

# **Newton Falls Exempted Village School District**

\* \* \* \*

*Financial Statements*

***June 30, 2007***





Mary Taylor, CPA  
Auditor of State

Board of Education  
Newton Falls Exempted Village School District  
909 1/2 Milton Blvd.  
Newton Falls, Ohio 44444

We have reviewed the *Independent Auditor's Report* of the Newton Falls Exempted Village School District, Trumbull County, prepared by Rea & Associates, Inc., for the audit period July 1, 2006 through June 30, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Newton Falls Exempted Village School District is responsible for compliance with these laws and regulations.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

March 28, 2008

**This Page is Intentionally Left Blank.**

**Newton Falls Exempted Village School District**

*Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

*Table of Contents*

---

	Page
Table of Contents .....	1
Independent Auditor's Report.....	2
Management's Discussion and Analysis.....	4
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets .....	12
Statement of Activities.....	13
Fund Financial Statements	
Balance Sheet - Governmental Funds.....	14
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities.....	15
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	16
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	17
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual General Fund.....	18
Statement of Fiduciary Assets and Liabilities - Agency Fund.....	19
Notes to the Basic Financial Statements .....	20

**This Page is Intentionally Left Blank.**



# Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

*Focused on Your Future.*

February 20, 2008

The Board of Education  
Newton Falls Exempted Village School District  
909 ½ Milton Blvd.  
Newton Falls, OH 44444

## INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Newton Falls Exempted Village School District (the School District), as of and for the year ended June 30, 2007, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 that 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 School District, as of June 30, 2007, and the respective changes in financial position and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 20, 2008 on our consideration of the School 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 4 through 11 are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Hea & Associates, Inc.*



## Newton Falls Exempted Village School District

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2007  
Unaudited*

---

As management of the Newton Falls Exempted Village School District (the School District), we offer readers of the School District's financial statements this narrative and analysis of the financial activities of the School district for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with financial statements and notes to the basic financial statements to enhance their understanding of the School District's financial performance.

### Financial Highlights

- For governmental activities, net assets increased by \$455,988, which represents a 2.1 percent increase from 2006.
- General revenues accounted for \$11,782,024 in revenue or 86.3 percent of all governmental revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,866,190 or 13.7 percent of total governmental revenues of \$13,648,214.
- Program expenses totaled \$13,192,226, a 0.1 percent decrease from fiscal year 2006. Instructional expenses made up 57.4 percent of this total while support services accounted for 33.4 percent. Other expenses rounded out the remaining 9.2 percent.
- The general fund had \$10,544,528 in revenues and \$10,821,663 in expenditures. At the end of the fiscal year, the general fund is reporting a deficit fund balance of \$553,520, which is a decrease from the prior year deficit fund balance of \$276,385.
- Outstanding general obligation bonded debt decreased to \$5,450,387 from \$5,970,060 during 2007.

### Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the School District's basic financial statements. The School District basic financial statements are comprised of three components: (1) government-wide statements, (2) fund financial statements, and (3) notes to the basic financial statements.

**Government-wide Financial Statements** The government-wide financial statements are designed to provide the reader with a broad overview of the School District's finances, in a manner similar to a private-sector business.

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

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

## Newton Falls Exempted Village School District

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2007  
Unaudited*

---

The government-wide financial statement distinguishes functions of the School District that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from those that are primarily supported through user charges (*business-type activities*). The School District has no business-type activities. The governmental activities of the School District include instruction, support services, extracurricular activities, operation of non-instructional services and interest and fiscal charges.

The government-wide financial statements can be found on pages 12-13 of this report.

***Fund Financial Statements*** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School District, like the State and local governments, uses fund accounting to ensure and demonstrate compliance with financial-related legal requirements. These fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the general fund, the bond retirement fund, the building capital projects fund and the classroom facilities capital projects fund. All of the funds of the School District can be divided into two categories: governmental and fiduciary.

***Governmental Funds*** Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual*, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the School District's general governmental 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 financial educational programs. The relationship (or difference) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

The basic fund financial statements can be found on page 14-17 of this report.

***Fiduciary Fund*** Fiduciary fund is used to account for resources held for the benefit of parties outside the government. The fiduciary fund is not reflected in the government-wide financial statement because the resources of this fund are not available to support the School District's own programs. The accounting used for fiduciary fund is much like that used for proprietary funds.

The basic fiduciary fund financial statement can be found on page 19 of this report.

***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. The notes to the financial statements can be found on pages 20-42 of this report.

### **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. Table 1 provides a comparison of the School District's Net Assets for 2007 compared to 2006.

Assets exceeded liabilities by \$22,503,396 at the close of the most recent fiscal year for the School District.

**Newton Falls Exempted Village School District**

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2007*

*Unaudited*

**Table 1**  
Net Assets  
Governmental Activities

	<u>2007</u>	<u>2006</u>	<u>Change</u>
<b>Assets</b>			
Current and Other Assets	\$8,855,907	\$12,944,547	(\$4,088,640)
Capital Assets, Net	<u>27,411,785</u>	<u>23,597,166</u>	<u>3,814,619</u>
<i>Total Assets</i>	<u>36,267,692</u>	<u>36,541,713</u>	<u>(274,021)</u>
<b>Liabilities</b>			
Current Liabilities	5,535,838	5,813,414	(277,576)
Long-Term Liabilities			
Due Within One Year	625,005	393,887	231,118
Due In More Than One Year	<u>7,603,453</u>	<u>8,287,004</u>	<u>(683,551)</u>
<i>Total Liabilities</i>	<u>13,764,296</u>	<u>14,494,305</u>	<u>(730,009)</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	19,929,095	15,448,414	4,480,681
Restricted for:			
Capital Projects	1,270,989	5,042,886	(3,771,897)
Debt Service	850,629	861,228	(10,599)
Other Purposes	1,097,191	929,596	167,595
Unrestricted (Deficit)	<u>(644,508)</u>	<u>(234,716)</u>	<u>(409,792)</u>
<i>Total Net Assets</i>	<u>\$22,503,396</u>	<u>\$22,047,408</u>	<u>\$455,988</u>

Current assets decreased \$4,088,640. This decrease, coupled with an increase in capital assets of \$3,814,619, resulted in a total decrease in assets of \$274,021. The increase in capital assets was due to the School District completing construction of various building improvements totaling \$5,844,776 and acquiring \$822,953 in furniture and fixtures offset by deletions of \$31,709 and annual depreciation of \$709,227. Total cash of the School District decreased due to the School District paying out the remaining cost of the construction of the new school facilities in the School District.

Total liabilities decreased by \$730,009 or 5.04 percent mainly due to annual payments on the School District's current long-term debt obligations.

A portion of the School District's net assets, \$3,218,809, represents resources that are subject to external restrictions on how the funds may be used. Of the total restricted net assets, \$1,270,989 is restricted for capital projects, \$850,629 is restricted for debt service, and \$1,097,191 is restricted for other purposes. The remaining deficit balance of net assets of \$644,508 is unrestricted and indicates an amount not available to meet the government's ongoing obligations to citizens and creditors.

The remaining balance of net assets \$19,929,095 is investment in capital assets (e.g., land, buildings, equipment, furniture and vehicles); less any related debt used to acquire those assets that is still outstanding. The School District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

**Newton Falls Exempted Village School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2007*  
*Unaudited*

Table 2 shows the changes in net assets for fiscal year 2007 compared to 2006.

