



**Auditor of State  
Betty Montgomery**



**NEWTON LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

Newton Local School District  
Miami County  
201 N. Long Street  
Pleasant Hill, Ohio 45359

To the Members of the Board:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Newton Local School District, Miami County, (the District), as of and for the years ended June 30, 2005 and 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. 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 the Comptroller General of the United States *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Newton Local School District, Miami County, Ohio, as of June 30, 2005 and 2004, and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3 during the year ended June 30, 2004, the District implemented a new financial reporting model, as required by the provisions of Government Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 1, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

March 1, 2006

**NEWTON LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED**

The management's discussion and analysis of the Newton Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

**Financial Highlights**

Key financial highlights for 2005 are as follows:

- In total, net assets of governmental activities increased \$290,136 which represents a 20.22% increase from 2004.
- General revenues accounted for \$4,469,785 in revenue or 84.48% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$821,429 or 15.52% of total revenues of \$5,291,214.
- The District had \$5,001,078 in expenses related to governmental activities; \$821,429 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$4,469,785 were adequate to provide for these programs.
- The District's major governmental funds are the general fund and debt service fund. The general fund had \$4,559,067 in revenues and \$4,288,961 in expenditures and other financing uses. During fiscal year 2005, the general fund's fund balance increased \$270,106 from \$68,998 to \$339,104.
- The District's debt service fund had \$205,427 in revenues and \$180,652 in expenditures. During fiscal year 2005, the debt service fund's fund balance increased \$24,775 from \$74,212 to \$98,987.

**Using these Basic Financial Statements**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other non-major funds presented in total in one column. In the case of the District, the general fund and debt service fund are by far the most significant funds, and the only governmental funds reported as major funds.

**NEWTON LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED  
(Continued)**

**Reporting the District as a Whole**

**Statement of Net Assets and the Statement of Activities**

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the *financial position* of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

The District's statement of net assets and statement of activities can be found on pages 13-14 of this report.

**Reporting the District's Most Significant Funds**

**Fund Financial Statements**

The analysis of the District's major governmental funds begins on page 9. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's only major governmental funds are the general fund and debt service fund.

**Governmental Funds**

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-19 of this report.



**NEWTON LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED  
(Continued)**

**Reporting the District's Fiduciary Responsibilities**

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 20 and 21. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

**Notes to the Basic Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 23-47 of this report.

**The District as a Whole**

Recall that the Statement of Net Assets provides the perspective of the District as a whole.

The table below provides a summary of the District's net assets for 2005 and 2004.

	<b>Net Assets</b>	
	<b>Governmental Activities 2005</b>	<b>Governmental Activities 2004</b>
<b>Assets</b>		
Current and other assets	\$2,030,186	\$1,812,749
Capital assets	3,158,996	3,215,822
Total assets	5,189,182	5,028,571
<b>Liabilities</b>		
Current liabilities	1,525,352	1,543,711
Long-term liabilities	1,939,109	2,050,275
Total liabilities	3,464,461	3,593,986
<b>Net Assets</b>		
Invested in capital assets, net of related debt	1,533,996	1,497,628
Restricted	127,691	140,336
Unrestricted (deficit)	63,034	(203,379)
Total net assets	\$1,724,721	\$1,434,585

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the District's assets exceeded liabilities by \$1,724,721. Of this total, \$127,691 is restricted in use.

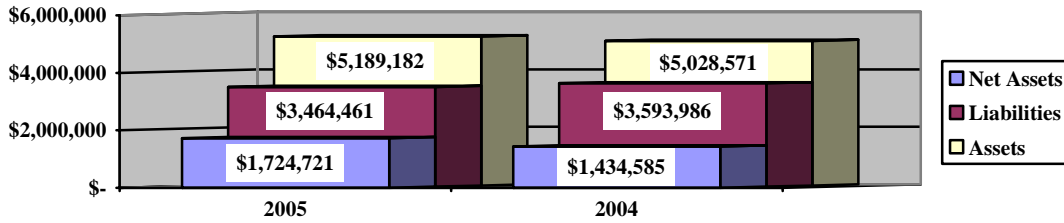
**NEWTON LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED  
(Continued)**

At year-end, capital assets represented 60.88% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2005, were \$1,533,996. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$127,691 represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets is \$63,034.

**Governmental Activities**



The table below shows the change in net assets for fiscal year 2005 and 2004.

	<b>Change in Net Assets</b>	
	<b>Governmental Activities 2005</b>	<b>Governmental Activities 2004</b>
<b>Revenues</b>		
Program revenues:		
Charges for services and sales	\$518,330	\$467,113
Operating grants and contributions	303,099	272,120
General revenues:		
Property taxes	1,150,739	1,098,929
School district income taxes	847,245	577,314
Grants and entitlements	2,424,838	2,408,783
Investment earnings	15,115	5,042
Other	31,848	17,219
<b>Total revenues</b>	<b>\$5,291,214</b>	<b>\$4,846,520</b>

**NEWTON LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED  
(Continued)**

	Change in Net Assets	
	Governmental Activities 2005	Governmental Activities 2004
<b>Expenses</b>		
Program expenses:		
Instruction:		
Regular	\$2,485,572	\$2,374,082
Special	454,419	463,751
Vocational	2,410	2,347
Support services:		
Pupil	179,893	173,940
Instructional staff	162,056	131,103
Board of education	11,632	4,123
Administration	576,227	564,928
Fiscal	175,873	184,278
Business	150	1,166
Operations and maintenance	317,237	293,824
Pupil transportation	216,231	196,949
Central	4,414	2,338
Food service operations	146,533	135,541
Operation of non-instructional services	6,000	1,884
Extracurricular activities	175,046	157,278
Interest and fiscal charges	87,385	92,459
	5,001,078	4,779,991
 Change in net assets	 290,136	 66,529
Net assets at beginning of year	1,434,585	1,368,056
Net assets at end of year	\$1,724,721	\$1,434,585

**Governmental Activities**

Net assets of the District's governmental activities increased \$290,136. Total governmental expenses of \$5,001,078 were offset by program revenues of \$821,429 and general revenues of \$4,469,785. Program revenues supported 16.43% of the total governmental expenses.

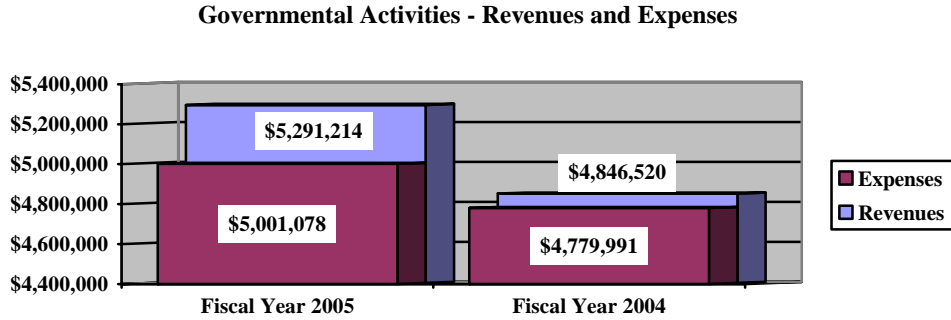
The primary sources of revenue for governmental activities are derived from property taxes, income taxes and grants and entitlements. These revenue sources represent 83.59% of total governmental revenue.

The largest expense of the District is for instructional programs. Instruction expenses totaled \$2,842,401 or 58.84% of total governmental expenses for fiscal 2005.

**NEWTON LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED  
(Continued)**

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2005 and 2004.



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

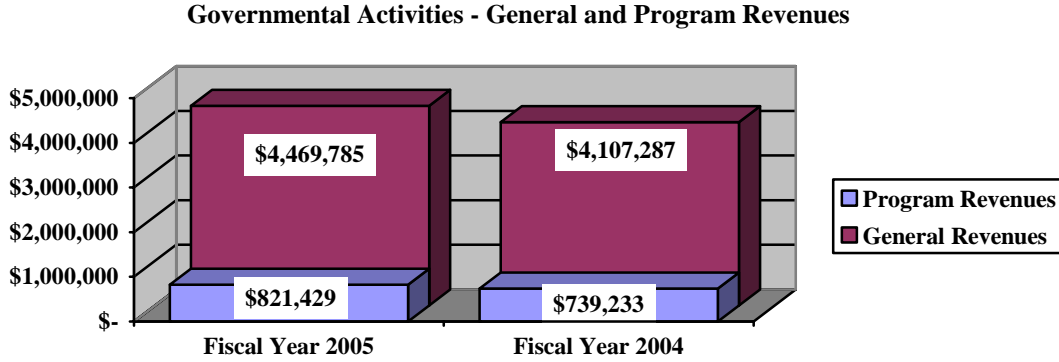
	<b>Total Cost of Services 2005</b>	<b>Net Cost of Services 2005</b>	<b>Total Cost of Services 2004</b>	<b>Net Cost of Services 2004</b>
<b>Program expenses</b>				
Instruction:				
Regular	\$2,485,572	\$2,084,317	\$2,374,082	\$2,029,973
Special	454,419	302,458	463,751	337,117
Vocational	2,410	2,410	2,347	2,347
Support services:				
Pupil	179,893	178,540	173,940	172,824
Instructional staff	162,056	143,682	131,103	131,103
Board of education	11,632	11,632	4,123	4,123
Administration	576,227	564,083	564,928	520,074
Fiscal	175,873	172,843	184,278	181,986
Business	150	150	1,166	1,166
Operations and maintenance	317,237	297,022	293,824	268,016
Pupil transportation	216,231	216,231	196,949	196,949
Central	4,414	4,414	2,338	2,338
Food service operations	146,533	12,965	135,541	1,133
Operation of non-instructional services	6,000	6,000	1,884	1,884
Extracurricular activities	175,046	95,517	157,278	97,266
Interest and fiscal charges	87,385	87,385	92,459	92,459
<b>Total expenses</b>	<b>\$5,001,078</b>	<b>\$4,179,649</b>	<b>\$4,779,991</b>	<b>\$4,040,758</b>

The dependence upon tax and other general revenues for governmental activities is apparent, 81.20% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 83.57%. The District's taxpayers, as a whole, are by far the primary support for District's students.

**NEWTON LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED  
(Continued)**

The graph below presents the District's governmental activities revenue for fiscal year 2005 and 2004.



**The District's Funds**

The District's governmental funds reported a combined fund balance of \$492,283 which is higher than last year's total of \$217,044. The June 30, 2004 fund balances have been restated as described in Note 3.A. to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2005 and 2004.

	<u>Fund Balance June 30, 2005</u>	<u>Restated Fund Balance June 30, 2004</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
General	\$339,104	\$68,998	\$270,106	391.47 %
Debt Service	98,987	74,212	24,775	33.38 %
Other Governmental	54,192	73,834	(19,642)	(26.60) %
<b>Total</b>	<u>\$492,283</u>	<u>\$217,044</u>	<u>\$275,239</u>	126.81 %

**General Fund**

The District's general fund balance increased \$270,106 (after a restatement to the June 30, 2004, fund balance which is detailed in Note 3.A. to the basic financial statements). The increase in fund balance can be attributed to several items related to increasing revenues and increased expenditures. Revenues exceed expenditures for fiscal year 2005 by \$270,106.

Tuition revenues of \$297,221 are incoming open enrollment students' basic-aid from the state foundation. This is offset by expenses deducted from state foundation for out-going open enrollment students. Earnings on investments were up due to higher interest rates. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**NEWTON LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED  
(Continued)**

	<u>2005 Amount</u>	<u>Restated 2004 Amount</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
<b>Revenues</b>				
Taxes	\$1,826,505	\$1,497,659	\$328,846	21.96 %
Tuition	297,221	225,551	71,670	31.78 %
Earnings on investments	13,486	4,309	9,177	212.97 %
Intergovernmental	2,401,368	2,384,515	16,853	0.71 %
Other revenues	20,487	26,544	(6,057)	(22.82) %
Total	<u>\$4,559,067</u>	<u>\$4,138,578</u>	<u>\$420,489</u>	10.16 %
<b>Expenditures</b>				
Instruction	\$2,630,870	\$2,537,624	\$93,246	3.67 %
Support services	1,543,677	1,493,967	49,710	3.33 %
Extracurricular activities	107,326	100,510	6,816	6.78 %
Debt service	3,478	3,478	-	-
Total	<u>\$4,285,351</u>	<u>\$4,135,579</u>	<u>\$149,772</u>	3.62 %

**Debt Service Fund**

The District's debt service fund had \$205,427 in revenues and \$180,652 in expenditures. During fiscal year 2005, the debt service fund's fund balance increased \$24,775 from \$74,212 to \$98,987.

**General Fund Budgeting Highlights**

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the general fund.

During the course of fiscal 2005, the District did not amend its general fund budget. For the general fund, original and final budgeted revenues and other financing sources were \$4,405,647. Actual revenues and other financing sources for fiscal 2005 was \$4,410,623. This was \$4,976 higher than the final budgeted revenues.

General fund original and final appropriations (appropriated expenditures including other financing uses) were \$4,606,760. The actual budget basis expenditures for fiscal year 2005 totaled \$4,324,214, which was \$282,546 less than the final budget appropriations.

**NEWTON LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED  
(Continued)**

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal 2005, the District had \$3,158,996 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2005 balances compared to 2004:

**Capital Assets at June 30  
(Net of Depreciation)**

	<b>2005</b>	<b>2004</b>
Land	\$203,373	\$203,373
Land improvements	17,699	19,265
Building and improvements	2,548,564	2,597,048
Furniture and equipment	262,767	247,402
Vehicles	126,593	148,734
Total	<b>\$3,158,996</b>	<b>\$3,215,822</b>

The overall decrease in capital assets of \$56,826 is due to depreciation expense of \$157,009 exceeding capital outlays of \$100,183 in the fiscal year.

