</u>
Bond Obligations	<u>\$ 3,286,697</u>	<u>\$ 2,125,000</u>	<u>\$ 1,023,397</u>	<u>\$ 4,388,300</u>
Capital Leases	<u>\$ 305,804</u>	<u>\$ 161,524</u>	<u>\$ 77,648</u>	<u>\$ 389,680</u>

NOTE 18 – PRIOR PERIOD ADJUSTMENT

For the year ended June 30, 2014, the District adopted GASB 65 *Items Previously Reported as Assets and Liabilities*. As a result of this adoption, the beginning net assets of the government fund activities have been decreased \$26,141. The governmental funds had a balance at June 30, 2013 of \$13,357,758. The balance should have been \$13,331,617. The change is the result of the write off of the amortized costs associated with the deferred loss on a bond's refunding. The net effect of these restatements was \$26,141.

NOTE 19 - SUBSEQUENT EVENTS

Subsequent events were considered through November 14, 2014, which represents the release date of our report.

SUPPLEMENTARY
INFORMATION

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Combining Balance Sheet – Nonmajor Governmental Funds
Year Ended June 30, 2014**

	<u>Capital Outlay Fund</u>	<u>Building Fund</u>	<u>Debt Service Fund</u>	<u>Total Nonmajor Governmental Funds</u>
Assets				
Current				
Cash and cash equivalents	\$ 20,698	\$ -	\$ -	\$ 20,698
Accounts receivable	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	<u>20,698</u>	<u>-</u>	<u>-</u>	<u>20,698</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances				
Restricted:				
SFCC Escrow	20,698	-	-	20,698
Unassigned	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
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
Year Ended June 30, 2014**

	<u>Capital Outlay Fund</u>	<u>Building Fund</u>	<u>Debt Service Fund</u>	<u>Total Nonmajor Government Funds</u>
Revenues				
Taxes	\$ -	\$ 478,838	\$ -	\$ 478,838
Earnings on investments	-	-	-	-
State sources	159,856	177,318	266,020	603,194
Federal sources	-	-	-	-
Other sources	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenues	159,856	656,156	266,020	1,082,032
	<hr/>	<hr/>	<hr/>	<hr/>
Expenditures				
Debt service:				
Principal	-	-	1,000,000	1,000,000
Interest	-	-	82,032	82,032
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenditures	-	-	1,082,032	1,082,032
	<hr/>	<hr/>	<hr/>	<hr/>
Excess of expenditures over revenues	159,856	656,156	(816,012)	-
	<hr/>	<hr/>	<hr/>	<hr/>
Other Financing Sources (Uses)				
Operating transfers in	-	-	816,012	816,012
Operating transfers out	(159,856)	(656,156)	-	(816,012)
	<hr/>	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	(159,856)	(656,156)	816,012	-
	<hr/>	<hr/>	<hr/>	<hr/>
Excess of expenditures and other financing uses over revenues and other financing sources	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Fund balance, July 1, 2013	20,698	-	-	20,698
	<hr/>	<hr/>	<hr/>	<hr/>
Fund balance, June 30, 2014	\$ 20,698	\$ -	\$ -	\$ 20,698
	<hr/>	<hr/>	<hr/>	<hr/>

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Statement of Receipts, Disbursements and Fund Balances
Bond and Interest Redemption Funds
Year Ended June 30, 2014**

