



**Auditor of State
Betty Montgomery**

**NEWTON FALLS EXEMPTED VILLAGE SCHOOL DISTRICT
TRUMBULL COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Newton Falls Exempted Village School District
Trumbull County
909 ½ Milton Blvd.
Newton Falls, Ohio 44444

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Newton Falls Exempted Village School District, Trumbull County, (the District) as of and for the year ended June 30, 2003, as listed in the table of contents. These general-purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general-purpose 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 opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2003, and the results of its operations and the cash flows of its proprietary fund types 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 January 30, 2004 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying federal awards expenditures schedule is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general-purpose financial statements. We subjected this information to the auditing procedures applied in the audit of the general-purpose financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

January 30, 2004

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Newton Falls Exempted Village School District
Combined Balance Sheet
All Fund Types and Account Groups
June 30, 2003

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<u>Assets and other debits:</u>				
<u>Assets:</u>				
Equity in pooled cash and cash equivalents	\$ 435,120	\$ 793,874	\$ 351,390	\$ 9,609,767
Receivables:				
Taxes	3,369,239	-	900,198	-
Accounts	278	74	-	-
Intergovernmental	234	59,115	-	-
Interfund receivable	78,541	-	-	-
Due from other funds	-	-	-	-
Inventory held for resale	-	-	-	-
Materials and supplies inventory	-	-	-	-
Equity in pooled cash and cash equivalents (restricted)	74,872	-	-	-
Fixed assets (net, where applicable, of accumulated depreciation)	-	-	-	-
<u>Other debits:</u>				
Amount available in debt service fund for retirement of general obligation bonds	-	-	-	-
Amount to be provided from general government resources	-	-	-	-
Total assets and other debits	<u>\$ 3,958,284</u>	<u>\$ 853,063</u>	<u>\$ 1,251,588</u>	<u>\$ 9,609,767</u>
<u>Liabilities, fund equity and other credits:</u>				
<u>Liabilities:</u>				
Accounts payable	\$ 46,345	\$ 1,271	\$ -	\$ 62,444
Accrued wages	692,701	38,601	-	-
Compensated absences payable	13,103	-	-	-
Interfund payable	-	11,106	-	-
Due to other funds	39,868	2,117	-	-
Intergovernmental payable	177,037	50,608	-	-
Deferred revenue	3,355,228	48,998	900,198	-
Undistributed monies	-	-	-	-
Due to students	-	-	-	-
School facilities loan payable	-	-	-	-
General obligation bonds payable	-	-	-	-
Total liabilities	<u>4,324,282</u>	<u>152,701</u>	<u>900,198</u>	<u>62,444</u>
<u>Fund equity and other credits:</u>				
Investment in general fixed assets	-	-	-	-
Contributed capital	-	-	-	-
Retained earnings:				
Unreserved	-	-	-	-
Fund balance:				
Reserved for encumbrances	130,452	5,008	1,100	3,501,134
Reserved for debt service	-	-	350,290	-
Reserved for textbooks/instructional material	47,372	-	-	-
Reserved for capital improvements	27,500	-	-	-
Unreserved:				
Undesignated	(571,322)	695,354	-	6,046,189
Total fund equity and other credits	<u>(365,998)</u>	<u>700,362</u>	<u>351,390</u>	<u>9,547,323</u>
Total liabilities, fund equity and other credits	<u>\$ 3,958,284</u>	<u>\$ 853,063</u>	<u>\$ 1,251,588</u>	<u>\$ 9,609,767</u>

See accompanying notes to the general purpose financial statements.