**Table 2**  
 Governmental Activities

	2007	2006	Change
<b>Program Revenues</b>			
Charges for Services and Sales	\$710,360	\$754,669	(\$44,309)
Operating Grants, Interest and Contributions	1,144,414	1,016,348	128,066
Capital Grants and Contributions	11,416	6,896	4,520
<i>Total Program Revenues</i>	<u>1,866,190</u>	<u>1,777,913</u>	<u>88,277</u>
<b>General Revenues</b>			
Property Taxes	3,990,347	4,003,242	(12,895)
Grants and Entitlements	7,211,497	10,917,625	(3,706,128)
Investments	456,298	166,547	289,751
Miscellaneous	123,882	16,273	107,609
<i>Total General Revenues</i>	<u>11,782,024</u>	<u>15,103,687</u>	<u>(3,321,663)</u>
<i>Total Revenues</i>	<u>13,648,214</u>	<u>16,881,600</u>	<u>(3,233,386)</u>
<b>Program Expenses</b>			
Instruction:			
Regular	6,117,746	6,199,000	(81,254)
Special	1,390,321	1,264,752	125,569
Vocational	66,391	78,836	(12,445)
Adult/Continuing	644	1,000	(356)
Support Services			
Pupils	644,209	595,767	48,442
Instructional Staff	329,806	259,734	70,072
Board of Education	166,563	105,245	61,318
Administration	969,206	946,518	22,688
Fiscal	454,480	470,742	(16,262)
Operation and Maintenance of Plant	986,937	1,072,215	(85,278)
Pupil Transportation	687,036	772,029	(84,993)
Central	171,846	278,863	(107,017)
Operation of Non-Instructional Services	110,535	181,404	(70,869)
Operation of Food Service	392,289	392,236	53
Extracurricular Activities	394,561	359,781	34,780
Interest and Fiscal Charges	309,656	343,417	(33,761)
<i>Total Program Expenses</i>	<u>13,192,226</u>	<u>13,321,539</u>	<u>(129,313)</u>
<i>Increase in Net Assets</i>	455,988	3,560,061	(3,104,073)
Net Assets Beginning of Year	<u>22,047,408</u>	<u>18,487,347</u>	<u>3,560,061</u>
Net Assets End of Year	<u>\$22,503,396</u>	<u>\$22,047,408</u>	<u>\$455,988</u>

The vast majority of revenue supporting governmental activities is general revenue. General revenue totaled \$11,782,024 or 86.3 percent of the total revenue, a decrease of \$3,321,663 from the prior fiscal year. The majority of the decrease is due to grants and entitlements. The remaining amount of revenue received was in the form of program revenues, which equaled \$1,866,190 or 13.7 percent of total revenue.

**Newton Falls Exempted Village School District**

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2007*

*Unaudited*

The increase in net assets was \$455,988 in fiscal year 2007. Revenues decreased \$3,233,386 or 19.15 percent, total program expenses decreased \$129,313 or 0.1 percent when comparing fiscal year 2007 to fiscal year 2006. Instruction program expenses increased \$31,514, support services decreased \$91,030 and operation of non-instructional services, food service, extracurricular and interest and fiscal charges decreased \$69,797 for fiscal year 2007.

The *statement of activities* shows the cost of program services and charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services for 2007 compared to 2006.

**Table 3**  
Total and Net Cost of Program Services  
Governmental Activities

	2007		2006	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction:				
Regular	\$6,117,746	\$5,724,061	\$6,199,000	\$5,801,691
Special	1,390,321	989,113	1,264,752	995,402
Vocational	66,391	63,175	78,836	78,836
Adult/Continuing	644	(356)	1,000	0
Support Services:				
Pupils	644,209	596,077	595,767	524,700
Instructional Staff	329,806	217,417	259,734	166,088
Board of Education	166,563	166,563	105,245	105,245
Administration	969,206	903,480	946,518	867,456
Fiscal	454,480	403,830	470,742	381,005
Operation and Maintenance of Plant	986,937	986,937	1,072,215	1,072,215
Pupil Transportation	687,036	675,620	772,029	673,474
Central	171,846	159,846	278,863	250,607
Operation of Non-Instructional Services	110,535	(11,648)	181,404	58,564
Operation of Food Service	392,289	(38,543)	392,236	62,176
Extracurricular Activities	394,561	180,808	359,781	162,750
Interest and Fiscal Charges	309,656	309,656	343,417	343,417
<b>Total</b>	<b>\$13,192,226</b>	<b>\$11,326,036</b>	<b>\$13,321,539</b>	<b>\$11,543,626</b>

The dependence upon general revenues for governmental activities is apparent as local property tax accounts for roughly 29.2 percent and grants and entitlements account for 52.8 percent of the total revenues in fiscal year 2007. 89.5 percent of instructional activities are supported through taxes and other general revenues; for all governmental activities general revenue support is 85.9 percent of total governmental expenditures.

# Newton Falls Exempted Village School District

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2007  
Unaudited*

---

---

## Financial Analysis of the Government's Funds

**Governmental Funds** Information about the School District's major funds begins on page 14. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$13,613,404 and expenditures of \$17,459,689. The general fund had a decrease in fund balance of \$277,135 due to increases in expenditures outpacing increases in revenues. The net change in fund balance for the year was most significant in the Classroom Facilities capital projects fund, a decrease of \$3,770,099 due to paying out the remaining cost of the construction of the new school facilities in the School District. The Building capital projects fund and the Bond Retirement fund each had minimal decreases in fund balance of \$1,614 and \$5,391, respectively.

### General Fund Budgeting Highlights

The School 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 fund to be budgeted is the main operating fund of the School District, the general fund.

During the course of fiscal year 2007, the School District amended its general fund budget numerous times. The School District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the general fund, the final budget basis revenue estimate was \$10,599,916, a bit higher than the original budget estimate of \$10,504,774. The change was contributed to increases in the estimates for intergovernmental, interest and tuition and fees revenues.

The difference between the original budget appropriations and the final budget appropriations of the general fund was \$548,642. The change was contributed to increases in instructional and support services estimates. Final budget appropriations exceeded actual expenditures by \$15,973.

### Capital Assets and Long-term Liabilities

**Capital Assets** The School District's investment in capital assets for its governmental activities as of June 30, 2007, amounted to \$27,411,785. The total increase in the School District's investment in capital assets for the current fiscal year was 16.2 percent. Table 4 shows fiscal 2007 values compared to 2006.

**Table 4**

Capital Assets at June 30  
Governmental Activities

	2007	2006
Land	\$199,565	\$199,565
Construction in Progress	0	2,112,174
Building and Improvements	26,004,236	20,739,823
Furniture and Fixtures	1,000,092	273,400
Vehicles	207,892	272,204
Total Capital Assets	<u>\$27,411,785</u>	<u>\$23,597,166</u>

**Newton Falls Exempted Village School District**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2007  
Unaudited*

All capital assets, except land and construction in progress, are reported net of depreciation. As one can see, total capital assets increased during the fiscal year by \$3,814,619. This increase was due to the completion of construction related to the new middle school, renovations to the junior/high school and renovations to convert the old middle school into an elementary school of \$5,844,776 and additions to fixtures and equipment of \$822,953. The additions were offset by \$31,709 in deletions and \$709,227 in annual depreciation. For more information about the School District's capital assets, see Note 10 to the basic financial statements.

*Debt*

At June 30, 2007 the School District had \$7,629,079 in outstanding long-term obligations. Table 5 below summarizes the School District's long-term outstanding obligations.

**Table 5**  
Outstanding Long-term Obligations at June 30  
Governmental Activities

	<u>2007</u>	<u>2006</u>
2001 Various Purpose Improvement Bonds 3 - 5.125%	\$3,515,387	\$3,615,585
Refunding Bonds 2.75 - 4.20%	1,935,000	2,354,475
State Construction Loan	<u>2,178,692</u>	<u>2,178,692</u>
Total	<u><u>\$7,629,079</u></u>	<u><u>\$8,148,752</u></u>

The 2001 various purpose improvement bonds were issued to finance the construction of a new middle school, the renovation of the junior/senior high school buildings, and renovations to convert the old middle school into an elementary school. The refunding bonds were issued to advance refund outstanding junior/senior high school renovation bonds. Both bonds will be repaid out of the general obligation bond retirement fund. The 2001 various purpose improvement bonds mature in fiscal year 2025 and the refunding bonds mature in fiscal year 2011.

The School District's overall legal debt margin was \$4,037,489 with an unvoted debt margin of \$120,239. For more information about the School District's debt, see Note 11 to the basic financial statements.

**School District Outlook**

The Board of Education and administration closely monitor revenues and expenditures in accordance with its financial forecast. The financial future of the School District is not without its challenges though. These challenges stem from issues that are local and at the State level. The local challenges will continue to exist, as the School District must rely heavily on property taxes to fund its operations. State level challenges continue to evolve as the State of Ohio determines the outcome of the Ohio Supreme Court case dealing with unconstitutionality of the State's educational funding system.

A challenge facing the School District is the future of State funding. On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional. The Ohio General Assembly was directed to enact a school-funding mechanism that is to be thorough and efficient. The School District is unable to determine what effect, if any, this decision will have on future funding from the State.

**Newton Falls Exempted Village School District**

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2007*

*Unaudited*

---

---

Due to the unsettled issues in school funding, management is required to plan carefully and prudently to provide the resources to meet student needs over the next several years.

In conclusion, the School District's system of budgeting and internal controls is well regarded. All of the School District's financial abilities will be needed to meet the challenges of the future.

**Contacting the School District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information contact Susan Irving, Treasurer, at Newton Falls Exempted Village School District, 909 1/2 Milton Road, Newton Falls, Ohio 44444.