See Note 9 to the basic financial statements for additional information on the District's capital assets.

**Debt Administration**

At June 30, 2005, the District had \$1,625,000 in general obligation bonds outstanding. Of this total, \$95,000 is due within one year and \$1,530,000 is due within greater than one year. The following table summarizes the bonds outstanding.

**Outstanding Debt, at Year End**

	<b>Governmental Activities 2005</b>	<b>Governmental Activities 2004</b>
General obligation bonds	\$1,625,000	\$1,715,000
Total	<b>\$1,625,000</b>	<b>\$1,715,000</b>

At June 30, 2005, the District's overall legal debt margin was \$3,117,836, and an unvoted debt margin of \$51,601.

See Note 11 to the basic financial statements for additional information on the District's debt administration.

**NEWTON LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED  
(Continued)**

**Current Financial Related Activities**

The District continues to be challenged by reduced revenues and increased expenses. State Foundation revenue is based primarily on student count. Therefore, less money is being received by the state and additional financial responsibility is being brought upon the districts residents. Contracted services with the local Educational Service Center for special education needs continues to grow. Another major expense is the large number of students leaving the district for open enrollment to other districts. National disasters have caused fuel and electric costs to soar.

The District was very fortunate to pass an additional income tax levy of 0.75% on the March 2004 ballot for three years with collections beginning January 1, 2005. Even with this additional \$400,000 plus per calendar year, the District is projecting a deficit cash balance for Fiscal Year 2008.

The Board of Education continues to use budgetary controls to monitor finances while maintaining a solid academic program to its students. It is a top priority of the board to set and meet goals and objectives to keep the District financially sound and to provide instructional elements in order for students to excel educationally.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Fred Henderson, Treasurer, Newton Local School District, 201 N. Long Street, Pleasant Hill, Ohio 45359-0803.



**NEWTON LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**STATEMENT OF NET ASSETS  
JUNE 30, 2005**

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents	\$443,764
Cash with fiscal agent	212
<b>Receivables:</b>	
Taxes	1,530,804
Accounts	1,426
Intergovernmental	28,257
Prepayments	16,944
Materials and supplies inventory	8,779
Capital assets:	
Land	203,373
Depreciable capital assets, net	2,955,623
Capital assets, net	3,158,996
 Total assets	 5,189,182
<b>Liabilities:</b>	
Accounts payable	2,852
Accrued wages and benefits	375,517
Pension obligation payable	88,211
Intergovernmental payable	16,997
Deferred revenue	1,035,195
Accrued interest payable	6,580
Long-term liabilities:	
Due within one year	116,773
Due within more than one year	1,822,336
Total liabilities	3,464,461
<b>Net Assets:</b>	
Invested in capital assets, net of related debt	1,533,996
Restricted for:	
Capital projects	1,219
Debt service	94,322
State funded programs	5,456
Federally funded programs	22,906
Student activities	3,788
Unrestricted (deficit)	63,034
Total net assets	\$1,724,721

*See accompanying notes to the basic financial statements.*

**NEWTON LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
<b>Governmental activities:</b>				
<b>Instruction:</b>				
Regular	\$2,485,572	\$325,681	\$75,574	(\$2,084,317)
Special	454,419		151,961	(302,458)
Vocational	2,410			(2,410)
<b>Support services:</b>				
Pupil	179,893		1,353	(178,540)
Instructional staff	162,056		18,374	(143,682)
Board of education	11,632			(11,632)
Administration	576,227		12,144	(564,083)
Fiscal	175,873		3,030	(172,843)
Business	150			(150)
Operations and maintenance	317,237	19,612	603	(297,022)
Pupil transportation	216,231			(216,231)
Central	4,414			(4,414)
Operation of non-instructional	6,000			(6,000)
Food service operations	146,533	93,508	40,060	(12,965)
Extracurricular activities	175,046	79,529		(95,517)
Interest and fiscal charges	87,385			(87,385)
<b>Total governmental activities</b>	<b>\$5,001,078</b>	<b>\$518,330</b>	<b>\$303,099</b>	<b>(4,179,649)</b>
		<b>General Revenues:</b>		
		Property taxes levied for:		
		General purposes		971,760
		Debt service		178,979
		School district income tax		847,245
		Grants and entitlements not restricted to specific programs		2,424,838
		Investment earnings		15,115
		Miscellaneous		31,848
		<b>Total general revenues</b>		<b>4,469,785</b>
		Change in net assets		290,136
		<b>Net assets at beginning of year</b>		<b>1,434,585</b>
		<b>Net assets at end of year</b>		<b>\$1,724,721</b>

See accompanying notes to the basic financial statements.

**NEWTON LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2005**

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>				
Equity in pooled cash and cash equivalents	\$299,786	\$86,335	\$57,643	\$443,764
Cash with fiscal agent			212	212
Receivables:				
Taxes	1,355,792	175,012		1,530,804
Accounts	1,426			1,426
Intergovernmental			28,257	28,257
Interfund receivable	15,438			15,438
Prepayments	16,944			16,944
Materials and supplies inventory	5,145		3,634	8,779
Total assets	<u>1,694,531</u>	<u>261,347</u>	<u>89,746</u>	<u>2,045,624</u>
<b>Liabilities:</b>				
Accounts payable	2,156		696	2,852
Accrued wages and benefits	369,230		6,287	375,517
Pension obligation payable	83,031		5,180	88,211
Intergovernmental payable	15,921		1,076	16,997
Interfund payable			15,438	15,438
Deferred revenue	885,089	162,360	6,877	1,054,326
Total liabilities	<u>1,355,427</u>	<u>162,360</u>	<u>35,554</u>	<u>1,553,341</u>
<b>Fund Balances:</b>				
Reserved for encumbrances	10,108		17,307	27,415
Reserved for materials and supplies inventory	5,145		3,634	8,779
Reserved for prepayments	16,944			16,944
Reserved for property tax unavailable for appropriation	66,235	12,428		78,663
Reserved for debt service		86,559		86,559
Unreserved, undesignated, reported in:				
General fund	240,672			240,672
Special revenue funds			32,032	32,032
Capital projects funds			1,219	1,219
Total fund balances	<u>339,104</u>	<u>98,987</u>	<u>54,192</u>	<u>492,283</u>
Total liabilities and fund balances	<u>\$1,694,531</u>	<u>\$261,347</u>	<u>\$89,746</u>	<u>\$2,045,624</u>

*See accompanying notes to the basic financial statements.*

**NEWTON LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2005**

<b>Total governmental fund balances</b>		<b>\$492,283</b>
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		3,158,996
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$12,254	
Intergovernmental revenue	<u>6,877</u>	
Total		19,131
In the statement of activities interest is accrued on outstanding bonds, whereas in governmental funds, interest expenditures are reported when due.		(6,580)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	314,109	
General obligation bonds payable	<u>1,625,000</u>	
Total		<u>(1,939,109)</u>
<b>Net assets of governmental activities</b>		<b><u><u>\$1,724,721</u></u></b>

*See accompanying notes to the basic financial statements.*

**NEWTON LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
From local sources:				
Taxes	\$1,826,505	\$180,398		\$2,006,903
Tuition	297,221			297,221
Charges for services			\$93,508	93,508
Earnings on investments	13,486	1,559	70	15,115
Extracurricular			79,529	79,529
Classroom materials and fees			27,710	27,710
Other local revenues	20,487		31,723	52,210
Intergovernmental - State	2,395,755	23,470	40,328	2,459,553
Intergovernmental - Federal	5,613		292,564	298,177
<b>Total revenue</b>	<u>4,559,067</u>	<u>205,427</u>	<u>565,432</u>	<u>5,329,926</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	2,325,213		164,351	2,489,564
Special	305,180		146,945	452,125
Vocational	477			477
Support services:				
Pupil	171,200		999	172,199
Instructional staff	139,669		15,376	155,045
Board of education	4,485			4,485
Administration	538,345		47,895	586,240
Fiscal	177,458	2,977	3,057	183,492
Business	150			150
Operations and maintenance	315,353		603	315,956
Pupil transportation	197,017			197,017
Central			3,645	3,645
Food service operations			140,081	140,081
Other non-instructional services			6,000	6,000
Extracurricular activities	107,326		59,732	167,058
Debt service:				
Principal retirement	3,194	90,000		93,194
Interest and fiscal charges	284	87,675		87,959
<b>Total expenditures</b>	<u>4,285,351</u>	<u>180,652</u>	<u>588,684</u>	<u>5,054,687</u>
Excess of revenues over (under) expenditures	<u>273,716</u>	<u>24,775</u>	<u>(23,252)</u>	<u>275,239</u>
<b>Other financing sources (uses):</b>				
Transfers in			3,610	3,610
Transfers (out)	(3,610)			(3,610)
<b>Total other financing sources (uses)</b>	<u>(3,610)</u>		<u>3,610</u>	
<b>Net change in fund balances</b>	270,106	24,775	(19,642)	275,239
<b>Fund balances</b>				
<b>at beginning of year (restated)</b>	68,998	74,212	73,834	217,044
<b>Fund balances at end of year</b>	<u>\$339,104</u>	<u>\$98,987</u>	<u>\$54,192</u>	<u>\$492,283</u>

See accompanying notes to the basic financial statements.

**NEWTON LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**Net change in fund balances - total governmental funds** \$275,239

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeds capital outlays in the current period.

Capital asset additions	\$100,183	
Current year depreciation	<u>(157,009)</u>	
<b>Total</b>		<b>(56,826)</b>

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Taxes	(8,919)	
Intergovernmental	<u>(29,793)</u>	
<b>Total</b>		<b>(38,712)</b>

Repayment of bond and capital lease obligation principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		93,194
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Governmental funds report expenditures for interest when it is due. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is due to the accrued interest on bonds.		574
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Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		<u>16,667</u>
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**Change in net assets of governmental activities** \$290,136

*See accompanying notes to the basic financial statements.*

**NEWTON LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>Budgeted Amounts</u>			<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>(Negative)</u>
<b>Revenues:</b>				
From local sources:				
Taxes	\$1,610,788	\$1,610,788	\$1,612,607	\$1,819
Tuition	296,886	296,886	297,221	335
Earnings on investments	12,046	12,046	12,060	14
Other local revenues	20,876	20,876	20,900	24
Intergovernmental - State	2,393,052	2,393,052	2,395,755	2,703
Intergovernmental - Federal	5,607	5,607	5,613	6
<b>Total revenue</b>	<u>4,339,255</u>	<u>4,339,255</u>	<u>4,344,156</u>	<u>4,901</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	2,497,529	2,497,529	2,344,348	153,181
Special	325,075	325,075	305,137	19,938
Vocational	508	508	477	31
Support services:				
Pupil	182,768	182,768	171,558	11,210
Instructional staff	149,946	149,946	140,750	9,196
Board of education	4,778	4,778	4,485	293
Administration	567,983	567,983	533,147	34,836
Fiscal	183,872	183,872	172,595	11,277
Business	160	160	150	10
Operations and maintenance	335,803	335,803	315,207	20,596
Pupil transportation	213,286	213,286	200,205	13,081
Extracurricular activities	124,759	124,759	117,107	7,652
<b>Total expenditures</b>	<u>4,586,467</u>	<u>4,586,467</u>	<u>4,305,166</u>	<u>281,301</u>
Excess of revenues over (under) expenditures	<u>(247,212)</u>	<u>(247,212)</u>	<u>38,990</u>	<u>286,202</u>
<b>Other financing sources (uses):</b>				
Refund of prior year expenditure	22,258	22,258	22,283	25
Transfers (out)	(3,846)	(3,846)	(3,610)	236
Advances in	44,009	44,009	44,059	50
Advances (out)	(16,447)	(16,447)	(15,438)	1,009
Proceeds from sale of capital assets	125	125	125	
<b>Total other financing sources (uses)</b>	<u>46,099</u>	<u>46,099</u>	<u>47,419</u>	<u>1,320</u>
Net change in fund balance	(201,113)	(201,113)	86,409	287,522
<b>Fund balance at beginning of year</b>	198,042	198,042	198,042	
<b>Prior year encumbrances appropriated</b>	3,071	3,071	3,071	
<b>Fund balance at end of year</b>	<u>\$0</u>	<u>\$0</u>	<u>\$287,522</u>	<u>\$287,522</u>

See accompanying notes to the basic financial statements.

**NEWTON LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2005**

	<b>Private-Purpose Trust</b>	
	<b>Scholarship</b>	<b>Agency</b>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents	\$302	\$20,735
Investments	38,902	
Receivables:		
Interest	638	
Notes	22,450	
	62,292	20,735
Total assets	62,292	20,735
<b>Liabilities:</b>		
Due to students		20,735
Total liabilities		\$20,735
<b>Net Assets:</b>		
Held in trust for scholarships	62,292	
Total net assets	\$62,292	

*See accompanying notes to the basic financial statements.*



NEWTON LOCAL SCHOOL DISTRICT  
MIAMI COUNTY

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>Private-Purpose Trust</u>
	<u>Scholarship</u>
<b>Additions:</b>	
Interest	\$688
Total additions	688
Change in net assets	688
<b>Net assets at beginning of year</b>	<u>61,604</u>
<b>Net assets at end of year</b>	<u><u>\$62,292</u></u>

*See accompanying notes to the basic financial statements.*

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**NEWTON LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(SEE ACCOUNTANT'S COMPILATION REPORT)**

**1. DESCRIPTION OF THE SCHOOL DISTRICT**

The Newton Local School District (the "District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The District provides educational services as authorized by state and federal guidelines.