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations	
\$ 2,629	\$ 2	\$ 98,967	\$ -	\$ -	\$ 11,291,749
-	-	-	-	-	4,269,437
75	-	-	-	-	427
20,842	-	-	-	-	80,191
-	-	-	-	-	78,541
-	-	43,106	-	-	43,106
16,647	-	-	-	-	16,647
1,037	-	-	-	-	1,037
-	-	-	-	-	74,872
94,959	-	-	13,792,425	-	13,887,384
-	-	-	-	350,290	350,290
-	-	-	-	9,870,570	9,870,570
<u>\$ 136,189</u>	<u>\$ 2</u>	<u>\$ 142,073</u>	<u>\$ 13,792,425</u>	<u>\$ 10,220,860</u>	<u>\$ 39,964,251</u>
\$ 447	\$ -	\$ 41	\$ -	\$ -	\$ 110,548
13,379	-	-	-	-	744,681
9,533	-	-	-	671,690	694,326
67,435	-	-	-	-	78,541
1,121	-	-	-	-	43,106
16,591	-	43,106	-	71,483	358,825
5,938	-	-	-	-	4,310,362
-	-	73,839	-	-	73,839
-	-	24,264	-	-	24,264
-	-	-	-	2,178,692	2,178,692
-	-	-	-	7,298,995	7,298,995
<u>114,444</u>	<u>-</u>	<u>141,250</u>	<u>-</u>	<u>10,220,860</u>	<u>15,916,179</u>
-	-	-	13,792,425	-	13,792,425
1,420	-	-	-	-	1,420
20,325	2	-	-	-	20,327
-	-	-	-	-	3,637,694
-	-	-	-	-	350,290
-	-	-	-	-	47,372
-	-	-	-	-	27,500
-	-	823	-	-	6,171,044
<u>21,745</u>	<u>2</u>	<u>823</u>	<u>13,792,425</u>	<u>-</u>	<u>24,048,072</u>
<u>\$ 136,189</u>	<u>\$ 2</u>	<u>\$ 142,073</u>	<u>\$ 13,792,425</u>	<u>\$ 10,220,860</u>	<u>\$ 39,964,251</u>

Newton Falls Exempted Village School District
Combined Statement of Revenues, Expenditure
and Changes in Fund Balances
All Governmental Fund Types and Expendable Trust Fun
For the Fiscal Year Ended June 30, 2003

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Revenues:				
Property and other local taxes	\$ 2,600,221	\$ 96,082	\$ 741,324	\$ -
Intergovernmental	6,705,755	670,604	98,271	3,141,983
Interest	31,251	-	51,497	56,295
Tuition and fees	164,551	-	-	-
Extracurricular activities	-	217,441	-	-
Gifts and donations	-	-	-	-
Miscellaneous	15,675	9,711	-	-
Total revenues	9,517,453	993,838	891,092	3,198,278
Expenditures:				
Current:				
Instruction:				
Regular	5,105,988	131,673	-	-
Special	987,134	325,602	-	-
Vocational	158,808	-	-	-
Adult/continuing	-	-	-	-
Support services:				
Pupils	515,574	35,256	-	-
Instructional staff	251,101	49,043	-	-
Board of education	37,623	-	-	-
Administration	901,603	51,452	-	-
Fiscal	260,364	1,639	12,992	2,716
Operation and maintenance of plant	831,918	8,079	-	-
Pupil transportation	723,471	-	-	24,812
Central	64,749	11,732	-	17,868
Operation of non-instructional services	1,642	134,257	-	-
Extracurricular activities	188,011	216,858	-	-
Capital outlay	-	-	-	718,967
Debt service:				
Principal retirement	-	-	510,000	-
Interest and fiscal charges	-	-	305,573	-
Total expenditures	10,027,986	965,591	828,565	764,363
Excess of revenues over (under) expenditures	(510,533)	28,247	62,527	2,433,915
Other financing sources (uses):				
Proceeds from sale of fixed assets	50	-	-	-
Operating transfers in	-	9,740	-	-
Operating transfers out	(1,359)	(8,381)	-	-
Total other financing sources (uses)	(1,309)	1,359	-	-
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(511,842)	29,606	62,527	2,433,915
Fund balances at beginning of year	145,844	670,756	288,863	7,113,408
Fund balances at end of year	\$ (365,998)	\$ 700,362	\$ 351,390	\$ 9,547,323

See accompanying notes to the general purpose financial statements.