**Newton Falls Exempted Village School District**

*Statement of Net Assets*

*June 30, 2007*

---

---

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$3,882,462
Accounts Receivable	404
Intergovernmental Receivable	117,620
Inventory Held for Resale	12,192
Materials and Supplies Inventory	1,025
Property Taxes Receivable	4,842,204
Nondepreciable Capital Assets	199,565
Depreciable Capital Assets, Net	<u>27,212,220</u>
 <i>Total Assets</i>	 <u><u>36,267,692</u></u>
 <b>Liabilities</b>	
Accounts Payable	268,668
Accrued Wages and Benefits	908,297
Intergovernmental Payable	285,732
Matured Compensated Absences Payable	25,005
Deferred Revenue	4,028,363
Accrued Interest Payable	19,773
Long-Term Liabilities:	
Due Within One Year	625,005
Due In More Than One Year	<u>7,603,453</u>
 <i>Total Liabilities</i>	 <u><u>13,764,296</u></u>
 <b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	19,929,095
Restricted for:	
Capital Projects	1,270,989
Debt Service	850,629
Other Purposes	1,097,191
Unrestricted (Deficit)	<u>(644,508)</u>
 <i>Total Net Assets</i>	 <u><u>\$22,503,396</u></u>

See accompanying notes to the basic financial statements

**Newton Falls Exempted Village School District**

*Statement of Activities*

*For the Fiscal Year Ended June 30, 2007*

	Program Revenues			Net (Expense)	
	Expenses	Charges for Services and Sales	Operating Grants, Interest and Contributions	Revenue and Changes in Net Assets	
			Capital Grants and Contributions	Governmental Activities	
<b>Governmental Activities</b>					
Instruction:					
Regular	\$6,117,746	\$274,645	\$119,040	\$0	(\$5,724,061)
Special	1,390,321	52,314	348,894	0	(989,113)
Vocational	66,391	3,216	0	0	(63,175)
Adult/Continuing	644	0	1,000	0	356
Support Services:					
Pupils	644,209	0	48,132	0	(596,077)
Instructional Staff	329,806	0	112,389	0	(217,417)
Board of Education	166,563	0	0	0	(166,563)
Administration	969,206	0	65,726	0	(903,480)
Fiscal	454,480	0	50,650	0	(403,830)
Operation and Maintenance of Plant	986,937	0	0	0	(986,937)
Pupil Transportation	687,036	0	0	11,416	(675,620)
Central	171,846	0	12,000	0	(159,846)
Operation of Non-Instructional Services	110,535	0	122,183	0	11,648
Operation of Food Service	392,289	198,432	232,400	0	38,543
Extracurricular Activities	394,561	181,753	32,000	0	(180,808)
Interest and Fiscal Charges	309,656	0	0	0	(309,656)
<b>Totals</b>	<b>\$13,192,226</b>	<b>\$710,360</b>	<b>\$1,144,414</b>	<b>\$11,416</b>	<b>(11,326,036)</b>

**General Revenues**

Property Taxes Levied for:

  General Purposes 3,070,959

  Debt Service 919,388

Grants and Entitlements not Restricted to Specific Programs 7,211,497

Investment Earnings 456,298

Miscellaneous 123,882

**Total General Revenues 11,782,024**

Change in Net Assets 455,988

*Net Assets Beginning of Year -  
Restated (See Note 3)* 22,047,408

**Net Assets End of Year \$22,503,396**

See accompanying notes to the basic financial statements

**Newton Falls Exempted Village School District**

*Balance Sheet*

*Governmental Funds*

*June 30, 2007*

	<u>General</u>	<u>Bond Retirement</u>	<u>Building</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>						
Equity in Pooled Cash and Cash Equivalents	\$510,560	\$698,626	\$1,035,821	\$472,470	\$1,153,569	\$3,871,046
Restricted Assets:						
Equity in Pooled Cash and Cash Equivalents	11,416	0	0	0	0	11,416
Accounts Receivable	404	0	0	0	0	404
Intergovernmental Receivable	0	0	0	0	117,620	117,620
Interfund Receivable	29,716	0	0	0	0	29,716
Inventory Held for Resale	0	0	0	0	12,192	12,192
Materials and Supplies Inventory	0	0	0	0	1,025	1,025
Property Taxes Receivable	3,611,055	1,104,640	0	0	126,509	4,842,204
<i>Total Assets</i>	<u>\$4,163,151</u>	<u>\$1,803,266</u>	<u>\$1,035,821</u>	<u>\$472,470</u>	<u>\$1,410,915</u>	<u>\$8,885,623</u>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities</b>						
Accounts Payable	\$15,310	\$0	\$46,679	\$190,623	\$16,056	\$268,668
Accrued Wages and Benefits	820,236	0	0	0	88,061	908,297
Interfund Payable	0	0	0	0	29,716	29,716
Matured Compensated Absences Payable	25,005	0	0	0	0	25,005
Intergovernmental Payable	256,908	0	0	0	28,824	285,732
Deferred Revenue	3,599,212	1,101,373	0	0	164,284	4,864,869
<i>Total Liabilities</i>	<u>4,716,671</u>	<u>1,101,373</u>	<u>46,679</u>	<u>190,623</u>	<u>326,941</u>	<u>6,382,287</u>
<b>Fund Balances</b>						
Reserved for Encumbrances	160,303	0	0	22,485	38,761	221,549
Reserved for Property Taxes	11,843	3,267	0	0	367	15,477
Reserved for School Bus Purchase	11,416					11,416
Unreserved, Undesignated, Reported in:						
General Fund (Deficit)	(737,082)	0	0	0	0	(737,082)
Special Revenue Funds	0	0	0	0	1,044,846	1,044,846
Debt Service Fund	0	698,626	0	0	0	698,626
Capital Projects Funds	0	0	989,142	259,362	0	1,248,504
<i>Total Fund Balances (Deficit)</i>	<u>(553,520)</u>	<u>701,893</u>	<u>989,142</u>	<u>281,847</u>	<u>1,083,974</u>	<u>2,503,336</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$4,163,151</u>	<u>\$1,803,266</u>	<u>\$1,035,821</u>	<u>\$472,470</u>	<u>\$1,410,915</u>	<u>\$8,885,623</u>

See accompanying notes to the basic financial statements

**Newton Falls Exempted Village School District**  
*Reconciliation of Total Governmental Fund Balances to*  
*Net Assets of Governmental Activities*  
*June 30, 2007*

---



---

<b>Total Governmental Fund Balances</b>	<b>\$2,503,336</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.	27,411,785
---	------------

Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.

Property Taxes	798,364
Intergovernmental	<u>38,142</u>

Total	836,506
-------	---------

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(19,773)
--	----------

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:

General Obligation Bonds	(5,450,387)
State Construction Loan	(2,178,692)
Compensated Absences	<u>(599,379)</u>

Total	<u>(8,228,458)</u>
-------	--------------------

<i>Net Assets of Governmental Activities</i>	<u><u>\$22,503,396</u></u>
--	----------------------------

See accompanying notes to the basic financial statements

**Newton Falls Exempted Village School District**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2007*

	General	Bond Retirement	Building	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>						
Property Taxes	\$2,925,435	\$925,007	\$0	\$0	\$98,621	\$3,949,063
Intergovernmental	7,079,432	143,481	0	0	1,117,888	8,340,801
Interest	103,802	0	45,065	307,431	0	456,298
Tuition and Fees	315,244	0	0	0	13,496	328,740
Extracurricular Activities	0	0	0	0	181,753	181,753
Contributions and Donations	0	0	0	0	33,000	33,000
Charges for Services	0	0	0	0	198,432	198,432
Rentals	1,435	0	0	0	0	1,435
Miscellaneous	119,180	0	0	0	4,702	123,882
<i>Total Revenues</i>	<u>10,544,528</u>	<u>1,068,488</u>	<u>45,065</u>	<u>307,431</u>	<u>1,647,892</u>	<u>13,613,404</u>
<b>Expenditures</b>						
Current:						
Instruction:						
Regular	5,546,132	0	0	0	137,388	5,683,520
Special	1,123,824	0	0	0	284,063	1,407,887
Vocational	68,219	0	0	0	0	68,219
Adult/Continuing	0	0	0	0	667	667
Support Services:						
Pupils	602,947	0	0	0	53,614	656,561
Instructional Staff	192,290	0	0	0	144,332	336,622
Board of Education	172,465	0	0	0	0	172,465
Administration	922,516	0	0	0	70,825	993,341
Fiscal	227,985	244,139	0	0	1,907	474,031
Operation and Maintenance of Plant	980,667	0	0	0	0	980,667
Pupil Transportation	650,566	0	0	0	55	650,621
Central	161,826	0	0	0	12,000	173,826
Operation of Non-Instructional Services	0	0	0	0	111,165	111,165
Operation of Food Service	0	0	0	0	392,295	392,295
Extracurricular Activities	171,266	0	0	0	231,443	402,709
Capital Outlay	960	0	46,679	4,077,530	184	4,125,353
Debt Service:						
Principal Retirement	0	590,000	0	0	0	590,000
Interest and Fiscal Charges	0	239,740	0	0	0	239,740
<i>Total Expenditures</i>	<u>10,821,663</u>	<u>1,073,879</u>	<u>46,679</u>	<u>4,077,530</u>	<u>1,439,938</u>	<u>17,459,689</u>
<i>Net Change in Fund Balances</i>	(277,135)	(5,391)	(1,614)	(3,770,099)	207,954	(3,846,285)
<i>Fund Balances (Deficit) Beginning of Year (See Note 3)</i>	<u>(276,385)</u>	<u>707,284</u>	<u>990,756</u>	<u>4,051,946</u>	<u>876,020</u>	<u>6,349,621</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>(\$553,520)</u>	<u>\$701,893</u>	<u>\$989,142</u>	<u>\$281,847</u>	<u>\$1,083,974</u>	<u>\$2,503,336</u>