The District was established in 1923 through the consolidation of existing land areas and school districts. The District serves an area of approximately 42 square miles. It is located in Miami County, and includes all of the Village of Pleasant Hill and a portion of Darke County. It is staffed by 25 non-certificated employees, 44 certificated full-time teaching personnel and three administrative employees who provide services to 568 students and other community members. The District currently operates one instructional-administrative building and one bus garage.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below.

**A. Reporting Entity**

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food services, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations' government board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

**NEWTON LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(SEE ACCOUNTANT'S COMPILATION REPORT)  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**1. Jointly Governed Organizations**

**Metropolitan Dayton Educational Cooperative Association (MDECA)** - The District is a participant in the Metropolitan Dayton Educational Cooperative Association (MDECA) which is a computer consortium. MDECA is an association of public school districts within the boundaries of Montgomery, Miami and Darke Counties and the Cities of Dayton, Troy and Greenville. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of MDECA consists of seven superintendents of member school districts, with six of the superintendents elected by majority vote of all member school districts except Montgomery County Educational Service Center. The seventh superintendent is from the Montgomery County Educational Service Center. Payments to MDECA are made from the general fund. Financial information can be obtained from Jerry Woodyard, who serves as Director, at 201 Riverside Drive, Suite 1C, Dayton, Ohio 45405.

**Southwestern Ohio Educational Purchasing Council** - The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of nearly 100 school districts in 12 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC.

Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC forfeits its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the general fund. To obtain financial information write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 1831 Harshman Road, Dayton, Ohio 45424.

**Southwestern Ohio Instructional Technology Association** - The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation formed under section 1702.01 of the Ohio Revised Code. The purpose of the corporation is to serve the educational needs of the area through television programming for the advancement of educational programs.

The Board of Trustees is comprised of twenty-one representatives of SOITA member schools or institutions. Nineteen representatives are elected from within the counties by the qualified members within the counties, i.e., Auglaize, Butler, Champaign, Clark, Clinton, Miami, Fayette, Greene, Hamilton, Logan, Mercer, Miami, Montgomery, Preble, Shelby and Warren. Montgomery, Greene and Butler Counties elect two representatives per area. All others elect one representative per area. One at-large non-public representative is elected by the non-public school SOITA members. One at-large higher education representative is elected by higher education SOITA members from within the State assigned SOITA service area.

All member districts are obligated to pay all fees, charges, or other assessments as established by SOITA. Upon dissolution, the net assets shall be distributed to the federal government, or to a state or local government, for a public purpose. Payments to SOITA are made from the general fund. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Steve Strouse, who serves as Director, 150 East Sixth Street, Franklin, Ohio 45005.

**NEWTON LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(SEE ACCOUNTANT'S COMPILATION REPORT)  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2. Insurance Purchasing Pools**

**Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan** - The District participates in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by an eleven member Executive Committee consisting of the Chairperson, the Vice-Chairperson, a representative from the Montgomery County Educational Service Center and eight other members elected by majority vote of all member school districts. The Chief Administrator of GRP serves as the coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

**Ohio School Plan** - The District participates in the Ohio School Plan (OSP), an insurance purchasing pool. The Ohio School Plan (OSP) is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services. The OSP's business and affairs are conducted by a fifteen member Board of Directors consisting of school district superintendents and treasurers, as well as the President of Harcum-Hyre Insurance Agency, Inc. and a partner of the Hylant Group, Inc. Hylant Group, Inc. is the Administrator of the OSP and is responsible for processing claims. Harcum-Hyre Insurance Agency, Inc. is the sales and marketing representative, which establishes agreements between OSP and member schools.

**Southwestern Ohio Educational Purchasing Council Medical Benefits Plan** - The District participates in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP). The MBP's business and affairs are conducted by an eleven member committee consisting of various MBP representatives that are elected by the general assembly. Either the superintendent or treasurer from each participating school district serves on the general assembly. Each year, the participating school districts pay an enrollment fee to the MBP to cover the costs of administering the program.

**B. Fund Accounting**

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary. The District does not have any proprietary funds.

**1. Governmental Funds**

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major governmental funds:

**NEWTON LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(SEE ACCOUNTANT'S COMPILATION REPORT)  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**General Fund** - The general fund is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

**Debt Service Fund** - The debt service fund is used to account for the accumulation of resources and payment of general obligation bond and principal and interest and certain long-term obligations from governmental resources when the government is obligated in some manner for payment. It is also used to account for the accumulation of resources and payment of general obligation bonds and loans payable.

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by trust funds; and (b) for grants and other resources whose use is restricted to a particular purpose.

**2. Fiduciary Funds**

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's only trust fund is a private-purpose trust which accounts for scholarship programs for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

**C. Basis of Presentation and Measurement Focus**

**1. Government-wide Financial Statements**

The statement of net assets 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 government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of 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 not classified as program revenues are presented as general revenues of the District.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the statement of net assets.

**NEWTON LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(SEE ACCOUNTANT'S COMPILATION REPORT)  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2. Fund Financial Statements**

Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all non-major funds are aggregated into one column. Fiduciary funds are reported by fund type.

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The private-purpose trust fund is reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

**D. Basis of Accounting**

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

**1. Revenues - Exchange and Non-exchange Transactions**

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become 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 fiscal year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, income 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 (see Note 6).

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, revenue from non-exchange transactions must also be available before it can be recognized.

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available as an advance, interest, tuition, grants, student fees and rentals.

**2. Deferred Revenue**

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

**3. Expenses/Expenditures**

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the Statement of Revenues, Expenditures and Changes in Fund Balances as an expenditure with a like amount reported as intergovernmental revenue.

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

**E. Budgets**

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation resolution are subject to amendment throughout the year with the legal restriction that appropriations, by fund, cannot exceed estimated resources as certified.

All funds, other than the agency fund, are required to be budgeted and appropriated. The legal level of budgetary control is at the fund level for all funds. Any budgetary modifications at this level of control may only be made by resolution of the Board of Education.

**1. Tax Budget**

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates. By no later than January 20, the Board-adopted budget is filed with the Miami County Budget Commission for rate determination.



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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2. Estimated Resources**

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement, reflect the amounts in the original and final Amended Certificate in effect at the time the final appropriation resolution was passed by the Board of Education.

**3. Appropriations**

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution is legally enacted by the Board of Education. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the District. The total of expenditures and encumbrances may not exceed the appropriation totals at the legal level of control.

The Board of Education may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the fiscal year, no supplemental appropriations were enacted.

The budget figures which appear in the statements of budgetary comparisons represent the original appropriation amounts adopted during the current fiscal year. Formal budgetary integration is employed as a management control device by the Board of Education during the year for all funds, other than the agency fund, consistent with statutory provisions.

**4. Encumbrances**

As part of the formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at fiscal year-end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds.

**5. Lapsing of Appropriations**

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**F. Cash and Investments**

To improve cash management, cash received by the District is pooled in a central bank account. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the basic financial statements.

The District has invested funds in STAR Ohio during fiscal 2005. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2005.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Board of Education, investment earnings are assigned to the general fund and the private-purpose trust funds. Interest revenue credited to the general fund during fiscal year 2005 amounted to \$13,486, which includes \$5,304 assigned from other funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the District's investment account at year-end is provided in Note 4.

**G. Inventory**

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method.

Inventory consists of expendable supplies held for consumption, donated food and purchased food.

**H. Capital Assets**

General capital assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$500. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. The District does not possess infrastructure.

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

All reported capital assets except land 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:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land improvements	5 - 7 years
Buildings and improvements	10 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	5 - 10 years

**I. 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 activities column on the Statement of Net Assets.

**J. Compensated Absences**

Compensated absences of the District consist of vacation leave and severance liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2005, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees with at least ten years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2005, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**K. Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds are recognized as a liability on the fund financial statements when due.

**L. Fund Balance Reserves**

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, materials and supplies inventory, prepayments, debt service and property tax revenue unavailable for appropriation. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute.

**M. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist 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 assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**N. Prepayments**

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

**O. Estimates**

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**P. 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. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

**Q. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2005.

**3. ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principles**

For fiscal year 2005, the District has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the District, however additional note disclosure can be found in Note 4. The implementation of GASB Technical Bulletin No. 2004-2 had the following effect on the fund balances of the major and non-major funds of the District as they were previously reported as of June 30, 2004:

	<u>General</u>	<u>Debt Service</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balances, June 30, 2004	\$ 95,771	\$ 74,212	\$ 79,247	\$ 249,230
GASB Technical Bulletin No. 2004-2	<u>(26,773)</u>	<u>-</u>	<u>(5,413)</u>	<u>(32,186)</u>
Restated Fund Balances, June 30, 2004	<u>\$ 68,998</u>	<u>\$ 74,212</u>	<u>\$ 73,834</u>	<u>\$ 217,044</u>

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**3. ACCOUNTABILITY AND COMPLIANCE (Continued)**

**B. Deficit Fund Balances**

Fund balances at June 30, 2005 included the following individual fund deficits:

<u>Non-major Funds</u>	<u>Deficit</u>
Food Service	\$4,405
EMIS	41
Ohio Reads	15
Miscellaneous Federal Grants	38
Class Size Reduction	5,166

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances result from adjustments for accrued liabilities.

**4. DEPOSITS AND INVESTMENTS**

State statutes classify monies held by the District into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the District treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim moneys are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Protection of District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

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**4. DEPOSITS AND INVESTMENTS (Continued)**

Interim monies to be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**A. Cash on Hand**

At year-end, the District had \$300 in undeposited cash on hand which is included on the financial statements of the District as part of "Equity in Pooled Cash and Cash Equivalents."

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**4. DEPOSITS AND INVESTMENTS (Continued)**

**B. Cash with Fiscal Agent**

At fiscal year-end, the District had \$212 in cash and cash equivalents held by the Miami County Educational Service Center. This amount is included on the balance sheet as "Cash with Fiscal Agent". The Miami County Educational Service Center holds this flow through grant money for the District together with that of other school districts and therefore the District cannot classify this money by risk under GASB Statement No. 3.

**C. Deposits with Financial Institutions**

At June 30, 2005, the carrying amount of all District deposits was \$438,204. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$397,633 of the District's bank balance of \$497,633 was exposed to custodial risk as discussed below, while \$100,000 was covered by Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

**D. Investments**

As of June 30, 2005, the District had the following investments and maturities:

<b>Investment type</b>	<b><u>Balance at Fair Value</u></b>	<b><u>Investment Maturity 6 months or less</u></b>
STAR Ohio	\$65,199	\$65,199

**Interest Rate Risk:** As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the District's investment policy limits investment portfolio maturities to five years or less.

**Credit Risk:** Standard & Poor's has assigned STAR Ohio an AAAM money market rating.

**Concentration of Credit Risk:** The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2005:

<b><u>Investment type</u></b>	<b><u>Fair Value</u></b>	<b><u>% of Total</u></b>
STAR Ohio	\$65,199	100.00%



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**4. DEPOSITS AND INVESTMENTS (Continued)**

**E. Reconciliation of Cash and Investment to the Statement of Net Assets**

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2005:

<b>Cash and Investments per footnote</b>	
Carrying amount of deposits	\$438,204
Investments	65,199
Cash with fiscal agent	212
Cash on hand	300
Total	\$503,915

<b>Cash and investments per Statement of Net Assets</b>	
Governmental activities	\$443,976
Private-purpose trust funds	39,204
Agency funds	20,735
Total	\$503,915

**5. INTERFUND TRANSACTIONS**

**A.** Interfund transfers for the year ended June 30, 2005, consisted of the following, as reported on the fund financial statements:

<b>Transfers from General fund to:</b>	
Nonmajor Governmental funds	\$3,610

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers between governmental funds are eliminated on the government-wide financial statements; therefore, no transfers are reported on the statement of activities.

**B.** Interfund balances at June 30, 2005 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<b>Receivable Fund</b>	<b>Payable Fund</b>	<b>Amount</b>
General	Nonmajor governmental funds	\$15,438

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

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**5. INTERFUND TRANSACTIONS (Continued)**

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2005 are reported on the Statement of Net Assets.

**6. PROPERTY TAXES**

Property taxes are levied and assessed on a calendar year basis while the District fiscal year runs from July through June. First half tax collections are received by the District in the second half of the fiscal year. Second half tax distributions occur in the first half of the following fiscal year.

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2005 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2005, on the value as of December 31, 2004. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Miami County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2005 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

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**6. PROPERTY TAXES (Continued)**

The amount available as an advance at June 30, 2005 was \$66,235 in the general fund and \$12,428 in the debt service fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2004 was \$18,972 in the general fund and \$3,620 in the debt service fund.

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred.

The assessed values upon which the fiscal year 2005 taxes were collected are:

	<b>2004 Second Half Collections</b>		<b>2005 First Half Collections</b>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$48,569,570	95.78	\$49,609,290	96.14
Public Utility Personal	1,512,550	2.98	1,471,300	2.85
Tangible Personal Property	<u>629,260</u>	<u>1.24</u>	<u>520,220</u>	<u>1.01</u>
Total	<u>\$50,711,380</u>	<u>100.00</u>	<u>\$51,600,810</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$40		\$40	

**7. SCHOOL DISTRICT TAX**

The District levies a voted tax of one percent for general operations on the income of residents and of estates. The tax was effective on January 1, 1993, and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax revenue in the amount of \$847,245 was credited to the General Fund during fiscal year 2005.