Fiduciary Fund	Totals (Memorandum Only)
Expendable Trust	
\$ -	\$ 3,437,627
-	10,616,613
-	139,043
-	164,551
-	217,441
1,000	1,000
-	25,386
1,000	14,601,661
-	5,237,661
-	1,312,736
-	158,808
1,000	1,000
-	550,830
-	300,144
-	37,623
-	953,055
-	277,711
-	839,997
-	748,283
-	94,349
-	135,899
-	404,869
-	718,967
-	510,000
-	305,573
1,000	12,587,505
-	2,014,156
-	50
-	9,740
-	(9,740)
-	50
-	2,014,206
823	8,219,694
\$ 823	\$ 10,233,900

Newton Falls Exempted Village School District
Combined Statement of Revenues, Expenditure
and Changes in Fund Balances - Budget and Actual
All Governmental Fund Types and Expendable Trust Fun
For the Fiscal Year Ended June 30, 2003

Governmental Fund Types

	General Fund		Variance Favorable (Unfavorable)
	Revised Budget	Actual	
Revenues:			
Taxes	\$ 2,600,859	\$ 2,600,859	\$ -
Intergovernmental	6,578,768	6,578,768	-
Interest	31,251	31,251	-
Tuition and fees	146,014	164,551	18,537
Extracurricular activities	-	-	-
Gifts and donations	-	-	-
Miscellaneous	12,475	16,640	4,165
Total revenues	9,369,367	9,392,069	22,702
Expenditures:			
Current:			
Instruction:			
Regular	5,017,229	5,065,184	(47,955)
Special	911,728	961,117	(49,389)
Vocational	155,274	157,604	(2,330)
Adult/continuing	-	-	-
Support services:			
Pupils	504,021	504,094	(73)
Instructional staff	247,780	249,015	(1,235)
Board of education	36,622	41,144	(4,522)
Administration	917,626	952,910	(35,284)
Fiscal	260,802	268,749	(7,947)
Operation and maintenance of plant	830,455	882,615	(52,160)
Pupil transportation	734,183	793,104	(58,921)
Central	10,064	65,795	(55,731)
Operation of non-instructional services	2,300	2,187	113
Extracurricular activities	187,403	191,146	(3,743)
Capital outlay	-	-	-
Debt service principal retirement	-	-	-
Debt service interest and fiscal charges	-	-	-
Total expenditures	9,815,487	10,134,664	(319,177)
Excess of revenues over (under) expenditures	(446,120)	(742,595)	(296,475)
Other financing sources (uses):			
Proceeds of bonds	-	-	-
Proceeds from sale of fixed assets	250	50	(200)
Refund of prior year expenditures	151,241	151,241	-
Advances in	-	68,681	68,681
Advances out	(78,541)	(78,541)	-
Operating transfers in	1,100,000	1,100,000	-
Operating transfers out	(1,101,359)	(1,101,359)	-
Total other financing sources (uses)	71,591	140,072	68,481
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(374,529)	(602,523)	(227,994)
Fund balances at beginning of year	754,658	754,658	-
Prior year encumbrances appropriated	192,420	192,420	-
Fund balances at end of year	\$ 572,549	\$ 344,555	\$ (227,994)

See accompanying notes to the general purpose financial statements.