	<u>Issue of 2003</u>	<u>2006 KISTA</u>	<u>Issue of 2012</u>	<u>Issue of 2012 KISTA</u>	<u>Issue of 2014</u>	<u>Total</u>
Cash at July 1, 2013	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Receipts:						
Transfers and miscellaneous deposits	<u>929,250</u>	<u>14,915</u>	<u>152,782</u>	<u>13,546</u>	<u>-</u>	<u>1,110,493</u>
Disbursements:						
Bonds paid	900,000	13,907	100,000	11,727	-	1,025,634
Interest coupons	<u>29,250</u>	<u>1,008</u>	<u>52,782</u>	<u>1,819</u>	<u>-</u>	<u>84,859</u>
Total disbursements	<u>929,250</u>	<u>14,915</u>	<u>152,782</u>	<u>13,546</u>	<u>-</u>	<u>1,110,493</u>
Excess of receipts over disbursements	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash at June 30, 2014	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Accounts Receivable and Payable						
Matured interest and bonds outstanding	-	-	-	-	-	-
Due from other funds	-	-	-	-	-	-
Due to other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total accounts receivable and payable	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance at June 30, 2014	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Statement of Receipts, Disbursements and Fund Balances
Newport High School Activity Funds
Year Ended June 30, 2014**

	<u>Fund Balance June 30, 2013</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Fund Balance June 30, 2014</u>
Academic team	\$ 44	\$ -	\$ -	\$ 44
Alumni fund	222	6,278	5,248	1,252
Annual	5,764	4,952	4,308	6,408
Archery club	-	1,537	37	1,500
Art	102	205	149	158
Baseball	944	-	159	785
Basketball	900	1,935	2,833	2
Business	230	150	-	380
Cats café	-	1,269	1,253	16
Charitable donations and Payme	965	-	-	965
Cheerleading	45	2,402	246	2,201
Cheerleading 2014-2015	-	1,150	-	1,150
Children's Inc. donation	500	-	-	500
Class of 2014	409	6,729	7,108	30
Class of 2015	-	4,505	4,401	104
Coke account	1,660	112	470	1,302
Commercial art	76	124	-	200
Digital photography club	323	-	-	323
F.B.L.A.	162	4,871	3,144	1,889
F.C.C.L.A.	676	-	-	676
Fine arts	11	-	-	11
Football activities	244	5,455	2,940	2,759
Girls basketball	-	250	-	250
Graphic arts	3,426	35,174	33,649	4,951
Home economics-Jessica Cope	470	576	668	378
Industrial shop	927	479	919	487
Interest account	146	27	-	173
iPad take home fee	-	9,943	1,255	8,688
John Turner memorial donations	535	50	-	585
Key club	2,618	1,501	4,048	71
Library	136	9	124	21
Math	692	50	108	634
Media	117	-	-	117
MSD	-	491	479	12
National Honor's Society	407	-	-	407
Officials	10,226	21,117	23,439	7,904
PE and health	116	-	-	116
Pep Club	67	-	-	67
Recycling	107	18	-	125
Retirement donations	67	-	-	67
Roger Johnson Foundation	-	5,000	2,000	3,000
School newspaper	121	-	-	121
Science	602	-	-	602
Skills USA	3,353	566	3,881	38
Snack machine	53	-	-	53
Social studies	362	-	-	362
Softball	805	-	-	805
Spanish foreign language	71	-	-	71
Spanish honor society	266	-	-	266
Student activity	4,701	1,622	3,878	2,445
Student council	634	1,248	909	973
Sunshine	576	65	30	611
Target - take charge of education	978	106	-	1,084
Teacher supply fund	-	205	-	205
Teacher survey	-	170	60	110
Teachers lounge coke	11	500	507	4
Textbooks	1,210	-	-	1,210
Track	1,356	85	-	1,441
Transcripts and records	2,215	1,380	3,563	32
Volleyball	-	1,260	1,260	-
Washing inauguration	16	17,033	15,252	1,797
Wrestling	80	2,711	2,580	211
Youth basketball league	1,868	1,511	1,380	1,999
Total	\$ 52,612	\$ 144,821	\$ 132,285	\$ 65,148

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Statement of Receipts, Disbursements and Fund Balances
Year Ended June 30, 2014**