**8. RECEIVABLES**

Receivables at June 30, 2005 consisted of taxes, accounts (billings for user charged services and student fees), and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the Statement of Net Assets follows:

<b>Governmental Activities</b>	
Taxes	\$1,530,804
Accounts	1,426
Intergovernmental	<u>28,257</u>
Total	<u>\$1,560,487</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within one year.

**NEWTON LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(SEE ACCOUNTANT'S COMPILATION REPORT)  
(Continued)**

**9. CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	<u>Balance June 30, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2005</u>
<b>Governmental Activities</b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$203,373			\$203,373
Total capital assets, not being depreciated	<u>203,373</u>			<u>203,373</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	55,053			55,053
Buildings and improvements	3,600,070			3,600,070
Furniture and equipment	983,614	100,183		1,083,797
Vehicles	393,318			393,318
Total capital assets, being depreciated	<u>5,032,055</u>	<u>100,183</u>		<u>5,132,238</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(35,788)	(1,566)		(37,354)
Buildings and improvements	(1,003,022)	(48,484)		(1,051,506)
Furniture and equipment	(736,212)	(84,818)		(821,030)
Vehicles	(244,584)	(22,141)		(266,725)
Total accumulated depreciation	<u>(2,019,606)</u>	<u>(157,009)</u>		<u>(2,176,615)</u>
Governmental activities capital assets, net	<u>\$3,215,822</u>	<u>(\$56,826)</u>	<u>\$0</u>	<u>\$3,158,996</u>

Depreciation expense was charged to governmental functions as follows:

<b>Instruction:</b>	
Regular	\$81,143
Special	2,929
Vocational	1,933
<b>Support Services:</b>	
Pupil	6,210
Instructional staff	7,011
Administration	5,200
Fiscal	986
Operations and maintenance	10,169
Pupil transportation	20,269
Central	769
Extracurricular activities	14,459
Food service operations	<u>5,931</u>
Total depreciation expense	<u>\$157,009</u>

**NEWTON LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(SEE ACCOUNTANT'S COMPILATION REPORT)  
(Continued)**

**10. CAPITAL LEASES - LESSEE DISCLOSURE**

In prior fiscal years, the District entered into capitalized leases for band instruments. These lease agreements meet the criteria of capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital assets consisting of equipment have been capitalized in the amount of \$11,295. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2005 totaled \$3,194 paid by the general fund, which retired the capital lease.

**11. LONG-TERM OBLIGATIONS**

A. During the fiscal year 2005, the following changes occurred in governmental activities long-term obligations:

	<b>Balance Outstanding 06/30/04</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance Outstanding 06/30/05</b>	<b>Amounts Due in One Year</b>
<b>Governmental Activities:</b>					
School improvement bonds	\$1,715,000		(\$90,000)	\$1,625,000	\$95,000
Capital lease obligation	3,194		(3,194)		
Compensated absences	332,081	\$38,126	(56,098)	314,109	21,773
Total long-term obligations, governmental activities	<u>\$2,050,275</u>	<u>\$38,126</u>	<u>(\$149,292)</u>	<u>\$1,939,109</u>	<u>\$116,773</u>

**School Improvement Bonds** - On February 15, 1998, the District issued bonds in the amount of \$2,150,000. The bonds were issued for the purpose of an addition and improvements to the District. The bonds were issued for a nineteen year period with final maturity during fiscal year 2017. The bonds will be paid from the Bond Retirement Fund.

Principal and interest requirements to retire general obligation debt at June 30, 2005, are as follows:

<b>Year Ending June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2006	\$95,000	\$82,819	\$177,819
2007	100,000	77,700	177,700
2008	110,000	72,188	182,188
2009	115,000	66,281	181,281
2010	120,000	60,112	180,112
2011 - 2015	735,000	192,806	927,806
2016 - 2017	350,000	18,638	368,638
Total	<u>\$1,625,000</u>	<u>\$570,544</u>	<u>\$2,195,544</u>

**NEWTON LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(SEE ACCOUNTANT'S COMPILATION REPORT)  
(Continued)**

**11. LONG-TERM OBLIGATIONS (Continued)**

**B. Legal Debt Margin**

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District.

The effects of these debt limitations at June 30, 2005 are a voted debt margin of \$3,117,836 and an unvoted debt margin of \$51,601.

**12. RISK MANAGEMENT**

**A. Property and Liability**

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. During fiscal year 2005, the District contracted with Nationwide Insurance Company for fleet insurance, and with Indiana Insurance for crime, electronic data processing, equipment floater, and property insurance. Insurance coverage provided includes the following:

<u>Description</u>	<u>Amount</u>
Building and Contents-replacement cost (\$1,000 deductible)	\$14,453,464
Electronic Data Processing Coverage (\$500 deductible)	233,006
Equipment Floater Coverage (\$500 deductible)	321,110
Crime Insurance	10,000
Automobile Liability (\$1,000 deductible)	1,000,000
Uninsured Motorists (\$200 deductible)	1,000,000

During fiscal year 2005, the District joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The District pays this annual premium to the OSP (See Note 2.A.). The District contracts for education general liability, employee benefits liability, employer's liability and stop gap, errors and omissions liability, and employment practices with OSP.

The types and amounts of coverage provided by the Ohio School Plan are as follows:

Education General Liability	
Each Occurrence	\$1,000,000
Personal and Advertising Injury Limit - each offense	1,000,000
Fire Damage Limit - any one event	500,000
Medical Expense - any one person/each accident	10,000
General Aggregate Limit	3,000,000
Products – completed operations limit	1,000,000
Aggregate Limit	3,000,000
Employer's Liability and Stop Gap	
Each Occurrence	1,000,000
Disease - each employee	1,000,000

**NEWTON LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(SEE ACCOUNTANT'S COMPILATION REPORT)  
(Continued)**

**12. RISK MANAGEMENT (Continued)**

Errors and Omissions Liability (\$2,500 deductible)	
Per Occurrence	\$1,000,000
Aggregate limit	2,000,000
Excess Liability	
Each Occurrence	1,000,000
Aggregate limit	1,000,000

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has been no significant reduction in insurance coverage from the last fiscal year.

**B. Workers' Compensation**

For fiscal year 2005, the District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (see Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP.

The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to districts that can meet the GRP's selection criteria. The firm of Integrated Comp Inc. provides administrative, cost control and actuarial services to the GRP.

**C. Medical Benefits**

For fiscal year 2005, the District participated in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP), an insurance purchasing pool (see Note 2.A.). The intent of the MBP is to achieve the benefit of reduced health insurance premiums for the District by virtue of its grouping and representation with other participants in the MBP. The health insurance experience of the participating school districts is calculated and a premium rate is applied to all school districts in the MBP. Each participant pays its health insurance premiums to the Southwestern Ohio Educational Purchasing Council (SOEPC). Participation in the MBP is limited to school districts that can meet the MBP's selection criteria.

**13. DEFINED BENEFIT PENSION PLAN**

**A. School Employees Retirement System**

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, or by calling (614) 222-5853.

**NEWTON LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(SEE ACCOUNTANT'S COMPILATION REPORT)  
(Continued)**

**13. DEFINED BENEFIT PENSION PLAN (Continued)**

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$66,039, \$61,909, and \$42,650, respectively; 45.52% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$35,976 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds.

**B. State Teachers Retirement System**

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (614) 227-4090, or by visiting the STRS website at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.



**NEWTON LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(SEE ACCOUNTANT'S COMPILATION REPORT)  
(Continued)**

**13. DEFINED BENEFIT PENSION PLAN (Continued)**

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal years 2005 and 2004, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$284,633, \$281,893, and \$268,994, respectively; 83.87% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$45,920 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal 2005 were \$3,319 made by the District and \$11,622 made by plan members.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by SERS or the STRS have an option to choose Social Security or the SERS/STRS. As of June 30, 2005, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

**14. POSTEMPLOYMENT BENEFITS**

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go-basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For fiscal year 2005, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$20,331 during fiscal 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.3 billion at June 30, 2005. For the fiscal year ended June 30, 2005 net health care costs paid by STRS were \$254.780 million and STRS had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

**NEWTON LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(SEE ACCOUNTANT'S COMPILATION REPORT)  
(Continued)**

**14. POSTEMPLOYMENT BENEFITS (Continued)**

For fiscal year 2005, employer contributions to fund health care benefits were 3.43% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$27,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Net expenses for health care at June 30, 2005 were \$178.221 million and the target level was \$335.2 million. At June 30, 2005 SERS had net assets available for payment of health care benefits of \$267.5 million and SERS had approximately 58,123 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$23,254 during the 2005 fiscal year.

**15. BUDGETARY BASIS OF ACCOUNTING**

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

<b>Net Change in Fund Balance</b>	<b><u>General Fund</u></b>
Budget basis	\$86,409
Net adjustment for revenue accruals	214,911
Net adjustment for expenditure accruals	7,551
Net adjustment for other sources/uses	(51,029)
Adjustment for encumbrances	<u>12,264</u>
GAAP basis	<u><u>\$270,106</u></u>

**NEWTON LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(SEE ACCOUNTANT'S COMPILATION REPORT)  
(Continued)**

**16. COINGENCIES**

**A. Grants**

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

**B. Litigation**

The District is involved in no material litigation as either plaintiff or defendant.

**17. STATUTORY RESERVES**

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2005, the reserve activity was as follows:

	<b>Textbooks</b>	<b>Capital Acquisition</b>
Set-aside cash balance as of June 30, 2004	(\$6,491)	
Current year set-aside requirement	74,993	\$74,993
Current year offsets	(110,790)	(172,787)
Qualifying disbursements		(72,614)
	<u>(\$42,288)</u>	<u>(\$170,408)</u>
Total	<u>(\$42,288)</u>	<u>(\$170,408)</u>
Cash balance carried forward to FY 2006	<u>(\$42,288)</u>	<u>\$0</u>

Although the District had offsets and qualifying disbursements during the year that reduced the set-aside amount below zero for the capital acquisition reserve, this extra amount may not be used to reduce the set-aside requirement for future years. The negative amount is therefore not presented as being carried forward to the next fiscal year. The amount of qualifying disbursements exceeding the set-aside requirement in the textbooks reserve may be carried forward to reduce the set-aside requirement for future years.

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**NEWTON LOCAL SCHOOL DISTRICT  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED**

The management's discussion and analysis of the Newton Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

**Financial Highlights**

Key financial highlights for 2004 are as follows:

- In total, net assets of governmental activities increased \$66,529 which represents a 4.86% increase from 2003.
- General revenues accounted for \$4,107,287 in revenue or 84.75% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$739,233 or 15.25% of total revenues of \$4,846,520.
- The District had \$4,779,991 in expenses related to governmental activities; \$739,233 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$4,107,287 were adequate to provide for these programs.
- The District's major governmental funds are the general fund and debt service fund. The general fund had \$4,138,578 in revenues and \$4,135,579 in expenditures. During fiscal year 2004, the general fund's fund balance increased \$2,999 from \$92,772 to \$95,771.
- The District's debt service fund had \$192,717 in revenues and \$180,168 in expenditures. During fiscal year 2004, the debt service fund's fund balance increased \$12,549 from \$61,663 to \$74,212.

**Using these Basic Financial Statements**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other non-major funds presented in total in one column. In the case of the District, the general fund and debt service fund are by far the most significant funds, and the only governmental funds reported as major funds.

**NEWTON LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED  
(Continued)**

**Reporting the District as a Whole**

**Statement of Net Assets and the Statement of Activities**

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the *financial position* of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

The District's statement of net assets and statement of activities can be found on pages 59-60 of this report.

**Reporting the District's Most Significant Funds**

**Fund Financial Statements**

The analysis of the District's major governmental funds begins on page 55. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's only major governmental funds are the general fund and debt service fund.

**Governmental Funds**

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 61-63 of this report.

**NEWTON LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED  
(Continued)**

**Reporting the District's Fiduciary Responsibilities**

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 66 and 67. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

**Notes to the Basic Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 69-95 of this report.

**The District as a Whole**

Recall that the Statement of Net Assets provides the perspective of the District as a whole. This is the first year for government-wide financial statements using the full accrual basis of accounting; therefore a comparison with prior years is not available. A comparative analysis will be provided in future years when prior year information is available.

The table below provides a summary of the District's net assets for 2004.

	<b>Net Assets</b>
	<b>Governmental Activities 2004</b>
<b>Assets</b>	
Current and other assets	\$1,812,749
Capital assets	<u>3,215,822</u>
Total assets	<u>5,028,571</u>
<b>Liabilities</b>	
Current liabilities	1,543,711
Long-term liabilities	<u>2,050,275</u>
Total liabilities	<u>3,593,986</u>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	1,497,628
Restricted	140,336
Unrestricted (deficit)	<u>(203,379)</u>
Total net assets	<u><u>\$1,434,585</u></u>

**NEWTON LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

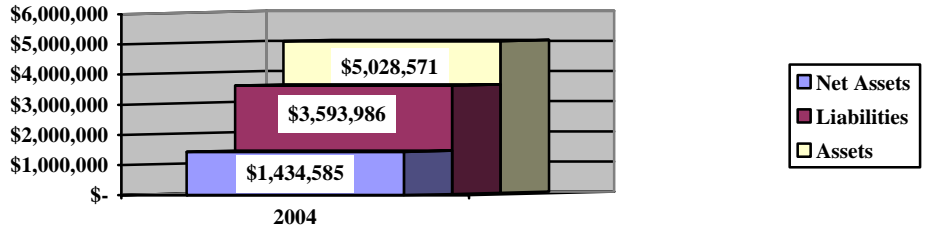
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED  
(Continued)**

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the District's assets exceeded liabilities by \$1,434,585. Of this total, \$140,336 is restricted in use.