Governmental Fund Types

Special Revenue Funds			Debt Service Funds		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$ 96,082	\$ 96,082	\$ -	\$ 738,090	\$ 741,324	\$ 3,234
663,420	671,183	7,763	97,952	98,381	429
-	-	-	51,497	51,497	-
-	-	-	-	-	-
217,945	217,895	(50)	-	-	-
-	-	-	-	-	-
9,711	9,711	-	-	-	-
<u>987,158</u>	<u>994,871</u>	<u>7,713</u>	<u>887,539</u>	<u>891,202</u>	<u>3,663</u>
151,170	139,518	11,652	-	-	-
423,415	275,508	147,907	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
27,936	35,256	(7,320)	-	-	-
48,332	48,332	-	-	-	-
-	-	-	-	-	-
50,520	51,818	(1,298)	-	-	-
1,639	1,639	-	12,992	12,992	-
216,479	8,079	208,400	-	-	-
-	-	-	-	-	-
12,103	11,732	371	-	-	-
135,036	137,693	(2,657)	-	-	-
268,705	225,410	43,295	-	-	-
-	-	-	-	-	-
-	-	-	511,100	511,100	-
-	-	-	310,639	305,573	5,066
<u>1,335,335</u>	<u>934,985</u>	<u>400,350</u>	<u>834,731</u>	<u>829,665</u>	<u>5,066</u>
<u>(348,177)</u>	<u>59,886</u>	<u>408,063</u>	<u>52,808</u>	<u>61,537</u>	<u>8,729</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
11,106	11,106	-	-	-	-
-	(4,681)	(4,681)	-	-	-
9,740	9,740	-	-	-	-
(8,381)	(8,381)	-	-	-	-
<u>12,465</u>	<u>7,784</u>	<u>(4,681)</u>	<u>-</u>	<u>-</u>	<u>-</u>
(335,712)	67,670	403,382	52,808	61,537	8,729
697,537	697,537	-	288,753	288,753	-
22,928	22,928	-	-	-	-
<u>\$ 384,753</u>	<u>\$ 788,135</u>	<u>\$ 403,382</u>	<u>\$ 341,561</u>	<u>\$ 350,290</u>	<u>\$ 8,729</u>

(Continued)

Newton Falls Exempted Village School District
Combined Statement of Revenues, Expenditure
and Changes in Fund Balances - Budget and Actual
All Governmental Fund Types and Expendable Trust Fun
For the Fiscal Year Ended June 30, 2003

Governmental Fund Types

	Capital Projects Funds		Variance Favorable (Unfavorable)
	Revised Budget	Actual	
<u>Revenues:</u>			
Taxes	\$ -	\$ -	\$ -
Intergovernmental	3,141,983	3,141,983	-
Interest	56,295	56,295	-
Tuition and fees	-	-	-
Extracurricular activities	-	-	-
Gifts and donations	-	-	-
Miscellaneous	-	-	-
Total revenues	<u>3,198,278</u>	<u>3,198,278</u>	<u>-</u>
<u>Expenditures:</u>			
Current:			
Instruction:			
Regular	-	-	-
Special	-	-	-
Vocational	-	-	-
Adult/continuing	-	-	-
Support services:			
Pupils	-	-	-
Instructional staff	-	-	-
Board of education	-	-	-
Administration	-	-	-
Fiscal	5,500	2,716	2,784
Operation and maintenance of plant	-	-	-
Pupil transportation	133	24,812	(24,679)
Central	17,900	17,900	-
Operation of non-instructional services	-	-	-
Extracurricular activities	-	-	-
Capital outlay	4,202,711	4,215,601	(12,890)
Principal retirement	-	-	-
Interest and fiscal charges	-	-	-
Total expenditures	<u>4,226,244</u>	<u>4,261,029</u>	<u>(34,785)</u>
Excess of revenues over (under) expenditures	<u>(1,027,966)</u>	<u>(1,062,751)</u>	<u>(34,785)</u>
<u>Other financing sources (uses):</u>			
Proceeds of bonds	6,048	-	(6,048)
Proceeds from sale of fixed assets	-	-	-
Refund of prior year expenditures	-	-	-
Advances in	-	-	-
Advances out	-	-	-
Operating transfers in	-	-	-
Operating transfers out	-	-	-
Total other financing sources (uses)	<u>6,048</u>	<u>-</u>	<u>(6,048)</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	<u>(1,021,918)</u>	<u>(1,062,751)</u>	<u>(40,833)</u>
Fund balances at beginning of year	7,009,273	7,009,273	-
Prior year encumbrances appropriated	104,167	104,167	-
Fund balances at end of year	<u>\$ 6,091,522</u>	<u>\$ 6,050,689</u>	<u>\$ (40,833)</u>

See accompanying notes to the general purpose financial statements.