	<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, 2013	\$ 3,269	\$ 14,347	\$ 31,126	\$ 14,209	\$ 62,951
Add: receipts	30,664	27,582	31,433	13,813	103,492
Less: disbursements	<u>(24,268)</u>	<u>(25,358)</u>	<u>(33,243)</u>	<u>(14,857)</u>	<u>(97,726)</u>
Fund balances at June 30, 2014	<u>\$ 9,665</u>	<u>\$ 16,571</u>	<u>\$ 29,316</u>	<u>\$ 13,165</u>	<u>\$ 68,717</u>

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014**

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Agreement Number	Federal Expenditures for FYE 6/30/2014
U.S. Department of Education			
<i>Passed through Kentucky Department of Education</i>			
Special Education Cluster			
Special Education Grants to States	84.027	3810002 13	\$ 19,730
Special Education Grants to States	84.027	3810002 14	470,963
Special Education Preschool Grants	84.173	3800002 13	12,535
Special Education Preschool Grants	84.173	3800002 14	12,647
Total Special Education Cluster			<u>515,875</u>
Kentucky Treasurer Adult Education			54,227
Title I Grants to Local Educational Agencies	84.010	3100002 13	306,421
Title I Grants to Local Educational Agencies	84.010	3100002 12	106,883
Title I Grants to Local Educational Agencies	84.010	3100002 14	858,749
Total for CFDA #84.010			<u>1,272,053</u>
Career and technical Education -Basic Grants to States	84.048	3710002 13	19,159
Career and technical Education -Basic Grants to States	84.048	3710002 14	36,127
Total for CFDA #84.048			<u>55,286</u>
Education for Homeless Children and Youth	84.196	3990002 12	45,183
Fund for the Improvement of Education	84.215F	S215F130150	230,784
Title II Improving Teacher Quality State Grants	84.367	3230002 13	69,082
Title II Improving Teacher Quality State Grants	84.367	3230002 14	95,889
Total for CFDA #84.367			<u>164,971</u>
School Improvement Grants	84.377	3100202 12	445,904
School Improvement Grants	84.377	3100302 10	74,651
School Improvement Grants	84.377	3100302 11	410,485
School Improvement Grants - ARRA	84.388	4100302 09	107,742
Total for CFDA #84.388			<u>1,038,782</u>
Race to the Top - ARRA	84.413	3960002 11	5,256
Twenty-First Century Community Learning Centers	84.287C	3400002 12	200,862
Total U.S. Department of Education			<u><u>3,583,279</u></u>
U.S. Department of Agriculture			
Child Nutrition Cluster			
<i>Passed through Kentucky Department of Education</i>			
National School Lunch Program	10.555	7750002 14	797,952
School Breakfast Program	10.553	7760005 14	265,679
Summer Food Program for Children	10.559	7740023 13	6,499
Total U.S. Department of Education			1,070,130
<i>Passed through Kentucky Department of Agriculture</i>			
National School Lunch Program - Food Donation	10.555	N/A	64,227
Total Child Nutrition Cluster			1,134,357
<i>Passed through Kentucky Department of Education</i>			
Fresh Fruit and Vegetable Program	10.582	7720012 14	30,326
Total U.S. Department of Agriculture			<u>1,164,683</u>
Total Expenditures of Federal Awards			<u><u>\$ 4,747,962</u></u>

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014**

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Newport Independent School District under programs of the federal government for the year ended June 30, 2014, and is reported on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Newport Independent School District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

NOTE 2 – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed. For the year ended June 30, 2014, the District reported food commodities expended in the amount of \$124,227.



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, 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, 2014, 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 14, 2014.

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*.

**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**

(Continued)

Purpose of this Report

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

Burns, Donning & Co., Ltd.

Crestview Hills, Kentucky
November 14, 2014



**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
Newport, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Newport Independent School District's compliance with the types of compliance requirements described in the *OMB 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, 2014. 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, 2014.

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.

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

Report on Internal Control Over Compliance (Continued)

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.

Banner, Deming & Co., Ltd.