See accompanying notes to the basic financial statements

**Newton Falls Exempted Village School District**  
*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, 2007*

---

**Net Change in Fund Balances - Total Governmental Funds** (\$3,846,285)

*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 capital outlay exceeded depreciation in the current period.

Capital Outlay	4,555,555	
Depreciation	<u>(709,227)</u>	
Total		3,846,328

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (31,709)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Property Taxes	41,284	
Intergovernmental	<u>(6,474)</u>	
Total		34,810

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 590,000

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Accrued Interest	411	
Amortization of Accretion	<u>(70,327)</u>	
Total		(69,916)

Some expenses reported in the statement of activities, such as compensated absences do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (67,240)

*Change in Net Assets of Governmental Activities* \$455,988

See accompanying notes to the basic financial statements

**Newton Falls Exempted Village School District**  
*Statement of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*General Fund*  
*For the Fiscal Year Ended June 30, 2007*

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues</b>				
Property Taxes	\$2,957,409	\$2,979,110	\$2,979,110	\$0
Intergovernmental	7,038,940	7,079,432	7,079,432	0
Interest	73,000	103,398	103,398	0
Tuition and Fees	286,676	315,244	315,244	0
Rentals	2,500	1,435	1,435	0
Payment in Lieu of Taxes	146,249	121,296	121,296	0
<i>Total Revenues</i>	<u>10,504,774</u>	<u>10,599,915</u>	<u>10,599,915</u>	<u>0</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	5,116,405	5,569,982	5,554,009	15,973
Special	1,020,223	1,101,331	1,101,331	0
Vocational	65,338	66,789	66,789	0
Support Services:				
Pupils	528,450	601,281	601,281	0
Instructional Staff	163,204	184,633	184,633	0
Board of Education	272,035	180,379	180,379	0
Administration	789,989	892,239	892,239	0
Fiscal	313,901	313,525	313,525	0
Operation and Maintenance of Plant	1,011,720	1,005,463	1,005,463	0
Pupil Transportation	651,986	712,663	712,663	0
Central	379,752	215,936	215,936	0
Operation of Non-Instructional Services	3,078	1,061	1,061	0
Extracurricular Activities	150,409	169,709	169,709	0
Capital Outlay	989	1,130	1,130	0
<i>Total Expenditures</i>	<u>10,467,479</u>	<u>11,016,121</u>	<u>11,000,148</u>	<u>15,973</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>37,295</u>	<u>(416,206)</u>	<u>(400,233)</u>	<u>15,973</u>
<b>Other Financing Sources (Uses)</b>				
Advances In	34,340	34,340	34,340	0
Advances Out	0	(29,716)	(29,716)	0
<i>Total Other Financing Sources (Uses)</i>	<u>34,340</u>	<u>4,624</u>	<u>4,624</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	71,635	(411,582)	(395,609)	15,973
<i>Fund Balance Beginning of Year</i>	601,090	601,090	601,090	0
Prior Year Encumbrances Appropriated	<u>152,297</u>	<u>152,297</u>	<u>152,297</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u><u>\$825,022</u></u>	<u><u>\$341,805</u></u>	<u><u>\$357,778</u></u>	<u><u>\$15,973</u></u>

See accompanying notes to the basic financial statements

**Newton Falls Exempted Village School District**

*Statement of Fiduciary Assets and Liabilities*

*Agency Fund*

*June 30, 2007*

---

---

	<u>Agency</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$21,694</u>
<b>Liabilities</b>	
Due to Students	<u>\$21,694</u>

See accompanying notes to the basic financial statements



## **Newton Falls Exempted Village School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

---

### **Note 1 - Description of the School District and Reporting Entity**

Newton Falls Exempted Village School District (the School District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The School District operates under a locally-elected five-member Board form of government and provides educational services as mandated by State and federal agencies. The Board of Education controls the School District's four instructional/support facilities staffed by 55 classified employees, 90 certificated full and part-time teaching, 6 administrators and 3 supervisors who provide services to 1,504 students and other community members.

#### *Reporting Entity*

A reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the School District consists of all funds, departments, boards and agencies that are not legally separate from the School District. For the School District, this includes the agencies and departments that provide the following services: general operations, food service and student related activities of the School District.

Non-public Schools - Within the School District boundaries, Saint Mary and Joseph School is operated through the Youngstown Catholic Diocese. Current State legislature provides funding to these non-public schools. These monies are received and disbursed on behalf of the non-public school by the treasurer of the School District, as directed by the non-public school. These transactions are reported in a special revenue fund and as a governmental activity of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt or the levying of taxes. The School District has no component units.

The School District participates in four jointly governed organizations and two public entity pools. The organizations are the North Eastern Ohio Management Information Network, the Trumbull County Career and Technical Center, the North East Ohio Instructional Media Center, the North East Ohio Special Education Regional Resource Center, the Ohio School Boards Association Workers' Compensation Group Rating Program and the Trumbull County Schools Employee Benefits consortium. These organizations are presented in Notes 12 and 13 to the basic financial statements.

## Newton Falls Exempted Village School District

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

---

### **Note 2 - Summary of Significant Accounting Policies**

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (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 School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities and to its internal service fund unless those pronouncements conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

#### ***A. Basis of Presentation***

The School District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities and fund financial statements which provide a more detailed level of financial information.

***Government-wide Financial Statements*** The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. These statements usually distinguish between those activities of the School District that are governmental and those that are considered business-type. The School District, however, has no business-type activities.

The statement of net assets presents the financial condition of the governmental activities of the School District at fiscal year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. 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 charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

***Fund Financial Statements*** During the year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

#### ***B. Fund Accounting***

The School 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.

## Newton Falls Exempted Village School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

---

**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 School District's major governmental funds:

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

**Bond Retirement** The bond retirement fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

**Building Fund** The building capital projects fund accounts for monies received and expended for various capital improvements within the School District.

**Classroom Facilities Fund** The classroom facilities capital projects fund accounts for monies received and expended in connection with contracts entered into by the School District and the Ohio Department of Education for the building and equipping of classroom facilities.

The other governmental funds of the School District account for grants and other resources whose use is restricted to a particular purpose.

**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 School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District has no trust fund. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency fund accounts for student activities.

### **C. Measurement Focus**

**Government-wide Financial Statements** The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net assets. The statement of activities presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets.

**Fund Financial Statements** 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 (e.g., revenues and other financing sources) and uses (e.g., 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.

## Newton Falls Exempted Village School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

---

### ***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 and the statement presented for the fiduciary fund are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

***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 School District, available means expected to be received within sixty days of fiscal year-end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year in which the taxes are levied (See Note 7). 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 year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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, fees and rentals.

***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, 2007, but which were levied to finance fiscal year 2008 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.

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

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

## **Newton Falls Exempted Village School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

---

### ***E. Cash and Cash Equivalents***

To improve cash management, cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the School District's records. Interest in the pool is presented as "equity in pooled cash and cash equivalents" on the financial statements.

During fiscal year 2007, investments were limited to repurchase agreements and STAROhio.

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.

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2007.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2007 amounted to \$103,802, which includes \$42,274 assigned from other School District funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents.

### ***F. Inventory***

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventory consists of expendable supplies and donated and purchased food held for resale.

### ***G. Capital Assets***

The School District's only capital assets are general capital assets. These 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. The School District was able to estimate the historical cost for the initial reporting of assets by backtrending (i.e., estimating the current replacement cost of the asset to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year.) Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of two thousand dollars. The School District does not possess any infrastructure. 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.