Fiduciary Fund Type			Totals (Memorandum Only)		
Expendable Trust Fund					
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$ -	\$ -	\$ -	\$ 3,435,031	\$ 3,438,265	\$ 3,234
-	-	-	10,482,123	10,490,315	8,192
-	-	-	139,043	139,043	-
-	-	-	146,014	164,551	18,537
-	-	-	217,945	217,895	(50)
1,000	1,000	-	1,000	1,000	-
-	-	-	22,186	26,351	4,165
<u>1,000</u>	<u>1,000</u>	<u>-</u>	<u>14,443,342</u>	<u>14,477,420</u>	<u>34,078</u>
-	-	-	5,168,399	5,204,702	(36,303)
-	-	-	1,335,143	1,236,625	98,518
-	-	-	155,274	157,604	(2,330)
1,823	1,000	823	1,823	1,000	823
-	-	-	531,957	539,350	(7,393)
-	-	-	296,112	297,347	(1,235)
-	-	-	36,622	41,144	(4,522)
-	-	-	968,146	1,004,728	(36,582)
-	-	-	280,933	286,096	(5,163)
-	-	-	1,046,934	890,694	156,240
-	-	-	734,316	817,916	(83,600)
-	-	-	40,067	95,427	(55,360)
-	-	-	137,336	139,880	(2,544)
-	-	-	456,108	416,556	39,552
-	-	-	4,202,711	4,215,601	(12,890)
-	-	-	511,100	511,100	-
-	-	-	310,639	305,573	5,066
<u>1,823</u>	<u>1,000</u>	<u>823</u>	<u>16,213,620</u>	<u>16,161,343</u>	<u>52,277</u>
<u>(823)</u>	<u>-</u>	<u>823</u>	<u>(1,770,278)</u>	<u>(1,683,923)</u>	<u>86,355</u>
-	-	-	6,048	-	(6,048)
-	-	-	250	50	(200)
-	-	-	151,241	151,241	-
-	-	-	11,106	79,787	68,681
-	-	-	(78,541)	(83,222)	(4,681)
-	-	-	1,109,740	1,109,740	-
-	-	-	(1,109,740)	(1,109,740)	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>90,104</u>	<u>147,856</u>	<u>57,752</u>
(823)	-	823	(1,680,174)	(1,536,067)	144,107
823	823	-	8,751,044	8,751,044	-
-	-	-	319,515	319,515	-
<u>\$ -</u>	<u>\$ 823</u>	<u>\$ 823</u>	<u>\$ 7,390,385</u>	<u>\$ 7,534,492</u>	<u>\$ 144,107</u>

Newton Falls Exempted Village School District
Combined Statement of Revenues, Expenses
and Changes in Retained Earnings
All Proprietary Fund Types
For the Fiscal Year Ended June 30, 2003

	Proprietary Fund Types		Totals (Memorandum Only)
	Enterprise	Internal Service	
<u>Operating revenues:</u>			
Sales	\$ 266,131	\$ -	\$ 266,131
<u>Operating expenses:</u>			
Salaries	161,413	-	161,413
Fringe benefits	86,500	-	86,500
Purchased services	24,294	-	24,294
Materials and supplies	25,766	-	25,766
Cost of sales	166,062	-	166,062
Depreciation	2,901	-	2,901
Total operating expenses	466,936	-	466,936
Operating loss	(200,805)	-	(200,805)
<u>Non-operating revenues:</u>			
Federal donated commodities	20,491	-	20,491
Operating grants	165,923	-	165,923
Total non-operating revenues	186,414	-	186,414
Net loss	(14,391)	-	(14,391)
Retained earnings at beginning of year	34,716	2	34,718
Retained earnings at end of year	\$ 20,325	\$ 2	\$ 20,327

See accompanying notes to the general purpose financial statements.