At year-end, capital assets represented 63.95% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2004, were \$1,497,628. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$140,336, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets is a deficit of \$203,379.

**Governmental Activities**



The table below shows the change in net assets for fiscal year 2004. Since this is the first year the District has prepared government-wide financial statements using the full accrual basis of accounting, revenue and expense comparisons to fiscal year 2003 are not available. A comparative analysis will be provided in future years when prior year information is available.

**Change in Net Assets**

	<b>Governmental Activities 2004</b>
<b>Revenues</b>	
Program revenues:	
Charges for services and sales	\$467,113
Operating grants and contributions	272,120
General revenues:	
Property taxes	1,098,929
Income tax	577,314
Grants and entitlements	2,408,783
Investment earnings	5,042
Other	17,219
<b>Total revenues</b>	<b>4,846,520</b>

(Continued)



**NEWTON LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED  
(Continued)**

	<b>Change in Net Assets</b>
	<b>Governmental Activities</b>
	<b>2004</b>
<b>Expenses</b>	
Program expenses:	
Instruction:	
Regular	\$2,374,082
Special	463,751
Vocational	2,347
Support services:	
Pupil	173,940
Instructional staff	131,103
Board of education	4,123
Administration	564,928
Fiscal	184,278
Business	1,166
Operations and maintenance	293,824
Pupil transportation	196,949
Central	2,338
Food service operations	135,541
Operations of non-instructional services	1,884
Extracurricular activities	157,278
Interest and fiscal charges	92,459
	4,779,991
 Total expenses	 4,779,991
 Change in net assets	 66,529
Net assets at beginning of year	1,368,056
Net assets at end of year	\$1,434,585

**Governmental Activities**

Net assets of the District's governmental activities increased \$66,529. Total governmental expenses of \$4,779,991 were offset by program revenues of \$739,233 and general revenues of \$4,107,287. Program revenues supported 15.47% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 84.29% of total governmental revenue.

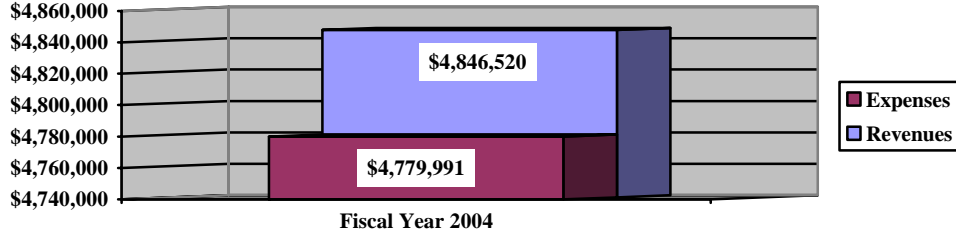
The largest expense of the District is for instructional programs. Instruction expenses totaled \$2,840,180 or 59.41% of total governmental expenses for fiscal 2004.

**NEWTON LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED  
(Continued)**

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2004.

**Governmental Activities - Revenues and Expenses**



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. Comparisons to 2003 have not been presented since they are not available.

**Governmental Activities**

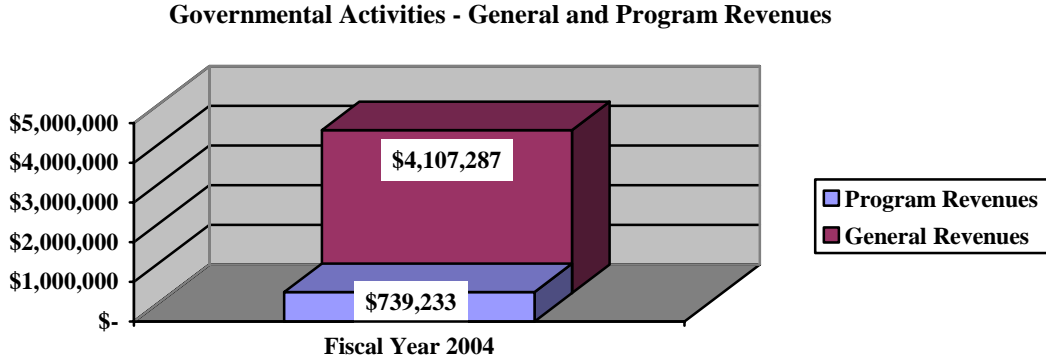
	<b>Total Cost of Services 2004</b>	<b>Net Cost of Services 2004</b>
<b>Program expenses</b>		
Instruction:		
Regular	\$2,374,082	\$2,029,973
Special	463,751	337,117
Vocational	2,347	2,347
Support services:		
Pupil	173,940	172,824
Instructional staff	131,103	131,103
Board of education	4,123	4,123
Administration	564,928	520,074
Fiscal	184,278	181,986
Business	1,166	1,166
Operations and maintenance	293,824	268,016
Pupil transportation	196,949	196,949
Central	2,338	2,338
Food service operations	135,541	1,133
Operations of non-instructional services	1,884	1,884
Extracurricular activities	157,278	97,266
Interest and fiscal charges	92,459	92,459
<b>Total expenses</b>	<b>\$4,779,991</b>	<b>\$4,040,758</b>

The dependence upon tax and other general revenues for governmental activities is apparent, 83.43% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 84.53%. The District's taxpayers, as a whole, are by far the primary support for District's students.

**NEWTON LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED  
(Continued)**

The graph below presents the District's governmental activities revenue for fiscal year 2004.



**The District's Funds**

The District's governmental funds reported a combined fund balance of \$249,230, which is higher than last year's total of \$206,288. The June 30, 2003 fund balances have been restated as described in Note 3.A. to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2004 and 2003.

	<u>Fund Balance June 30, 2004</u>	<u>Fund Balance June 30, 2003</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
General	\$95,771	\$92,772	\$2,999	3.23 %
Debt Service	74,212	61,663	12,549	20.35 %
Other Governmental	79,247	51,853	27,394	52.83 %
Total	<u>\$249,230</u>	<u>\$206,288</u>	<u>\$42,942</u>	20.82 %

**General Fund**

The District's general fund balance increased \$2,999 (after a restatement to the June 30, 2003, fund balance which is detailed in Note 3.A. to the basic financial statements). The increase in fund balance can be attributed to several items related to increasing revenues and increased expenditures. Revenues exceed expenditures for fiscal year 2004 by \$2,999. On March 3, 2004 the Governor of the State of Ohio issued an executive order to reduce funding to school districts to help offset the state's fiscal year deficit.

Supporting services expenses increase was due to the purchase of a new bus, repairs and maintenance, and a significant ongoing increase for health care coverage. Tuition revenues of \$225,551 are incoming open enrollment students' basic-aid from the state foundation. This is offset by expenses of \$414,966 deducted from state foundation for out-going open enrollment students. Earnings on investments were down due to low interest rates in relation to a down economy. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**NEWTON LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED  
(Continued)**

	<u>2004 Amount</u>	<u>2003 Amount</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
<b>Revenues</b>				
Taxes	\$1,497,659	\$1,394,443	\$103,216	7.40 %
Tuition	225,551	188,527	37,024	19.64 %
Earnings on investments	4,309	10,161	(5,852)	(57.59) %
Intergovernmental	2,384,515	2,304,605	79,910	3.47 %
Other revenues	<u>26,544</u>	<u>26,754</u>	<u>(210)</u>	<u>(0.78) %</u>
Total	<u><u>\$4,138,578</u></u>	<u><u>\$3,924,490</u></u>	<u><u>\$214,088</u></u>	<u>5.46 %</u>
<b>Expenditures</b>				
Instruction	\$2,537,624	\$2,520,593	\$17,031	0.68 %
Support services	1,493,967	1,278,726	215,241	16.83 %
Extracurricular activities	100,510	95,317	5,193	5.45 %
Debt service	<u>3,478</u>	<u>3,479</u>	<u>(1)</u>	<u>(0.03) %</u>
Total	<u><u>\$4,135,579</u></u>	<u><u>\$3,898,115</u></u>	<u><u>\$237,464</u></u>	<u>6.09 %</u>

**Debt Service Fund**

The District's debt service fund had \$192,717 in revenues and \$180,168 in expenditures. During fiscal year 2004, the debt service fund's fund balance increased \$12,549 from \$61,663 to \$74,212.

**General Fund Budgeting Highlights**

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the general fund.

During the course of fiscal 2004, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$4,040,261 and final budgeted revenues and other financing sources were \$4,109,121. Actual revenues and other financing sources for fiscal 2004 was \$4,109,121. This equals final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$4,298,625 were decreased to \$4,169,450 in the final appropriations. The actual budget basis expenditures for fiscal year 2004 totaled \$4,169,450, which equals the final budget appropriations.

**NEWTON LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED  
(Continued)**

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal 2004, the District had \$3,215,822 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2004 balances compared to 2003:

**Capital Assets at June 30  
(Net of Depreciation)**

	<b>Governmental Activities</b>	
	<b>2004</b>	<b>2003</b>
Land	\$203,373	\$203,373
Land improvements	19,265	21,713
Building and improvements	2,597,048	2,644,526
Furniture and equipment	247,402	290,322
Vehicles	148,734	110,623
Total	<b>\$3,215,822</b>	<b>\$3,270,557</b>

The overall decrease in capital assets of \$54,735 is due to depreciation expense of \$161,950 exceeding capital outlays of \$107,215 in the fiscal year.

See Note 9 to the basic financial statements for additional information on the District's capital assets.

**Debt Administration**

At June 30, 2004, the District had \$1,715,000 in general obligation bonds outstanding. Of this total, \$90,000 is due within one year and \$1,625,000 is due within greater than one year. The following table summarizes the bonds outstanding.

**Outstanding Debt, at Year End**

	<b>Governmental Activities 2004</b>	<b>Governmental Activities 2003</b>
	General obligation bonds	\$1,715,000
Total	\$1,715,000	\$1,800,000

At June 30, 2004, the District's overall legal debt margin was \$2,921,828, and an unvoted debt margin of \$50,711.

See Note 11 to the basic financial statements for additional information on the District's debt administration.

**NEWTON LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED  
(Continued)**

**Current Financial Related Activities**

The District continues to be challenged by reduced revenues and increased expenses. The District received approximately 60% of its revenues from the state and the remaining 40% from federal grants, local real estate, and income taxes.

In December 2003, the District received a letter of warning from the Ohio Department of Education School Finance and Accountability division concerning deficit balances on the required five-year forecast. Fiscal Caution was averted by cost reductions and delaying capital expenditures.

The District was very fortunate to pass an additional income tax levy of 0.75% on the March 2004 ballot for three years with collections beginning January 1, 2005. Even with this additional \$400,000, the District is projecting a deficit cash balance for Fiscal Year 2009.

The Board of Education continues to use budgetary controls to monitor finances while maintaining a solid academic program to its students. It is a top priority of the board to set and meet goals and objectives to keep the District financially sound and to provide instructional elements in order for students to excel educationally.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Fred Henderson, Treasurer, Newton Local School District, 201 N. Long Street, Pleasant Hill, Ohio 45359-0803.

**NEWTON LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**STATEMENT OF NET ASSETS  
JUNE 30, 2004**

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents	\$347,379
Receivables:	
Taxes	1,359,604
Accounts	538
Intergovernmental	87,375
Prepayments	13,367
Materials and supplies inventory	4,486
Capital assets:	
Land	203,373
Depreciable capital assets, net	3,012,449
Capital assets, net	3,215,822
 Total assets	 5,028,571
<b>Liabilities:</b>	
Accounts payable	1,078
Accrued wages and benefits	347,891
Pension obligation payable.	93,158
Intergovernmental payable	17,832
Deferred revenue	1,076,598
Accrued interest payable	7,154
Long-term liabilities:	
Due within one year	113,539
Due within more than one year	1,936,736
Total liabilities	3,593,986
<b>Net Assets:</b>	
Invested in capital assets, net of related debt	1,497,628
Restricted for:	
Capital projects	1,198
Debt service	77,546
State funded programs	8,227
Federally funded programs	43,649
Student activities	9,716
Unrestricted (deficit)	(203,379)
Total net assets	\$1,434,585

*See accompanying notes to the basic financial statements.*

**NEWTON LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	Program Revenues		Governmental Activities	Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales		
<b>Governmental activities:</b>				
Instruction:				
Regular	\$2,374,082	\$251,846	\$92,263	(\$2,029,973)
Special	463,751		126,634	(337,117)
Vocational	2,347			(2,347)
Support services:				
Pupil	173,940		1,116	(172,824)
Instructional staff	131,103			(131,103)
Board of education	4,123			(4,123)
Administration	564,928	33,355	11,499	(520,074)
Fiscal	184,278		2,292	(181,986)
Business	1,166			(1,166)
Operations and maintenance	293,824	25,263	545	(268,016)
Pupil transportation	196,949			(196,949)
Central	2,338			(2,338)
Operation of non-instructional services:				
Food service operations	135,541	96,637	37,771	(1,133)
Other non-instructional services	1,884			(1,884)
Extracurricular activities	157,278	60,012		(97,266)
Interest and fiscal charges	92,459			(92,459)
<b>Total governmental activities</b>	<b>\$4,779,991</b>	<b>\$467,113</b>	<b>\$272,120</b>	<b>(4,040,758)</b>

**General Revenues:**

Property taxes levied for:	
General purposes	928,462
Debt service	170,467
School district income tax	577,314
Grants and entitlements not restricted to specific programs	2,408,783
Investment earnings	5,042
Miscellaneous	17,219
<b>Total general revenues</b>	<b>4,107,287</b>
Change in net assets	66,529
<b>Net assets at beginning of year (restated)</b>	<b>1,368,056</b>
<b>Net assets at end of year</b>	<b>\$1,434,585</b>

See accompanying notes to the basic financial statements.