All reported capital assets, except land and construction in progress, 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:

**Newton Falls Exempted Village School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

---

---

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Building and Improvements	15 - 50 years
Furniture and Fixtures	5 - 20 years
Vehicles	10 - 20 years

***H. 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 of the statement of net assets.

***I. Compensated Absences***

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the School District's past experience of making termination payments.

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

On the governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the fund from which the employee who has accumulated unpaid leave is paid.

***J. 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, and 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 fiscal year. Bonds and capital leases are recognized as a liability on the fund financial statements when due.

***K. Internal Activity***

Internal events that are allocations of overhead expenses from one function to another or within the same function are eliminated on the Statement of Activities. Interfund payments for services provided and used are not eliminated.

## **Newton Falls Exempted Village School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

---

### ***L. Fund Balance Reserves***

The School 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, property taxes and school bus purchase.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles 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 consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The government-wide statement of net assets reports restricted net assets of \$3,218,809, none of which is restricted by enabling legislation. Net assets restricted for other purposes include resources restricted for auxiliary services and extracurricular activities.

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

### ***N. 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.

### ***O. Estimates***

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

### ***P. Budgetary Data***

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level for all funds. The Treasurer has been given the authority to allocate board appropriations to the function and object levels within each fund.

**Newton Falls Exempted Village School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original and final budgeted amounts in the budgetary statements reflect the amounts in the amended certificate when the original and final appropriations were passed by the Board of Education.

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

**Note 3 – Restatement of Prior Year’s Balances**

During fiscal year 2007, the School District misstated cash and overstated prepaid items. These restatements had the following effect on fund balances as they were previously reported.

	<u>General</u>	<u>Bond Retirement</u>	<u>Building Assistance</u>
Fund Balances, June 30, 2006	(\$159,158)	\$707,284	\$1,790,756
Cash	0	0	(800,000)
Prepaid Items	<u>(117,227)</u>	<u>0</u>	<u>0</u>
Adjusted Fund Balances, June 30, 2006	<u><u>(\$276,385)</u></u>	<u><u>\$707,284</u></u>	<u><u>\$990,756</u></u>
	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Fund Balances, June 30, 2006	\$3,251,946	\$883,389	\$6,474,217
Cash	800,000	0	0
Prepaid Items	<u>0</u>	<u>(7,369)</u>	<u>(124,596)</u>
Adjusted Fund Balances, June 30, 2006	<u><u>\$4,051,946</u></u>	<u><u>\$876,020</u></u>	<u><u>\$6,349,621</u></u>

In addition to the prepaid restatement above, the School District had over depreciated certain capital assets in prior fiscal years and stopped depreciating certain assets before they were completely depreciated. Useful lives for all capital assets were adjusted as needed and accumulated depreciation at June 30, 2006 was recalculated. The prepaid restatement and the capital asset restatement had the following effect on net assets as they were previously reported.



**Newton Falls Exempted Village School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

---

---

	<u>Governmental Activities</u>
Net Assets, June 30, 2006	\$19,858,664
Prepaid Items	(124,596)
Capital Assets	<u>2,313,340</u>
Adjusted Net Assets, June 30, 2006	<u><u>\$22,047,408</u></u>

**Note 4 - Accountability**

**A. Accountability**

Fund balances at June 30, 2007, included the following individual fund deficits:

<b>General Fund</b>	\$553,520
<b>Special Revenue Funds</b>	
Food Service	15,695
Athletics and Music	1,566
Title I	27,541
Class Size Reduction	2,999

The deficit in the general fund was caused by the recognition of expenditures on the modified accrual basis of accounting.

The special revenue funds' deficit balances resulted from adjustments for accrued liabilities. The general fund is liable for any deficit in these funds and provides transfers when cash is required, not when accruals occur.

**Note 5 - Budgetary Basis of Accounting**

While the School District is 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, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual 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 GAAP basis are:

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

**Newton Falls Exempted Village School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
4. Advances-In and Advances Out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements are as follows:

Net Change in Fund Balance

	<u>General</u>
GAAP Basis	(\$277,135)
Net Adjustment for Revenue Accruals	55,387
Advances In	34,340
Net Adjustment for Expenditure Accruals	(14,287)
Advances Out	(29,716)
Encumbrances	<u>(164,198)</u>
Budget Basis	<u><u>(\$395,609)</u></u>

**Note 6 - Deposits and Investments**

Monies held by the School District are classified by State statute into three categories.

Active monies are public monies determined to be necessary to meet current demands upon the School District treasury. Active monies must be maintained either as cash in the School 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 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 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 or deposit accounts including passbook accounts.

Interim monies held by the School District can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, 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;

## Newton Falls Exempted Village School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

---

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, 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 securities listed above;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAROhio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

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. Investments may only be made through specified dealers and institutions.

### ***Deposits***

***Custodial Credit Risk*** Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$944,741 of the School District's bank balance of \$1,085,575 was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the School District to a successful claim by the FDIC.

The School District has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

**Newton Falls Exempted Village School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

**Investments**

Investments are reported at fair value. As of June 30, 2007, the School District had the following investments:

	<u>Fair Value</u>	<u>Maturity</u>
Repurchase Agreement		
Federal Home Loan Bank Notes	\$1,082,101	Daily
Federal Home Loan Mortgage Corporation Notes	433,363	Daily
Federal National Mortgage Association Notes	289,647	Daily
Federal Farm Credit Bonds	70,780	Daily
US Treasury Bonds	29,813	Daily
STAROhio	<u>1,053,711</u>	Average 38.56 days
Total Portfolio	<u><u>\$2,959,415</u></u>	

**Interest Rate Risk.** As a means of limiting its exposure to fair value losses caused by rising interest rates, the School District's investment policy requires that operating funds be invested primarily in short-term investments maturing within five years from the date of purchase and that the School District's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments. The stated intent of the policy is to avoid the need to sell securities prior to maturity. State statute limits investments in repurchase agreements to 30 days and the market value of the securities must exceed the principal value of the agreement by at least 2 percent and be marked to market daily. The School District's repurchase agreement matures on July 1, 2007.

**Credit Risk.** Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The Federal Home Loan Bank Notes, the Federal Home Loan Mortgage Corporation Notes, the Federal National Mortgage Association Notes and the Federal Farm Credit Bonds underlying the repurchase agreement carries the AAA by Standard and Poors. The School District has no investment policy that addresses credit risk.

**Custodial Credit Risk.** For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments. The repurchase agreement is exposed to custodial credit risk in that they are uninsured, unregistered and held by counterparty's trust department or agent but not in the School District's name. The School District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that requires securities purchased pursuant to this division shall be delivered into the custody of the treasurer or governing board or an agent designated by the treasurer or governing board.

**Concentration of Credit Risk.** The School District places no limit on the amount it may invest in any one issuer. The following is the School District's allocation as of June 30, 2007:

<u>Investment Issuer</u>	<u>Percentage of Investments</u>
Repurchase Agreement	64.39%
STAROhio	35.61

## Newton Falls Exempted Village School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

---

### **Note 7 – Property Taxes**

Property taxes are levied and assessed on a calendar year basis while the School District's fiscal year runs from July through June. First half tax collections are received by the School 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 School District. Real property tax revenue received in calendar 2007 represents collections of calendar year 2006 taxes. Real property taxes received in calendar year 2007 were levied after April 1, 2006, on the assessed value listed as of January 1, 2006, 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 2007 represents collections of calendar year 2006 taxes. Public utility real and tangible personal property taxes received in calendar year 2007 became a lien December 31, 2005, were levied after April 1, 2006 and are collected in 2007 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 2007 (other than public utility property tax) represents the collection of 2007 taxes. Tangible personal property taxes received in calendar year 2007 were levied after April 1, 2006, on the value listed as of December 31, 2006. In prior years, tangible personal property was assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2007 is 12.5 percent. This will be reduced to 6.25 percent for 2008 and zero for 2009. 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 School District prior to June 30.

The School District receives property taxes from Trumbull County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2007, are available to finance fiscal year 2007 operations. The amount available to be advanced can vary based on the date the 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, 2007 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, 2007 was \$11,843 in the general fund, \$3,267 in the bond retirement fund and \$367 in the classroom facilities maintenance special revenue fund. The amount available as an advance at June 30, 2006 was \$65,518 in the general 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.