Newton Falls Exempted Village School District
Combined Statement of Cash Flows
All Proprietary Fund Types
For the Fiscal Year Ended June 30, 2003

	Proprietary Fund Types		Totals (Memorandum Only)
	Enterprise	Internal Service	
<u>Cash flows from operating activities:</u>			
Cash received from customers	\$ 266,311	\$ -	\$ 266,311
Cash payments to suppliers for goods and services	(195,135)	-	(195,135)
Cash payments to employees for services	(161,164)	-	(161,164)
Cash payments for employee benefits	(86,117)	-	(86,117)
Net cash used for operating activities	(176,105)	-	(176,105)
<u>Cash flows from noncapital financing activities:</u>			
Operating grants	145,081	-	145,081
Advances in	67,435	-	67,435
Advances out	(64,000)	-	(64,000)
Net cash provided by noncapital financing activities	148,516	-	148,516
Net increase in cash and cash equivalents	(27,589)	-	(27,589)
Cash and cash equivalents at beginning of year	30,218	2	30,220
Cash and cash equivalents at end of year	\$ 2,629	\$ 2	\$ 2,631
<u>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:</u>			
Operating loss	\$ (200,805)	\$ -	\$ (200,805)
Adjustments to reconcile operating loss to net cash used for operating activities:			
Depreciation	2,901	-	2,901
Federal donated commodities	20,491	-	20,491
Change in assets and liabilities:			
(Increase) decrease in assets:			
Inventory	1,648	-	1,648
Accounts receivable	180	-	180
Increase (decrease) in liabilities:			
Accounts payable	(1,019)	-	(1,019)
Due to other funds	422	-	422
Accrued wages	(589)	-	(589)
Compensated absences payable	838	-	838
Intergovernmental payable	(39)	-	(39)
Deferred revenue	(133)	-	(133)
Total adjustments	24,700	-	24,700
Net cash used for operating activities	\$ (176,105)	\$ -	\$ (176,105)

See accompanying notes to the general purpose financial statements.

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Newton Falls Exempted Village School District

Notes to the General Purpose Financial Statements

For the fiscal year ended June 30, 2003

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The 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/or federal agencies. The Board controls the School District's four instructional/support facilities staffed by 59 non-certificated employees and 105 certificated full time teaching personnel, and six administrators, who provide services to 1,592 students and other community members.

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 entity for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board Statements and Interpretations issued on or before November 30, 1989, to its proprietary activities provided they do not conflict with or contradict GASB pronouncements. The School District's significant accounting policies are described below.

A. Reporting Entity

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

Within the boundaries of the School District, Saints Mary and Joseph School is operated as a private school. State legislation provides funding to this private school. The School District receives the money and then disburses the money as directed by the private school. The accounting for the monies is reflected in a special revenue fund of the School District. The School District does not have any component units.

Newton Falls Exempted Village School District

Notes to the General Purpose Financial Statements

For the fiscal year ended June 30, 2003

The School District is associated with the North Eastern Ohio Management Information Network and the North East Ohio Special Education Regional Resource Center, which are defined as jointly governed organizations. Jointly governed organizations are governed by representatives from each of the governments that create the organizations, but there is no ongoing financial interest or responsibility by the participating governments. Information regarding these organizations is presented in Note 14.

B. Basis of Presentation - Fund Accounting

The School District uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain School District functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities not recorded in the funds because they do not directly affect net expendable available financial resources.

For financial statement presentation purposes, the various funds of the School District are grouped into the following generic fund types under the broad fund categories governmental, proprietary and fiduciary.

Governmental Fund Types:

Governmental funds are those through which most governmental functions of the School District are financed. The acquisition, use, and balances of the School District's expendable financial resources and the related current liabilities (except those accounted for in proprietary funds and trust funds) are accounted for through governmental funds. The following are the School District's governmental fund types:

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.