**NEWTON LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2004**

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>				
Equity in pooled cash and cash equivalents	\$201,113	\$69,184	\$77,082	\$347,379
Receivables:				
Taxes	1,184,690	174,914		1,359,604
Accounts	538			538
Intergovernmental			87,375	87,375
Interfund receivable	44,059			44,059
Prepayments	13,367			13,367
Materials and supplies inventory			4,486	4,486
Total assets	<u>1,443,767</u>	<u>244,098</u>	<u>168,943</u>	<u>1,856,808</u>
<b>Liabilities:</b>				
Accounts payable	625		453	1,078
Accrued wages and benefits	342,258		5,633	347,891
Compensated absences payable	1,305			1,305
Pension obligation payable	59,098		1,874	60,972
Intergovernmental payable	16,825		1,007	17,832
Interfund payable			44,059	44,059
Deferred revenue	927,885	169,886	36,670	1,134,441
Total liabilities	<u>1,347,996</u>	<u>169,886</u>	<u>89,696</u>	<u>1,607,578</u>
<b>Fund Balances:</b>				
Reserved for encumbrances	2,446		8,578	11,024
Reserved for materials and supplies inventory			4,486	4,486
Reserved for prepayments	13,367			13,367
Reserved for property tax unavailable for appropriation	18,972	3,620		22,592
Reserved for debt service		70,592		70,592
Unreserved, undesignated, reported in:				
General fund	60,986			60,986
Special revenue funds			64,985	64,985
Capital projects funds			1,198	1,198
Total fund balances	<u>95,771</u>	<u>74,212</u>	<u>79,247</u>	<u>249,230</u>
Total liabilities and fund balances	<u>\$1,443,767</u>	<u>\$244,098</u>	<u>\$168,943</u>	<u>\$1,856,808</u>

See accompanying notes to the basic financial statements.

**NEWTON LOCAL SCHOOL DISTRICT  
MAIMI COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2004**

<b>Total governmental fund balances</b>		\$249,230
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		3,215,822
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$21,173	
Intergovernmental revenue	36,670	
Total		57,843
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.		(7,154)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	330,776	
Pension obligation payable	32,186	
Capital lease obligation	3,194	
General obligation bonds payable	1,715,000	
Total		(2,081,156)
<b>Net assets of governmental activities</b>		<b>\$1,434,585</b>

*See accompanying notes to the basic financial statements.*

**NEWTON LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
From local sources:				
Taxes	\$1,497,659	\$168,916		\$1,666,575
Tuition	225,551			225,551
Charges for services			\$96,637	96,637
Earnings on investments	4,309	687	57	5,053
Extracurricular			93,367	93,367
Classroom materials and fees			26,295	26,295
Other local revenues	26,544		15,927	42,471
Intergovernmental - State	2,378,953	23,114	37,882	2,439,949
Intergovernmental - Federal	5,562		210,992	216,554
Total revenue	<u>4,138,578</u>	<u>192,717</u>	<u>481,157</u>	<u>4,812,452</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	2,207,666		82,190	2,289,856
Special	329,599		130,839	460,438
Vocational	359			359
Support services:				
Pupil	157,822		1,010	158,832
Instructional staff	124,482		1,200	125,682
Board of education	4,123			4,123
Administration	511,177		44,139	555,316
Fiscal	177,461	2,900	2,351	182,712
Business	233			233
Operations and maintenance	279,827		767	280,594
Pupil transportation	238,842			238,842
Central			1,136	1,136
Food service operations			130,852	130,852
Other non-instructional services			1,884	1,884
Extracurricular activities	100,510		57,395	157,905
Debt service:				
Principal retirement	2,933	85,000		87,933
Interest and fiscal charges	545	92,268		92,813
Total expenditures	<u>4,135,579</u>	<u>180,168</u>	<u>453,763</u>	<u>4,769,510</u>
Net change in fund balances	2,999	12,549	27,394	42,942
<b>Fund balances at beginning of year (restated)</b>	<u>92,772</u>	<u>61,663</u>	<u>51,853</u>	<u>206,288</u>
<b>Fund balances at end of year</b>	<u>\$95,771</u>	<u>\$74,212</u>	<u>\$79,247</u>	<u>\$249,230</u>

See accompanying notes to the basic financial statements.

**NEWTON LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**Net change in fund balances - total governmental funds** \$42,942

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeds capital outlays in the current period.

Capital asset additions	\$107,215	
Current year depreciation	(161,950)	
<b>Total</b>		<b>(54,735)</b>

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		34,068
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Repayment of bond and capital lease obligation principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		87,933
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Governmental funds report expenditures for interest when it is due. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is due to the accrued interest on bonds.		354
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Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		(44,033)

**Change in net assets of governmental activities** \$66,529

*See accompanying notes to the basic financial statements.*

**NEWTON LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<u>Budgeted Amounts</u>			<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues:</b>				
From local sources:				
Taxes	\$1,429,121	\$1,453,478	\$1,453,478	
Tuition	221,771	225,551	225,551	
Earnings on investments	4,981	5,066	5,066	
Other local revenues	25,570	26,006	26,006	
Intergovernmental - State	2,343,585	2,383,528	2,383,528	
Intergovernmental - Federal	5,469	5,562	5,562	
Total revenue	<u>4,030,497</u>	<u>4,099,191</u>	<u>4,099,191</u>	
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	2,300,419	2,231,290	2,231,290	
Special	327,763	317,914	317,914	
Vocational	370	359	359	
Support services:				
Pupil	162,929	158,033	158,033	
Instructional staff	127,265	123,441	123,441	
Board of education	4,251	4,123	4,123	
Administration	505,253	490,070	490,070	
Fiscal	184,758	179,206	179,206	
Business	240	233	233	
Operations and maintenance	292,367	283,581	283,581	
Pupil transportation	240,442	233,217	233,217	
Extracurricular activities	107,144	103,924	103,924	
Total expenditures	<u>4,253,201</u>	<u>4,125,391</u>	<u>4,125,391</u>	
Excess of revenues over (under) expenditures	<u>(222,704)</u>	<u>(26,200)</u>	<u>(26,200)</u>	
<b>Other financing sources (uses):</b>				
Refund of prior year expenditure	5,459	5,552	5,552	
Advances in	4,305	4,378	4,378	
Advances (out)	(45,424)	(44,059)	(44,059)	
Total other financing sources (uses)	<u>(35,660)</u>	<u>(34,129)</u>	<u>(34,129)</u>	
Net change in fund balance	(258,364)	(60,329)	(60,329)	
<b>Fund balance at beginning of year</b>	252,166	252,166	252,166	
<b>Prior year encumbrances appropriated</b>	6,205	6,205	6,205	
<b>Fund balance at end of year</b>	<u><u>\$7</u></u>	<u><u>\$198,042</u></u>	<u><u>\$198,042</u></u>	<u><u>\$0</u></u>

See accompanying notes to the basic financial statements.

**NEWTON LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2004**

	<b>Private-Purpose Trust</b>	<b>Agency</b>
	<b>Scholarship</b>	
<b>Assets:</b>		
Equity in pooled cash and cash equivalents	\$200	\$33,289
Investments	40,791	
Receivables:		
Notes	20,550	
Accrued interest	63	
	61,604	33,289
Total assets	61,604	33,289
<b>Liabilities:</b>		
Due to students		33,289
Total liabilities		\$33,289
<b>Net Assets:</b>		
Held in trust for scholarships	61,604	
Total net assets	\$61,604	

*See accompanying notes to the basic financial statements.*

NEWTON LOCAL SCHOOL DISTRICT  
MIAMI COUNTY

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Private-Purpose Trust Scholarship</u>
<b>Additions:</b>	
Interest	\$943
Total additions	943
Change in net assets	943
<b>Net assets at beginning of year</b>	<u>60,661</u>
<b>Net assets at end of year</b>	<u><u>\$61,604</u></u>

*See accompanying notes to the basic financial statements.*

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**NEWTON LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(SEE ACCOUNTANT'S COMPILATION REPORT)**

**1. DESCRIPTION OF THE SCHOOL DISTRICT**

The Newton Local School District (the "District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The District provides educational services as authorized by state and federal guidelines.

The District was established in 1923 through the consolidation of existing land areas and school districts. The District serves an area of approximately 42 square miles. It is located in Miami County, and includes all of the Village of Pleasant Hill and a portion of Darke County. It is staffed by 26 non-certificated employees, 45 certificated full-time teaching personnel and three administrative employees who provide services to 562 students and other community members. The District currently operates one instructional-administrative building and one bus garage.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below.

**A. Reporting Entity**

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, foods service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations' government board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of this criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

**NEWTON LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(SEE ACCOUNTANT'S COMPILATION REPORT)  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**1. Jointly Governed Organizations**

**Metropolitan Dayton Educational Cooperative Association (MDECA)** - The District is a participant in the Metropolitan Dayton Educational Cooperative Association (MDECA) which is a computer consortium. MDECA is an association of public school districts within the boundaries of Montgomery, Miami and Darke Counties and the Cities of Dayton, Troy and Greenville. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of MDECA consists of seven superintendents of member school districts, with six of the superintendents elected by majority vote of all member school districts except Montgomery County Educational Service Center. The seventh superintendent is from the Montgomery County Educational Service Center. Payments to MDECA are made from the general fund. Financial information can be obtained from Jerry Woodyard, who serves as Director, at 201 Riverside Drive, Suite 1C, Dayton, Ohio 45405.

**Southwestern Ohio Educational Purchasing Council** - The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of nearly 100 school districts in 12 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC.

Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC forfeits its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the general fund. To obtain financial information write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 1831 Harshman Road, Dayton, Ohio 45424.

**Southwestern Ohio Instructional Technology Association** - The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation formed under section 1702.01 of the Ohio Revised Code. The purpose of the corporation is to serve the educational needs of the area through television programming for the advancement of educational programs.

The Board of Trustees is comprised of twenty-one representatives of SOITA member schools or institutions. Nineteen representatives are elected from within the counties by the qualified members within the counties, i.e., Auglaize, Butler, Champaign, Clark, Clinton, Miami, Fayette, Greene, Hamilton, Logan, Mercer, Miami, Montgomery, Preble, Shelby and Warren. Montgomery, Greene and Butler Counties elect two representatives per area. All others elect one representative per area. One at-large non-public representative is elected by the non-public school SOITA members. One at-large higher education representative is elected by higher education SOITA members from within the State assigned SOITA service area.

All member districts are obligated to pay all fees, charges, or other assessments as established by SOITA. Upon dissolution, the net assets shall be distributed to the federal government, or to a state or local government, for a public purpose. Payments to SOITA are made from the general fund. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Steve Strouse, who serves as Director, 150 East Sixth Street, Franklin, Ohio 45005.

**NEWTON LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(SEE ACCOUNTANT'S COMPILATION REPORT)  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2. Insurance Purchasing Pools**

**Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan** - The District participates in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by an eleven member Executive Committee consisting of the Chairperson, the Vice-Chairperson, a representative from the Montgomery County Educational Service Center and eight other members elected by majority vote of all member school districts. The Chief Administrator of GRP serves as the coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

**Ohio School Plan** - The District participates in the Ohio School Plan (OSP), an insurance purchasing pool. The Ohio School Plan (OSP) is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services. The OSP's business and affairs are conducted by a fifteen member Board of Directors consisting of school district superintendents and treasurers, as well as the President of Harcum-Hyre Insurance Agency, Inc. and a partner of the Hylant Group, Inc. Hylant Group, Inc. is the Administrator of the OSP and is responsible for processing claims. Harcum-Hyre Insurance Agency, Inc. is the sales and marketing representative, which establishes agreements between OSP and member schools.

**Southwestern Ohio Educational Purchasing Council Medical Benefits Plan** - The District participates in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP). The MBP's business and affairs are conducted by an eleven member committee consisting of various MBP representatives that are elected by the general assembly. Either the superintendent or treasurer from each participating school district serves on the general assembly. Each year, the participating school districts pay an enrollment fee to the MBP to cover the costs of administering the program.

**B. Fund Accounting**

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary. The District does not have any proprietary funds.

**1. Governmental Funds**

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major governmental funds:

**NEWTON LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(SEE ACCOUNTANT'S COMPILATION REPORT)  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**General Fund** - The general fund is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

**Debt Service Fund** - The debt service fund is used to account for the accumulation of resources and payment of general obligation bond and principal and interest and certain long-term obligations from governmental resources when the government is obligated in some manner for payment. It is also used to account for the accumulation of resources and payment of general obligation bonds and loans payable.

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by trust funds; and (b) for grants and other resources whose use is restricted to a particular purpose.

**2. Fiduciary Funds**

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's only trust fund is a private-purpose trust which accounts for scholarship programs for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

**C. Basis of Presentation and Measurement Focus**

**1. Government-wide Financial Statements**

The statement of net assets 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 government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of 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 not classified as program revenues are presented as general revenues of the District.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the statement of net assets.

**NEWTON LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(SEE ACCOUNTANT'S COMPILATION REPORT)  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2. Fund Financial Statements**

Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all non-major funds are aggregated into one column. Fiduciary funds are reported by fund type.