**Newton Falls Exempted Village School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

The assessed values upon which the fiscal year 2007 taxes were collected are:

	2006 Second Half Collections		2007 First Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$118,152,980	90.25%	\$118,500,500	92.45%
Public Utility Personal	3,384,040	2.58	3,273,610	2.55
General Business Personal	9,386,145	7.17	6,403,204	5.00
<b>Total</b>	<b>\$130,923,165</b>	<b>100.00%</b>	<b>\$128,177,314</b>	<b>100.00%</b>
 Full Tax Rate per \$1,000 of assessed valuation	 \$43.70		 \$43.70	

**Note 8 - Receivables**

Receivables at June 30, 2007, consisted of taxes, accounts (rent and student fees), interfund and intergovernmental grants. 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. All receivables except property taxes are expected to be received within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

Intergovernmental Receivables	Amounts
Miscellaneous State Grants	\$42,914
Title VI-B	19,434
Title I	29,395
Food Service Federal Subsidies	20,917
Classroom Reduction Grant	4,139
Title V	497
Miscellaneous Federal Grants	324
<b>Total</b>	<b>\$117,620</b>

**Note 9 - Interfund Balances**

Interfund balances at June 30, 2007, consist of an interfund receivable/payable between the general fund and the nonmajor governmental funds in the amount of \$29,716. These loans were made to support programs and projects in various special revenue funds pending the receipt of grant money that will be used to repay the loans. These loans are expected to be repaid in one year.

**Newton Falls Exempted Village School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

**Note 10 – Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	<u>Balance</u> <u>June 30, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2007</u>
<b>Nondepreciable Capital Assets</b>				
Land	\$199,565	\$0	\$0	\$199,565
Construction in Progress	2,112,174	3,732,602	(5,844,776)	0
<i>Total Nondepreciable</i>				
<i>Capital Assets</i>	<u>2,311,739</u>	<u>3,732,602</u>	<u>(5,844,776)</u>	<u>199,565</u>
<b>Depreciable Capital Assets</b>				
Buildings and Improvements	25,173,269	5,844,776	0	31,018,045
Furniture and Fixtures	1,842,133	822,953	(255,104)	2,409,982
Vehicles	945,708	0	(84,778)	860,930
<i>Total at Historical Cost</i>	<u>27,961,110</u>	<u>6,667,729</u>	<u>(339,882)</u>	<u>34,288,957</u>
Less: Accumulated Depreciation				
Buildings and Improvements	(4,433,446)	(580,363)	0	(5,013,809)
Furniture and Fixtures	(1,568,733)	(64,552)	223,395	(1,409,890)
Vehicles	(673,504)	(64,312)	84,778	(653,038)
<i>Total Accumulated Depreciation</i>	<u>(6,675,683)</u>	<u>(709,227) *</u>	<u>308,173</u>	<u>(7,076,737)</u>
<i>Depreciable Capital Assets, Net</i> <i>of Accumulated Depreciation</i>	<u>21,285,427</u>	<u>5,958,502</u>	<u>(31,709)</u>	<u>27,212,220</u>
<i>Governmental Activities Capital</i> <i>Assets, Net</i>	<u>\$23,597,166</u>	<u>\$9,691,104</u>	<u>(\$5,876,485)</u>	<u>\$27,411,785</u>

\* Depreciation expense was charged to governmental functions as follows:

Instruction	
Regular	\$582,452
Special	2,998
Vocational	51
Support Services	
Administration	210
Fiscal	1,105
Operation and Maintenance of Plant	39,837
Pupil Transportation	60,758
Central	3,968
Operation of Non-Instructional Services	1,244
Operation of Food Service	10,972
Extracurricular Activities	5,632
Total Depreciation Expense	<u>\$709,227</u>

**Newton Falls Exempted Village School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

**Note 11 – Long-Term Obligations**

Changes in long-term obligations of the School District during fiscal year 2007 were as follows:

<b>Governmental Activities</b>	Principal Outstanding June 30, 2006	Additions	Deductions	Principal Outstanding June 30, 2007	Amount Due in One Year
<b>General Obligation Bonds</b>					
2001 3-5.125%					
Various Purpose Improvement Bonds	\$3,400,000	\$0	(\$135,000)	\$3,265,000	\$0
Capital Appreciation Bonds	103,998	0	0	103,998	55,886
Accretion on Bonds	111,587	34,802	0	146,389	89,114
2001 2.75-4.20%					
Refunding Bonds	1,935,000	0	0	1,935,000	455,000
Capital Appreciation Bonds	189,994	0	(189,994)	0	0
Accretion on Bonds	229,481	35,525	(265,006)	0	0
<i>Total General Obligation Bonds</i>	<u>5,970,060</u>	<u>70,327</u>	<u>(590,000)</u>	<u>5,450,387</u>	<u>600,000</u>
<b>Other Long-term Obligations</b>					
State Construction Loan	2,178,692	0	0	2,178,692	0
Compensated Absences	532,139	151,573	(84,333)	599,379	25,005
<i>Total Other Long-term Obligations</i>	<u>2,710,831</u>	<u>151,573</u>	<u>(84,333)</u>	<u>2,778,071</u>	<u>25,005</u>
<i>Total Governmental Activities Long-Term Liabilities</i>	<u>\$8,680,891</u>	<u>\$221,900</u>	<u>(\$674,333)</u>	<u>\$8,228,458</u>	<u>\$625,005</u>

The State Construction Loan represents money received from the State for construction. The School District must repay the State by levying a property tax of one-half mill until the 2009 tax year. At the end of this period, any remaining obligation is forgiven. Effective May 20, 1997, in any year in which the School District's adjusted valuation per pupil is less than the statewide median, no repayment would be required. In lieu of the repayment, the School District would be required to set aside the proceeds of the half-mill levy for facilities repair and maintenance. In any year in which the School District's per pupil valuation increases above the state-wide median, half of the levy proceeds will have to be used to repay the debt with the remaining half used for repairs and maintenance. For fiscal year 2007, the School District's adjusted valuation per pupil was less than the State-wide median.

In 2002, the School District issued \$3,989,000 in various purpose improvement general obligation bonds which included serial and capital appreciation (deep discount) bonds in the amount of \$3,885,002 and \$103,998, respectively. The general obligation bonds were issued for the purpose of the construction of a new middle school, the renovation of the junior/senior high school building and renovations to convert the old middle school into an elementary school. The bonds were issued for a thirty-three year period with final maturity at December 1, 2024. The general obligation bonds will be retired from the debt service fund.

The serial and capital appreciation bonds remained outstanding at June 30, 2007. The capital appreciation bonds were originally sold at a discount of \$186,002, which is being accreted annually until the point of maturity of the capital appreciation bonds, which is 2008 and 2009.

The maturity amount of outstanding capital appreciation bonds at June 30, 2007 is \$290,000. The accretion recorded for 2007 was \$34,802, for a total outstanding bond liability of \$250,387 at June 30, 2007.



**Newton Falls Exempted Village School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

In 2002, the School District issued \$4,194,995 in general obligation bonds which included serial and capital appreciation (deep discount) bonds in the amount of \$4,005,001 and \$189,994, respectively. The general obligation bonds were issued for the purpose of refunding \$4,195,000 of outstanding junior and senior high school renovation bonds to take advantage of lower interest rates. The bonds were issued for a ten year period with final maturity of December 11, 2011. The bonds will be retired from the debt service fund.

At June 30, 2007, the full amount of \$455,000 for the capital appreciation bonds had been retired at by the School District through annual debt service repayments.

Compensated absences will be paid from the general fund and the food service, auxiliary services, title VI-B, title I and class size reduction grants special revenue funds.

The overall debt margin of the School District as of June 30, 2007 was \$4,037,489 with an unvoted debt margin of \$120,239. Principal and interest requirements to retire general obligation bonds and certificates of participation outstanding at June 30, 2007 are as follows:

Fiscal Year Ending June 30	General Obligation Bonds			
	Serial		Capital Appreciation	
	Principal	Interest	Principal	Interest
2008	\$455,000	\$228,404	\$55,886	\$89,114
2009	475,000	210,031	48,112	96,888
2010	630,000	187,459	0	0
2011	660,000	160,526	0	0
2012	155,000	143,256	0	0
2013 - 2017	870,000	602,088	0	0
2018 - 2022	1,150,000	355,593	0	0
2023 - 2025	805,000	63,166	0	0
Total	<u>\$5,200,000</u>	<u>\$1,950,523</u>	<u>\$103,998</u>	<u>\$186,002</u>

In 2002, the School District defeased a junior/senior high school renovation bonds, in order to take advantage of lower interest rates. The proceeds of the new bonds were placed in an irrevocable trust to provide for all future payments debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the School District's financial statements. On June 30, 2007, \$2,005,000 of the defeased bonds are still outstanding.