Special Revenue Funds – Special revenue funds are used to account for the proceeds of specific revenue sources (other than amounts relating to expendable trusts or major capital projects) that are legally restricted to expenditure for specified purposes.

Debt Service Fund - The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Funds – Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or trust funds).

Newton Falls Exempted Village School District

Notes to the General Purpose Financial Statements

For the fiscal year ended June 30, 2003

Proprietary Fund Types:

Proprietary funds are used to account for the School District's ongoing activities, which are similar to those found in the private sector. The following are the School District's proprietary fund types:

Enterprise Funds - Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Internal Service Fund – The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis.

Fiduciary Fund Types:

Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These include expendable trust and agency funds. Expendable trust funds are accounted for in essentially the same manner as governmental funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Account Groups:

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group - This account group is established to account for all fixed assets of the School District, other than those accounted for in the proprietary or trust funds.

General Long-term Debt Account Group - This account group is established to account for all long-term obligations of the School District except those accounted for in the proprietary or trust funds.

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Newton Falls Exempted Village School District

Notes to the General Purpose Financial Statements

For the fiscal year ended June 30, 2003

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for the governmental, expendable trust and agency funds. Under this basis, revenues are recognized in the accounting period when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. The available period for the School District is sixty days after year-end.

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 year-end.

Non-exchange 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 for which the taxes are levied (See Note 5). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the 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 non-exchange transactions must also be available before it can be recognized.

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: investment earnings, tuition, grants and entitlements, and student fees.

The School District reports deferred revenues on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. In the subsequent period, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. Property taxes measurable at the end of the current fiscal year, and delinquent property taxes, whose availability is indeterminable and which are intended to finance the subsequent fiscal year operations, have been recorded as deferred revenue.

Newton Falls Exempted Village School District

Notes to the General Purpose Financial Statements

For the fiscal year ended June 30, 2003

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. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year, and the costs of accumulated unpaid vacation and sick leave are reported as fund liabilities in the period in which they will be liquidated with available financial resources rather than in the period earned by employees. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

The accrual basis of accounting is utilized for reporting purposes by the proprietary funds. Revenues are recognized in the accounting period in which they are earned, and expenses are recognized at the time they are incurred. There were no unbilled service charges receivable at year-end. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

D. Budgetary Data

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Tax Budget:

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

Estimated Resources:

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

Newton Falls Exempted Village School District

Notes to the General Purpose Financial Statements

For the fiscal year ended June 30, 2003

Appropriations:

Upon receipt from the County Auditor of an amended Certificate of Estimated Resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution must be legally enacted by the Board of Education at the fund level of expenditure, which is the legal level of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the School District. The Appropriation Resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund does not exceed the amounts set forth in the most recent Certificate of Estimated Resources. During the year, supplemental appropriations were legally enacted; however, none of these amendments were significant.

The budget figures, which appear in the statements of budgetary comparisons, represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, other than agency funds, consistent with statutory provisions. Under Ohio law advances are not required to be budgeted.

Encumbrances:

As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. Expenditures plus encumbrances may not legally exceed appropriations. On the GAAP basis, encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds and reported in the notes to the financial statements for proprietary funds.

Lapsing of Appropriations:

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

E. Cash and Investments

To improve cash management, all cash received by the School District is pooled in a central bank account. Monies for all funds, including proprietary funds, are maintained in this account or temporarily used to purchase short-term investments. Individual fund integrity is maintained through School District records. Each fund's interest in the pool is presented as "Equity in pooled cash and cash equivalents" on the balance sheet. During the fiscal year, investments were limited to overnight repurchase agreements and interest in Star Ohio, the State Treasurer's Investment Pool. These investments are stated at cost, which approximates market.

Newton Falls Exempted Village School District

Notes to the General Purpose Financial Statements

For the fiscal year ended June 30, 2003

Under existing Ohio statutes, all investment earnings accrue to the general fund except those specifically related to certain trust funds, unless the Board specifically allows the interest to be recorded in other funds. The Board of Education has passed a resolution to allow interest to also be recorded in other funds as listed in Note 4.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, 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 considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments. During the fiscal year all investments of the School District had a maturity of three months or less.