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The private-purpose trust fund is reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

**D. Basis of Accounting**

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

**1. Revenues - Exchange and Non-exchange Transactions**

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become 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 fiscal year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, income 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 (see Note 6).

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, revenue from non-exchange transactions must also be available before it can be recognized.

**NEWTON LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(SEE ACCOUNTANT'S COMPILATION REPORT)  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available as an advance, interest, tuition, grants, student fees and rentals.

**2. Deferred Revenue**

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

**3. Expenses/Expenditures**

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the Statement of Revenues, Expenditures and Changes in Fund Balances as an expenditure with a like amount reported as intergovernmental revenue.

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

**E. Budgets**

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation resolution are subject to amendment throughout the year with the legal restriction that appropriations, by fund, cannot exceed estimated resources as certified.

All funds, other than the agency fund, are required to be budgeted and appropriated. The legal level of budgetary control is at the fund level for all funds. Any budgetary modifications at this level of control may only be made by resolution of the Board of Education.

**1. Tax Budget**

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates. By no later than January 20, the Board-adopted budget is filed with the Miami County Budget Commission for rate determination.

**NEWTON LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(SEE ACCOUNTANT'S COMPILATION REPORT)  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2. Estimated Resources**

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement, reflect the amounts in the final Amended Certificate in effect at the time the final appropriation resolution was passed by the Board of Education.

**3. Appropriations**

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution is legally enacted by the Board of Education. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the District. The total of expenditures and encumbrances may not exceed the appropriation totals at the legal level of control.

The Board of Education may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the fiscal year, several supplemental appropriations were legally enacted. The total supplemental appropriations were significant to the original appropriations.

The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts adopted during the current fiscal year, including all amendments and modifications. Formal budgetary integration is employed as a management control device by the Board of Education during the year for all funds, other than the agency fund, consistent with statutory provisions.

**4. Encumbrances**

As part of the formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at fiscal year-end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds and reported in the notes to the financial statements for enterprise funds.

**5. Lapsing of Appropriations**

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

**NEWTON LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(SEE ACCOUNTANT'S COMPILATION REPORT)  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**F. Cash and Investments**

To improve cash management, cash received by the District is pooled in a central bank account. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the basic financial statements.

During fiscal year 2004, investments were limited to State Treasury Asset Reserve of Ohio (STAR Ohio) and certificates of deposit. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

The District has invested funds in STAR Ohio during fiscal 2004. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2004.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Board of Education, investment earnings are assigned to the general fund and the private-purpose trust funds. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$4,309, which includes \$1,595 assigned from other funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the Treasurer's investment account at year-end is provided in Note 4.

**G. Inventory**

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method.

Inventory consists of expendable supplies held for consumption, donated food and purchased food.

**H. Capital Assets**

General capital assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$500. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. The District does not possess infrastructure.



**NEWTON LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(SEE ACCOUNTANT'S COMPILATION REPORT)  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

All reported capital assets except land 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:

Description	Governmental Activities Estimated Lives
Land improvements	5 - 7 years
Buildings and improvements	10 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	5 - 10 years

**I. 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 activities column on the Statement of Net Assets.

**J. Compensated Absences**

Compensated absences of the District consist of vacation leave and severance liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2004, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees with at least ten years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2004, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The non-current portion of the liability is not reported.

**NEWTON LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(SEE ACCOUNTANT'S COMPILATION REPORT)  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**K. Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds are recognized as a liability on the fund financial statements when due.

**L. Fund Balance Reserves**

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, materials and supplies inventory, prepayments, debt service and property tax revenue unavailable for appropriation. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute.

**M. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist 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 assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**N. Prepayments**

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

**O. Estimates**

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

**NEWTON LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(SEE ACCOUNTANT'S COMPILATION REPORT)  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**P. 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. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

**Q. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2004.

**3. ACCOUNTABILITY AND COMPLIANCE**

**A. Changes in Accounting Principles and Restatement of Fund Balance**

For fiscal year 2004, the District has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units", GASB Statement No. 41, "Budgetary Comparison Schedule - Perspective Differences", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At June 30, 2003, there was no effect on fund balance as a result of implementing GASB Statements Nos. 37, 38, 39 and 41.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38, modifies, establishes and rescinds certain financial statement note disclosures. GASB Statement No. 39 further defines the guidelines of GASB Statement No. 14, "The Financial Reporting Entity."

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the school district not being able to present budgetary comparison for the general and each major special revenue fund.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

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**3. ACCOUNTABILITY AND COMPLIANCE (Continued)**

The government-wide financial statements show the District's programs for governmental activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2003, caused by the conversion to the accrual basis of accounting.

**Governmental Activities - Fund Reclassification and Restatement of Fund Balance -** Certain funds have been reclassified to properly reflect their intended purpose in accordance with the Standards of GASB Statement No. 34. It was also determined that GASB Interpretation No. 6 had an effect on fund balance as previously reported at June 30, 2003.

The fund reclassifications and the implementation of GASB Interpretation No. 6 had the following effect on the District's governmental fund balances as previously reported:

	<u>General</u>	<u>Debt Service</u>	<u>Non-major</u>	<u>Total</u>
Fund balance June 30, 2003	\$84,823	\$61,663	\$50,648	\$197,134
Fund reclassifications			1,205	1,205
Implementation of GASB Interpretation No. 6	<u>7,949</u>			<u>7,949</u>
Restated fund balance, June 30, 2003	<u>\$92,772</u>	<u>\$61,663</u>	<u>\$51,853</u>	<u>\$206,288</u>

The transition from governmental fund balance to net assets of the governmental activities is presented as follows:

	<u>Total</u>
Restated fund balance, June 30, 2003	\$206,288
GASB 34 adjustments:	
Long-term (deferred) assets	23,775
Capital assets	3,270,557
Accrued interest payable	(7,508)
Pension obligation	(40,971)
Long-term liabilities	<u>(2,084,085)</u>
Governmental activities net assets, June 30, 2003	<u>\$1,368,056</u>

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**3. ACCOUNTABILITY AND COMPLIANCE (Continued)**

**B. Deficit Fund Balances**

Fund balances at June 30, 2004 included the following individual fund deficits:

	<u>Deficit</u>
<b>Nonmajor Funds</b>	
EMIS	\$42
Ohio Reads	20
Title VI-B	148
Class Size Reduction	75

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances result from adjustments for accrued liabilities.

**4. EQUITY IN POOLED CASH AND CASH EQUIVALENTS**

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Cash Equivalents". Statutes require the classification of monies held by the District into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the District treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits the Board of Education has identified as not required for use within the current two-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings accounts, including passbook accounts.

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the finance institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

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**4. EQUITY IN POOLED CASH AND CASH EQUIVALENTS (Continued)**

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instrument rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**Cash on Hand:** At fiscal year-end, the District had \$300 in undeposited cash on hand which is included on the financial statements of the District as part of "Equity in Pooled Cash and Cash Equivalents".

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

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**4. EQUITY IN POOLED CASH AND CASH EQUIVALENTS (Continued)**

**Deposits:** At year-end, the carrying amount of the District's deposits was \$217,439 and the bank balance was \$250,823. Of the bank balance:

1. \$100,000 was covered by federal depository insurance deposited with the District; and
2. \$150,823 was uninsured and unregistered as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

Collateral is required for demand deposits and certificates of deposit in excess of all deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

**Investments:** The District's investments are categorized below to give an indication of the level of custodial credit risk assumed by the entity at fiscal year-end. Category 1 includes investments that are insured or registered or securities held by the District. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the District's name. Investments in STAR Ohio are not categorized as they are not evidenced by securities that exist in physical or book entry form.

	<b>Reported Amount</b>	<b>Fair Value</b>
Investment in STAR Ohio	\$203,920	\$203,920
Total investments	\$203,920	\$203,920

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the basic financial statements and the classification per GASB Statement No. 3 is as follows:

	<b>Cash and Cash Equivalents/Deposits</b>	<b>Investments</b>
GASB Statement No. 9	\$380,868	\$40,791
Investments of the cash management pool:		
Investment in STAR Ohio	(203,920)	203,920
Certificates of deposit	40,791	(40,791)
Cash on hand	(300)	
GASB Statement No. 3	\$217,439	\$203,920

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**5. INTERFUND TRANSACTIONS**

Interfund balances at June 30, 2004 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Non-major governmental funds	\$44,059

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2004 are reported on the Statement of Net Assets.

**6. PROPERTY TAXES**

Property taxes are levied and assessed on a calendar year basis while the District fiscal year runs from July through June. First half tax collections are received by the District in the second half of the fiscal year. Second half tax distributions occur in the first half of the following fiscal year.

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003 and are collected in 2004 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2004, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Miami County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date tax bills are sent.



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**6. PROPERTY TAXES (Continued)**

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2004 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2004 was \$18,972 in the general fund and \$3,620 in the debt service fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2003 was \$29,073 in the general fund and \$5,436 in the debt service fund.

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred.

The assessed values upon which the fiscal year 2004 taxes were collected are:

	<b>2003 Second Half Collections</b>		<b>2004 First Half Collections</b>	
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
Agricultural/residential and other real estate	\$48,430,960	95.77	\$48,569,570	95.78
Public utility personal	1,544,710	3.05	1,512,550	2.98
Tangible personal property	595,340	1.18	629,260	1.24
<b>Total</b>	<b>\$50,571,010</b>	<b>100.00</b>	<b>\$50,711,380</b>	<b>100.00</b>
Tax rate per \$1,000 of assessed valuation		\$40		\$40

**7. SCHOOL DISTRICT TAX**

The District levies a voted tax of one percent for general operations on the income of residents and of estates. The tax was effective on January 1, 1993, and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax revenue in the amount of \$577,314 was credited to the General Fund during fiscal year 2004.

**8. RECEIVABLES**

Receivables at June 30, 2004 consisted of taxes, accounts (billings for user charged services and student fees), and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the Statement of Net Assets follows:

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**8. RECEIVABLES (Continued)**

<b>Governmental Activities</b>	
Taxes	\$1,359,604
Accounts	538
Intergovernmental	<u>87,375</u>
Total	<u><u>\$1,447,517</u></u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within one year.

**9. CAPITAL ASSETS**

A. The capital asset balances of the governmental activities have been restated due to fund reclassifications, and the depreciation of capital assets in accordance with GASB Statement No. 34.

	<b>Balance June 30, 2003</b>	<b>Adjustments</b>	<b>Restated Balance July 1, 2003</b>
<b>Governmental Activities</b>			
Capital assets, not being depreciated:			
Land	\$203,373		\$203,373
Total capital assets, not being depreciated	203,373		203,373
Capital assets, being depreciated:			
Land improvements		55,053	55,053
Buildings and improvements	3,609,780	(9,710)	3,600,070
Furniture and equipment	988,870	(52,195)	936,675
Vehicles	363,037	4,905	367,942
Total capital assets, being depreciated	4,961,687	(1,947)	4,959,740
<i>Less: accumulated depreciation:</i>	(17,502)	(1,875,054)	(1,892,556)
Governmental activities capital assets, net	<u>\$5,147,558</u>	<u>(\$1,877,001)</u>	<u>\$3,270,557</u>

B. Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

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**9. CAPITAL ASSETS (Continued)**

	<b>Restated Balance July 1, 2003</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance June 30, 2004</b>
<b>Governmental Activities</b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$203,373			\$203,373
Total capital assets, not being depreciated	<u>203,373</u>			<u>203,373</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	55,053			55,053
Buildings and improvements	3,600,070			3,600,070
Furniture and equipment	936,675	46,939		983,614
Vehicles	367,942	60,276	(34,900)	393,318
Total capital assets, being depreciated	<u>4,959,740</u>	<u>107,215</u>	<u>(34,900)</u>	<u>5,032,055</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(33,340)	(2,448)		(35,788)
Buildings and improvements	(955,544)	(47,478)		(1,003,022)
Furniture and equipment	(646,353)	(89,859)		(736,212)
Vehicles	(257,319)	(22,165)	34,900	(244,584)
Total accumulated depreciation	<u>(1,892,556)</u>	<u>(161,950)</u>	<u>34,900</u>	<u>(2,019,606)</u>
Governmental activities capital assets, net	<u>\$3,270,557</u>	<u>(\$54,735)</u>	<u>\$0</u>	<u>\$3,215,822</u>

Depreciation expense was charged to governmental functions as follows:

**Instruction:**

Regular	\$87,143
Special	2,787
Vocational	1,988

**Support Services:**

Pupil	6,012
Instructional staff	7,862
Administration	5,213
Fiscal	439
Operations and maintenance	9,587
Pupil transportation	20,094
Central	1,202
Extracurricular activities	13,890
Food service operations	5,733

Total depreciation expense \$161,950

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**10. CAPITAL LEASES - LESSEE DISCLOSURE**

In prior fiscal years, the District entered into capitalized leases for band instruments. These lease agreements meet the criteria of capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital assets consisting of equipment have been capitalized in the amount of \$11,295. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2004 totaled \$2,933 paid by the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2004:

<b>Fiscal Year Ending June 30,</b>	<b><u>Amount</u></b>
2005	\$3,478
Total minimum lease payments	3,478
Less amount representing interest	<u>(284)</u>
Total	<u><u>\$3,194</u></u>

**11. LONG-TERM OBLIGATIONS**

A. The balance of the District's governmental activities long-term obligations at June 30, 2003 has been restated. The compensated absences liability increased from \$271,938 to \$380,654 due to the implementation of GASB Interpretation No. 6 and the fund reclassifications described in Note 3.A. In addition, pension obligations of \$40,971 at June 30, 2003 are not reported as a component of governmental activities long-term obligations as they are paid within one year of fiscal year-end. Pension obligations are reported separately on the statement of net assets. The effect on the total governmental activities long-term obligations at July 1, 2003 was an increase of \$67,745 from \$2,119,036 to \$2,186,781. During the fiscal year 2004, the following changes occurred in governmental activities long-term obligations:

	<b>Restated Balance Outstanding <u>July 1, 2003</u></b>	<b><u>Additions</u></b>	<b><u>Reductions</u></b>	<b>Balance Outstanding <u>June 30, 2004</u></b>	<b>Amounts Due in <u>One Year</u></b>
<b>Governmental Activities:</b>					
School improvement bonds	\$1,800,000		(\$85,000)	\$1,715,000	\$90,000
Capital lease obligation	6,127		(2,933)	3,194	3,194
Compensated absences	<u>380,654</u>	<u>\$34,847</u>	<u>(83,420)</u>	<u>332,081</u>	<u>20,345</u>
Total long-term obligations, governmental activities	<u><u>\$2,186,781</u></u>	<u><u>\$34,847</u></u>	<u><u>(\$171,353)</u></u>	<u><u>\$2,050,275</u></u>	<u><u>\$113,539</u></u>

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**11. LONG-TERM OBLIGATIONS**

**School Improvement Bonds** - On February 15, 1998, the District issued bonds in the amount of \$2,150,000. The bonds were issued for the purpose of an addition and improvements to the District. The bonds were issued for a nineteen year period with final maturity during fiscal year 2017. The bonds will be paid from the Bond Retirement Fund.