**Note 12 - Jointly Governed Organizations**

*North Eastern Ohio Management Information Network (NEOMIN)* NEOMIN is a jointly governed organization among thirty school districts in Trumbull and Ashtabula Counties. The jointly governed 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 districts. Each of the districts supports NEOMIN based upon a per pupil charge. Newton Falls Exempted Village School District paid \$34,665 to NEOMIN during fiscal year 2007.

The Governing board consists of ten members: The Trumbull and Ashtabula County superintenedents (permanent members), three superintendents from Ashtabula County participating school districts, three superintendents from Trumbull County participating school districts, the fiscal agent or NEOMIN). The Newton Falls Exempted Village School District was not represented on the Governing Board during fiscal year 2007. The degree of control exercised by any participating school district is limited to its

## **Newton Falls Exempted Village School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

---

representation on the Governing Board. To obtain a copy of NEOMIN's financial statements, write to the Trumbull County Educational Service Center, 347 North Park Avenue, Warren, Ohio 44481.

***Trumbull County Career and Technical Center*** The Trumbull County Career and Technical Center is a distinct political subdivision of the State of Ohio providing vocational needs of the students. The center is operated under the direction of a Board consisting of one representative from each of the fifteen participating school districts' elected boards, which possesses its own budgeting and taxing authority. To obtain financial information write to the Trumbull County Joint Vocational School, Gary Ghizzoni, who serves as Treasurer, at 528 Educational Highway, Warren, Ohio 44483.

***North East Ohio Instructional Media Center*** The North East Ohio Instructional Media Center (NEOIMC) is a jointly governed organization among forty-five school districts. The jointly governed organization was formed for the purpose of providing quality films and/or other media to support the educational curricula of the School District. Each member pays a monthly premium based on the use of media materials.

NEOIMC is governed by the advisory committee made up a member from a parochial school, a joint vocational school, one County Superintendent from each participating county, one City Superintendent and two local superintendents rotating every two years. The degree of control exercised by any participating school district is limited to its representation on the Board. In fiscal year 2007, Newton Falls Exempted Village School District contributed \$2,340 which is \$1.50 per student. Financial information can be obtained by contacting the Treasurer at the Trumbull County Educational Service Center, 347 North Park Avenue, Warren, Ohio 44481.

***North East Ohio Special Education Regional Resource Center*** The North East Ohio Special Education Regional Resource Center NEO/SERRC is a special education service center which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents.

NEO/SERRC is governed by a governing board of 39 members made up of representatives from 35 superintendents of the participating districts, one non-public school, one county board of mental retardation and two parents whose term rotates every year. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contracting the Treasurer at Mahoning County Educational Service Center, 100 DeBartolo Place, Suite 105, Youngstown, Ohio 44512.

### **Note 13 – Public Entity Pools**

#### ***A. Insurance Purchasing Pool***

***Ohio School Boards Association Workers' Compensation Group Rating Program*** The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of directors consisting of the President, the President-Elect and the Immediate Post President of the OSBA. The Executive Director of the OSBA, or his designee, serves as 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.

## Newton Falls Exempted Village School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

### B. Shared Risk Pool

**Trumbull County Schools Employee Insurance Benefits Consortium** The School District participates in the Trumbull County Schools Employee Insurance Consortium. This is a shared risk pool comprised of sixteen Trumbull County School Districts. The Consortium is governed by an assembly which consists of one representative from each participating school district (usually the superintendent or designee). The assembly elects officers for one year terms to serve as the Board of Directors. The assembly exercises control over the operation of the Consortium. Consortium revenues are generated from charges for services.

## Note 14 - Risk Management

### A. Property and Liability

The School 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 2007, the School District contracted for the following insurance coverage:

Company	Type of Coverage	Coverage Amount	
Ohio School Plan-Hylant Administrative Services, LLC	General Liability, in aggregate	\$3,000,000	
	General Liability, per occurrence	1,000,000	
	Stop Gap, per occurrence	1,000,000	
	Errors, Omissions and Employment Practices Injury, limit	1,000,000	
	Errors, Omissions and Employment Practices Injury, in aggregate with \$2,500 deductible	2,000,000	
	Excess Liability, per occurrence	1,000,000	
	Gibson-DeGoode Agency, Indiana Insurance Company	Fleet Per Accident, Limit	1,000,000
		Fleet Bodily harm, Limit	500,000
Fleet Bodily harm, Deductible depending on injury		100 - 250	

The School District has contracted with the Trumbull County Schools Employee Insurance Benefits Consortium to provide employee medical/surgical, dental, and prescription drug benefits. The Trumbull County Schools Employee Insurance Benefits Consortium is a shared risk pool comprised of sixteen Trumbull County school districts. Rates are set through an annual calculation process. The Newton Falls Exempted Village School District pays a monthly contribution which is placed in a common fund from which claim payments are made for all participating school districts. Claims are paid for all participants regardless of claims flow. The board of directors has the right to return monies to an exiting district subsequent to the settlement of all expenses and claims. The School District pays medical/surgical/prescription drug premiums of \$1,004 - \$1,131 for family coverage and \$425 - \$435 for single coverage per employee per month. The plan utilizes a \$5 prescription deductible. If the School District were to withdraw from the consortium, there would be no liability because premium levels fund a reserve for subsequent claim payments. The School District provides dental coverage through Coresource which is not paid through the Trumbull County School Employee Insurance Benefits Consortium.

## **Newton Falls Exempted Village School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

---

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

### ***B. Worker's Compensation***

For fiscal year 2007, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 13). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school 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 school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

## **Note 15 – Defined Benefit Pension Plans**

### ***A. School Employees Retirement System***

The School District contributes to the School Employees Retirement System (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. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 percent 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 School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006 and 2005 were \$146,365, \$151,228 and \$124,503 respectively; 35.79 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005.

### ***B. State Teachers Retirement System of Ohio***

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, OH 43215-3771, by calling (614) 227-4090, or by visiting the STRS Ohio Web site at [www.strsoh.org](http://www.strsoh.org).

## **Newton Falls Exempted Village School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

---

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 percent 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 of 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.

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2006, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2007, 2006, and 2005 were \$655,772, \$664,288 and \$607,605 respectively; 83.18 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. Contributions to the DC and Combined Plans for fiscal year 2007 were \$78 made by the School District and \$4,880 made by the plan members.

### **Note 16 – Postemployment Benefits**

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certificated employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the

## **Newton Falls Exempted Village School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

---

employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$50,444 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2007, the balance in the Fund was \$4.1 billion. For the year ended June 30, 2007, net health care costs paid by STRS were \$265,558,000 and STRS had 122,934 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. 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.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared to 3.42 percent of covered payroll for fiscal year 2006. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled \$65,560.

The surcharge, added to the unallocated portion of the 14 percent 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 percent of the projected claims less premium contributions for the next year. Expenses for health care at June 30, 2006, (the latest information available), were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has 59,492 participants eligible to receive benefits.

### **Note 17 - Other Employee Benefits**

#### ***A. Compensated Absences***

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn ten to twenty-five days of vacation per year, depending upon length of service and hours worked. Teachers and most administrators do not earn vacation. The Superintendent and the Treasurer earn 20 days of vacation annually and may be paid up to 7 days of unused vacation at the end of each year. Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Teachers, administrators and classified employees who reach 200 days of accumulated sick leave, may store up to 10 days of personal leave as an addition to their sick leave severance. Upon retirement and having been employed by the School District for at least ten years, all employees receive payment for one-fourth of the total sick leave accumulation, up to a maximum of 50 days for classified employees and 55 days for certificated employees.

#### ***B. Life Insurance Benefits***

The School District provides life insurance to most employees through Fort Dearbon Life Insurance, Inc., in the amount of \$50,000 for all employees who work more than twenty-five hours per week. Premiums are paid for by the Board of Education.

**Newton Falls Exempted Village School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

---

---

**Note 18 - Contingencies**

**A. Grants**

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2007.

**B. Litigation**

The School District is party to legal proceedings. The School District is of the opinion that ultimate disposition of claims will not have a material effect, if any, on the financial condition of the School District.

**Note 19 - Set Asides**

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year end and carried forward to be used for the same purposes in future years.

The following cash basis information describes the change in the fiscal year end set aside amounts for textbooks and capital acquisition. Disclosure of this information is required by State statute.