Crestview Hills, Kentucky
November 14, 2014

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2014**

SECTION I -SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

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

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

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

Federal Awards

Internal control over major programs:

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

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

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? _____ Yes X No

Identification of major programs

CFDA No.	Name of Federal Program or Clusters
10.553/10.555/10.559 84.010	Child Nutrition Cluster Title I Grants to Local Educational Agencies

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

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

SECTION II – FINANCIAL STATEMENT FINDINGS

No matters are reportable

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COST

No matters are reportable

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Summary Schedule of Prior Audit Findings
Year Ended June 30, 2014**

Reference Number	Summary of Findings	Status
	No matters are reportable	

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Management Letter Comments (Continued)
Year Ended June 30, 2014**

In planning and performing our audit of the financial statements of Newport Independent School District for the year ended June 30, 2014, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

This letter summarizes our comments and suggestions regarding those matters. A separate report dated November 14, 2014 contains our report on significant deficiencies and material weaknesses in the District's internal control structure. This letter does not affect our report dated November 14, 2014, on the financial statements of the Newport Independent School District.

CURRENT YEAR RECOMMENDATIONS

CENTRAL OFFICE

No matters are reportable

ACTIVITY FUNDS

NEWPORT HIGH SCHOOL

2014-01: Timely deposits not made and documentation of receipts not properly made

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

Condition – During the testing of the Activity Fund, it was noted that some deposits were not being made in a timely manner and the documentation of the multiple receipts were not properly included on the deposit slips.

Effect – Best practices of depositing funds on a daily basis and using standard multiple receipt forms were not properly followed.

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

Recommendation – We recommend that District personnel refer to the 2013 Redbook best practices for handling of deposits. In addition, we recommend using Document F-SA-6 – *Multiple Receipt Form* in the 2013 Redbook for documenting when the school receives multiple receipts in one day.

Board Response - The business office will retrain the staff at NHS in Redbook practices related to deposits and receipts. The business office will personally review all deposits twice monthly to insure compliance is in order.

NEWPORT ALTERNATIVE HIGH SCHOOL

No matters are reportable

NEWPORT MIDDLE SCHOOL

No matters are reportable

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Management Letter Comments (Continued)
Year Ended June 30, 2014**

CURRENT YEAR RECOMMENDATIONS (Continued)

NEWPORT INTERMEDIATE SCHOOL

2014-02: Monthly Financial Reports were not signed off on by the proper District personnel

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

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

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

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

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

Board Response - The business office will retrain all staff in timely reviews of financial records and monitor this practice in writing for the next six months to insure compliance in report supplemental, review and sign-offs.

2014-03: The School's Booster Club does not have a Federal Identification Number set up to maintain their own financial statements.

Criteria – Per best practices recommended by the Kentucky Department of Education, an external booster organization must obtain its own Federal Employer Identification Number specifically for its use.

Condition – During testing of the Activity Fund, it was noted that the School's booster club is organized under the Social Security Number of the individual in charge.

Effect – Proper organization and setup of the School's booster club was not established.

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

Recommendation – We recommend that the booster organization files for a Federal Employer Identification Number to continue the booster's established purpose. Refer to the 2013 Redbook for the best practices for the organization and operations of external booster clubs.

Board Response - Immediately the business office will work directly with the school principal and PTO officers to file for the federal identification number. No fund raisers or activities will be held until this number is obtained.

NEWPORT INDEPENDENT SCHOOL DISTRICT

**Management Letter Comments (Continued)
Year Ended June 30, 2014**

CURRENT YEAR RECOMMENDATIONS (Continued)

NEWPORT PRIMARY SCHOOL

No matters are reportable

STATUS OF PRIOR YEAR RECOMMENDATIONS

CENTRAL OFFICE

No matters are reportable

ACTIVITY FUNDS

NEWPORT HIGH SCHOOL

No matters are reportable

NEWPORT ALTERNATIVE HIGH SCHOOL

No matters are reportable

NEWPORT MIDDLE SCHOOL

No matters are reportable

NEWPORT INTERMDIATE SCHOOL

No matters are reportable

NEWPORT PRIMARY SCHOOL

No matters are reportable