Principal and interest requirements to retire general obligation debt at June 30, 2004, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$90,000	\$87,675	\$177,675
2006	95,000	82,819	177,819
2007	100,000	77,701	177,701
2008	110,000	72,188	182,188
2009	115,000	66,281	181,281
2010 - 2014	690,000	230,212	920,212
2015 - 2017	<u>515,000</u>	<u>41,344</u>	<u>556,344</u>
Total	<u>\$1,715,000</u>	<u>\$658,220</u>	<u>\$2,373,220</u>

**B. Legal Debt Margin**

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District.

The effects of these debt limitations at June 30, 2004 are a voted debt margin of \$2,921,828 and an unvoted debt margin of \$50,711.

**12. RISK MANAGEMENT**

**A. Property and Liability**

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. During fiscal year 2004, the District contracted with Nationwide Insurance Company for fleet insurance, and with Indiana Insurance for crime, electronic data processing, equipment floater, and property insurance. Insurance coverage provided includes the following:

<u>Description</u>	<u>Amount</u>
Building and Contents-replacement cost (\$1,000 deductible)	\$13,911,702
Electronic Data Processing Coverage (\$500 deductible)	233,006
Equipment Floater Coverage (\$500 deductible)	318,110
Crime Insurance	10,000
Automobile Liability (\$1,000 deductible)	1,000,000
Uninsured Motorists (\$200 deductible)	2,000,000

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**12. RISK MANAGEMENT (Continued)**

During fiscal year 2004, the District joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The District pays this annual premium to the OSP (See Note 2.A.). The District contracts for education general liability, employee benefits liability, employer's liability and stop gap, errors and omissions liability, and employment practices with OSP.

The types and amounts of coverage provided by the Ohio School Plan are as follows:

Education General Liability	
Each Occurrence	\$1,000,000
Personal and Advertising Injury Limit - each offense	1,000,000
Fire Damage Limit - any one event	500,000
Medical Expense - any one person/each accident	10,000
General Aggregate Limit	3,000,000
Products – completed operations limit	1,000,000
Aggregate Limit	3,000,000
Employer's Liability and Stop Gap	
Each Occurrence	1,000,000
Disease - each employee	1,000,000
Errors and Omissions Liability (\$2,500 deductible)	
Per Occurrence	1,000,000
Aggregate limit	2,000,000
Excess Liability	
Each Occurrence	1,000,000
Aggregate limit	1,000,000

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has been no significant reduction in insurance coverage from the last fiscal year.

**B. Workers' Compensation**

For fiscal year 2004, the District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (see Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP.

The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to districts that can meet the GRP's selection criteria. The firm of Integrated Comp Inc. provides administrative, cost control and actuarial services to the GRP.

**NEWTON LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(SEE ACCOUNTANT'S COMPILATION REPORT)  
(Continued)**

**12. RISK MANAGEMENT (Continued)**

**C. Medical Benefits**

For fiscal year 2004, the District participated in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP), an insurance purchasing pool (Note 2.A). The intent of the MBP is to achieve the benefit of reduced health insurance premiums for the District by virtue of its grouping and representation with other participants in the MBP. The health insurance experience of the participating school districts is calculated and a premium rate is applied to all school districts in the MBP. Each participant pays its health insurance premiums to the Southwestern Ohio Educational Purchasing Council (SOEPC). Participation in the MBP is limited to school districts that can meet the MBP's selection criteria.

**13. DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate of 14% for 2004, 9.09% was the portion to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$61,909, \$42,650, and \$31,743, respectively; 39.16% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$37,668, represents the unpaid contribution for fiscal year 2004.

**B. State Teachers Retirement System**

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

**NEWTON LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(SEE ACCOUNTANT'S COMPILATION REPORT)  
(Continued)**

**13. DEFINED BENEFIT PENSION PLANS (Continued)**

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute 14%; 13% was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$281,893, \$268,994, \$194,154, respectively; 82.82% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$48,416, represents the unpaid contribution for fiscal year 2004.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2004, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

**14. POSTEMPLOYMENT BENEFITS**

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go-basis.



**NEWTON LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(SEE ACCOUNTANT'S COMPILATION REPORT)  
(Continued)**

**14. POSTEMPLOYMENT BENEFITS (Continued)**

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$20,135 during fiscal 2004.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.1 billion at June 30, 2004. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268.739 million and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

For this fiscal year, employer contributions to fund health care benefits were 4.91% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$25,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$38,115 during the 2004 fiscal year.

**15. BUDGETARY BASIS OF ACCOUNTING**

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);

**NEWTON LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(SEE ACCOUNTANT'S COMPILATION REPORT)  
(Continued)**

**15. BUDGETARY BASIS OF ACCOUNTING (Continued)**

- c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

**Net Change in Fund Balance**

	<b>General Fund</b>
Budget basis	(\$60,329)
Net adjustment for revenue accruals	39,387
Net adjustment for expenditure accruals	(13,259)
Net adjustment for other sources/uses	34,129
Adjustment for encumbrances	3,071
GAAP basis	\$2,999

**16. CONTINGENCIES**

**A. Grants**

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

**B. Litigation**

The District is involved in no material litigation as either plaintiff or defendant.

**17. STATUTORY RESERVES**

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2004, the reserve activity was as follows:

**NEWTON LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(SEE ACCOUNTANT'S COMPILATION REPORT)  
(Continued)**

**17. STATUTORY RESERVES (Continued)**

	<b>Textbooks</b>	<b>Capital Acquisition</b>
Set-aside cash balance as of June 30, 2003	\$2,300	
Current year set-aside requirement	75,154	\$75,154
Current year offsets		(169,324)
Qualifying disbursements	(83,945)	(117,771)
 Total	 (\$6,491)	 (\$211,941)
 Cash balance carried forward to FY 2005	 (\$6,491)	 \$0

Although the District had offsets and qualifying disbursements during the year that reduced the set-aside amount below zero for the capital acquisition reserve, this extra amount may not be used to reduce the set-aside requirement for future years. The negative amount is therefore not presented as being carried forward to the next fiscal year. The amount of qualifying disbursements exceeding the set-aside requirement in the textbooks reserve may be carried forward to reduce the set-aside requirement for future years.

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Newton Local School District  
Miami County  
201 N. Long Street  
Pleasant Hill, Ohio 45359

To the Members of the Board:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Newton Local School District, Miami County, (the District), as of and for the years ended June 30, 2005 and 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 1, 2006, wherein we noted the District adopted Government Accounting Standards Board Statement No. 34 for the year ended June 30, 2004. 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 the Comptroller General of the United States' *Government Auditing Standards*.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2005-001 and 2005-002.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable conditions described above are material weaknesses. In a separate letter to the District's management dated March 1, 2006, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

### **Compliance and Other Matters**

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated March 1, 2006, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the management and Board of Education. It is not intended for anyone other than these specified parties.



**Betty Montgomery**  
Auditor of State

March 1, 2006

NEWTON LOCAL SCHOOL DISTRICT  
MIAMI COUNTY

SCHEDULE OF FINDINGS  
FOR THE YEARS ENDED JUNE 30, 2005 and 2004

FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER 2005-001

REPORTABLE CONDITION

**Student Managed Activity Monitoring Controls**

Student managed activity advisors are required to complete a Purpose and Budget Statement annually, in addition, a Sales Project Potential Form for each fundraiser is to be completed. The preliminary portion of the Sales Project Potential Form identifies the project, quantity ordered, and the proposed sale price of the item(s). The final portion of the form to be completed at the end of the fundraiser which indicates the actual sales price, identifies how the purchased inventory is accounted for, and the total amount deposited with the Treasurer.

These forms were not properly utilized during the audit period as follows:

- In fiscal year 2005, there were 16 student managed activities. Nine (56%) of the activities did not have completed Purpose and Budget Statement forms signed by the Superintendent, Principal and Activity Advisor. In fiscal year 2004, there were 17 student managed activities, with nine (53%) of the activities not having completed and approved forms.
- In fiscal year 2005, there were 33 fund raising events. Thirteen (39%) did not complete the preliminary portion of the Sales Project Potential Form and twenty two (67%) did not complete the final portion. In fiscal year 2004, there were 40 fund raising events and twenty four (60%) did not complete the preliminary portion of the Sales Project Potential Form and thirty (75%) did not complete the final portion.

Purpose and Budget Statements should be completed to explain how the money will be raised and for what activities it will be used. The principal and superintendent should review and approve the statements as an additional monitoring control of these activities. The activity advisors should also complete the Sales Project Potential Form for each fund raising activity to provide some assurance that event was carefully planned and the revenue collected corresponds to the amounts expended at the prices used.

We also recommend the District refer to the Auditor of State's *Guidelines for Developing Policies for Student Activities* (revised April 2002), which is available at [www.auditor.state.oh.us](http://www.auditor.state.oh.us) / Publications / Manuals & Handbooks.

## FINDING NUMBER 2005-002

### REPORTABLE CONDITION

#### Capital Assets

Certain deficiencies were noted in the District's procedures regarding their capital assets. To adequately account for capital assets, the District should address the following conditions:

- The District's capital asset policy states "for purposes of this policy 'equipment' shall mean a unit of furniture or furnishings, an instrument, a machine, an apparatus or a set of articles which retains its shape and appearance with use, is nonexpendable, costs at least \$500 to replace as a single unit and does not lose its identity when incorporated into a more complex unit." It also states "all assets of a like manner, such as student desks and chairs, in the same room will be considered collectively." The District has capitalized various items such as desks, chairs, stools, music stands, shelves and tables which individually do not individually meet the capitalization criteria. The General Finance Officers Association (GFOA) recommends capitalization thresholds be applied to individual fixed assets, rather than to groups of fixed assets. The District should consider amending its policy to be more inline with the prescribed accounting practices and removing grouped assets from the amounts presented as capitalized assets.
- The prior audit identified numerous errors in the capital assets presentation which were not corrected on the asset accounting system. There were nine items totaling \$12,463 that were not deleted from the system and the value of asset #000695 was overstated by \$274,914 which was not uncorrected.
- The District's capital asset policy states "Unless otherwise noted, all depreciation is calculated using the straight-line method with a whole year taken in the year of acquisition." However, our testing indicated the system does not calculate in accordance with that policy. The Board should either change the policy to agree to the system calculation or the Treasurer should contact the Metropolitan Dayton Education Cooperative Association and have the system depreciation set to their policy.
- There were numerous items that were not recorded on the District's capital asset accounting system during the period. In fiscal 2004, 11 computer systems were not put on as additions. In fiscal 2005, there were 48 computer systems, a Chenbro Rack with Drive, a Dual Deck CD Burner, an Autostrobe, and a Notebook Cart that were not put on as additions.
- There were several District additions during the period that were recorded at an incorrect value including 14 computers, Smart Board, Milk Machine, and a Notebook Storage cart. In addition, an asset was booked as a laptop computer which was actually an air conditioner according to the invoice.
- One item was purchased that had a trade-in noted on the invoice, however, the asset identified as the trade-in was not deleted from the system.
- Assets valued below the capitalization threshold of \$500 were added to the system. Including, 6 printers booked at \$500 each whose actual value was \$200; a grouping of 24 music stands, a grouping of 5 guitars, and a grouping of 7 fence guards which were added but did not individually meet the threshold.
- To track District assets, procedures call for the use of asset addition and deletion forms that are to be completed by District personnel and filed with the Treasurer's Office. These forms were not consistently completed and filed during fiscal 2005 and 2004.

The failure to maintain an accurate capital asset accounting system could result in inaccurate financial reporting and the District's inability to verify those assets properly. Implementing these procedures noted above would assist in providing accurate support for financial presentation.



**NEWTON LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDING  
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2003-001	Missing Student Managed Activities documents and forms.	No	Repeated as finding 2005-001, Treasurer is working with activity advisors to educate them on proper procedures and form completion.





**Auditor of State  
Betty Montgomery**

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**NEWTON LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
APRIL 17, 2006**