	Capital Improvements Reserve	Textbooks Instructional Materials Reserve
Set-Aside Reserve Balance as of June 30, 2006	\$0	(\$83,063)
Current Year Set-aside Requirement	219,263	219,263
Qualifying Disbursements	<u>(223,385)</u>	<u>(215,578)</u>
Total	<u>(\$4,122)</u>	<u>(\$79,378)</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>\$0</u>	<u>(\$79,378)</u>
Set-aside Reserve Balance as of June 30, 2007	<u>\$0</u>	<u>\$0</u>

**Newton Falls Exempted Village School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

---

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



**Newton Falls Exempted Village School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

---

*(This page was intentionally left blank)*

# **Newton Falls Exempted Village School District**

\* \* \* \*

*Report Letters*

***June 30, 2007***

**NEWTON FALLS EXEMPTED VILLAGE SCHOOL DISTRICT**

**TABLE OF CONTENTS**

	<b>PAGE</b>
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on Audit of Financial Statements Performed in Accordance With Government Auditing Standards.....	1-2
Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133.....	3-4
Schedule of Expenditures of Federal Awards .....	5
Schedule of Findings and Questioned Costs .....	6



# Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

*Focused on Your Future.*

February 20, 2008

The Board of Education  
Newton Falls Exempted Village School District  
909 ½ Milton Blvd.  
Newton Falls, OH 44444

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

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Newton Falls Exempted Village School District as of and for the year ended June 30, 2007, and have issued our report thereon dated February 20, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

In planning and performing our audit, we considered Newton Falls Exempted Village School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

We consider the following deficiency described in the accompanying Schedule of Findings to be a significant deficiency in internal control over financial reporting: 2007-001.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We believe the significant deficiency described above is also a material weakness.

We also noted certain internal control matters that we reported to the management of Newton Falls Exempted Village School District in a separate letter dated February 20, 2008.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Newton Falls Exempted Village School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances that we have reported to management of Newton Falls Exempted Village School District in a separate letter dated February 20, 2008.

This report is intended solely for the information and use of the Board of Education, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

*Rea & Associates, Inc.*



# Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

*Focused on Your Future.*

February 20, 2008

The Board of Education  
Newton Falls Exempted Village School District  
909 ½ Milton Blvd.  
Newton Falls, OH 44444

## **INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

### **Compliance**

We have audited the compliance of the Newton Falls Exempted Village School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2007. Newton Falls Exempted Village School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs are the responsibility of the Newton Falls Exempted Village School District's management. Our responsibility is to express an opinion on Newton Falls Exempted Village School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circulars A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Newton Falls Exempted Village School District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Newton Falls Exempted Village School District's compliance with those requirements.

In our opinion, Newton Falls Exempted Village School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2007. The results of our auditing procedures disclosed no instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133.

### **Internal Control Over Compliance**

The management of the Newton Falls Exempted Village School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Newton Falls Exempted Village School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Newton Falls Exempted Village School Districts' internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we did note a control deficiency that we have reported to management of Newton Falls Exempted Village School District in a separate letter dated February 20, 2008.

### **Schedule of Expenditures of Federal Awards**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Newton Falls Exempted Village School District as of and for the year ended June 30, 2007, and have issued our report thereon dated February 20, 2008. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements of the Newton Falls Exempted Village School District. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Rea & Associates, Inc.*

**NEWTON FALLS EXEMPTED VILLAGE SCHOOL DISTRICT  
TRUMBULL COUNTY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CASH BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Federal Grantor/ Pass Through Grantor/ Program Title	CFDA Number	Grant Number	Federal Receipts	Federal Disbursements	Non-Cash Expenditures
<b>U. S. Department of Education (Passed Through Ohio Department of Education):</b>					
Title I, Part A, to LEA's	84.010	C1-S1-2006	\$ 16,816	\$ 18,988	\$ 0
Title I, Part A, to LEA's	84.010	C1-S1-2007	<u>152,441</u>	<u>155,859</u>	<u>0</u>
Total Title I, Part A, to LEA's			169,257	174,847	0
IDEA-B Special Education Grant	84.027	6B-SF-2006	878	12,465	0
IDEA-B Special Education Grant	84.027	6B-SF-2007	<u>330,179</u>	<u>306,668</u>	<u>0</u>
Total IDEA-B Special Education Grant			331,057	319,133	0
Title IV-A Safe and Drug-Free Schools & Communities	84.186	DR-S1-2006	672	672	0
Title IV-A Safe and Drug-Free Schools & Communities	84.186	DR-S1-2007	<u>5,635</u>	<u>5,060</u>	<u>0</u>
Total Title IV-A Safe and Drug-Free Schools & Communities			6,307	5,732	0
Title V Part A ESEA Innovative Programs	84.298	C2-S1-2006	913	913	0
Title V Part A ESEA Innovative Programs	84.298	C2-S1-2007	<u>2,987</u>	<u>3,428</u>	<u>0</u>
Total Title V Part A ESEA Innovative Programs			3,900	4,341	0
Title II D ESEA Education Technology	84.318	TJ-S1-2006	0	441	0
Title II D ESEA Education Technology	84.318	TJ-S1-2007	<u>1,568</u>	<u>1,489</u>	<u>0</u>
Total Title II-D ESEA Education Technology			1,568	1,930	0
Title IIA Improving Teacher Quality	84.367	TR-S1-2006	6,440	6,440	0
Title IIA Improving Teacher Quality	84.367	TR-S1-2007	<u>69,073</u>	<u>67,194</u>	<u>0</u>
			75,513	73,634	0
Total Department of Education			<u>587,602</u>	<u>579,617</u>	<u>0</u>
<b>U. S. Department of Agriculture (Passed Through Ohio Department of Education):</b>					
Nutrition - Federal Commodities (A)	10.550		<u>35,367</u>	<u>0</u>	<u>35,367</u>
Total Nutrition - Federal Commodities			35,367	0	35,367
<i>Nutrition Cluster</i>					
School Breakfast Program (B)	10.553	05-PU-2006	9,206	9,206	0
School Breakfast Program (B)	10.553	05-PU-2007	<u>22,367</u>	<u>22,367</u>	<u>0</u>
Total School Breakfast Program (B)			31,573	31,573	0
National School Lunch Program (B)	10.555	LL-P4-2006	46,776	46,776	0
National School Lunch Program (B)	10.555	LL-P4-2007	<u>107,210</u>	<u>107,210</u>	<u>0</u>
Total National School Lunch Program (B)			153,986	153,986	0
<i>Total Nutrition Cluster</i>					
			<u>185,559</u>	<u>185,559</u>	<u>0</u>
Total US Department of Agriculture			220,926	185,559	35,367
Total Federal Assistance			<u>\$ 808,528</u>	<u>\$ 765,176</u>	<u>\$ 35,367</u>

- (A) Government commodities are reported at the fair market value of the commodities received and disbursed.  
(B) Federal money commingled with state subsidy reimbursements. It is assumed federal moneys are expended first.



**NEWTON FALLS EXEMPTED VILLAGE SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A-133, Section .505  
JUNE 30, 2007**

<b>1. SUMMARY OF AUDITOR'S RESULTS</b>
--

(d) (1) (i)	Type of Financial Statement Opinion	Unqualified
(d) (1) (ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d) (1) (ii)	Were there any other significant deficiency conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (iii)	Were there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d) (1) (iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d) (1) (iv)	Were there any other significant deficiencies reported for major federal programs?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unqualified
(d) (1) (vi)	Are there any reportable findings under Section .510?	No
(d) (1) (vii)	Major Programs (list):	IDEA B 84.027; Nutrition Cluster 10.553 & 10.555
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	No

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

**FINDING NUMBER 2007-001**

**Material Weakness**

A material weakness in internal control over financial reporting was noted during audit testing. Capital Assets were materially understated by \$4,524,049 in the financial statements. One adjustment was required because construction manager and other soft costs relating to the buildings and improvements were not capitalized. A restatement for a correction of an error in which the useful lives of buildings and improvements was changed from 30 years to a more reasonable 50 years. Material amounts noted above have been subsequently reported in the audited financial statements.

We recommend the School District reviews its' controls in the treatment and capitalization of assets as they are reflected in the School District's financial statements.

**Management's Response:** Management will monitor documentation more closely to ensure that all necessary GAAP presentations will be reported accurately in accordance with accounting principles generally accepted in the United States (GAAP). Management believes since there is not going to be any construction projects anytime soon, it will not be a concern in the near future. The useful live of 30 years on the buildings is something that just had never been looked at. Also, for the soft costs, the Ohio School Facilities Commission just did not keep track of the construction manager fees as part of the contract. The amounts were not readily available until after the project was completed.

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None noted.



**Mary Taylor, CPA**  
Auditor of State

**NEWTON FALLS EXEMPTED VILLAGE SCHOOL DISTRICT**

**TRUMBULL 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 10, 2008**