F. Inventory

Inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds was not significant at the end of the current fiscal period. Inventories of proprietary funds consist of donated food, purchased food, and supplies held for resale and are expensed when used.

G. Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and related assets are reported in the general fixed assets account group. Fixed assets utilized in the proprietary funds are capitalized in the respective fund. All fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of five hundred dollars. The School District does not possess any infrastructure.

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 capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable. The School District's policy is not to capitalize interest costs incurred as part of construction.

Assets in the general fixed assets account group are not depreciated. Depreciation of equipment in the proprietary fund types is computed using the straight line method over an estimated useful life of five to twenty years.

H. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets include amounts required by statute to be set-aside by the School District for the purchase of textbooks and for the acquisition or construction of capital assets. Restricted assets may also include amounts set aside as a reserve for budget stabilization, which is now optional as determined by the School District. See Note 18 for the calculation of the year-end restricted asset balance and the corresponding fund balance reserves.

Newton Falls Exempted Village School District

Notes to the General Purpose Financial Statements

For the fiscal year ended June 30, 2003

I. Intergovernmental Revenues

For governmental funds, intergovernmental revenues, such as entitlements and grants awarded on a non-reimbursement basis, are recorded as receivables and revenues when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred and all other grant requirements have been met. Other than commodities, grants and entitlements for proprietary fund operations are recognized as non-operating revenues in the accounting period in which they are earned and became measurable.

The School District currently participates in several State and Federal programs, categorized as follows:

Entitlements

General Fund

State Foundation Program

School Bus Funding

State Equity Funding

State Property Tax Relief

Special Revenue Funds

Disadvantaged Pupil Impact Aid

Non-Reimbursable Grants

Special Revenue Funds

Auxiliary Services

Drug Free Schools (State and Federal)

Educational Management Information Systems

Eisenhower Grant

Extended Learning Opportunities

Goals 2000

Ohio Reads

Local Professional Development

Safe Schools

Safe and Drug Free Schools

SchoolNet Professional Development

Summer Intervention

Title I

Title III

Title VI

Title VI-B

Title VI-R

Vocational Education

Capital Projects

Technical Equity

Reimbursable Grants

General Fund

Driver Education Reimbursement

Vocational Education Equipment Reimbursement

Newton Falls Exempted Village School District

Notes to the General Purpose Financial Statements

For the fiscal year ended June 30, 2003

Proprietary Funds

Government Donated Commodities

National School Lunch Program

Grants and entitlements amounted to approximately seventy-two percent of the School District's operating revenue during the current fiscal year.

J. Short-term Interfund Assets/Liabilities

Receivables and payables resulting from transactions between funds for services provided or goods received are classified as "due from other funds" or "due to other funds" on the balance sheet. Short-term interfund loans are classified as "interfund receivables" and "interfund payables."

K. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employee's rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability based on the sick leave accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments, as well as other employees who are expected to become eligible in the future to receive such payments. To calculate the liability, these accumulations are reduced to the maximum amount allowed as a termination payment. Accruals for those employees who are expected to become eligible in the future are based on assumptions concerning the probability that individual employees or class or group of employees will become eligible to receive termination payments. All employees with ten or more years of service were included in the calculation of the long term compensated absences accrual amount.

Accumulated vacation and sick leave of employees paid from governmental funds has been recorded in the appropriate governmental fund as a current liability to the extent that the amounts are expected to be paid using expendable available financial resources. The balance of the liability is recorded in the general long-term debt account group. Vacation and sick leave for employees paid from proprietary funds are recorded as an expense and liability of the fund.

L. Accrued Liabilities and Long-term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, claims and judgments, compensated absences, contractually required pension contributions, and special termination benefits that will be paid from governmental funds are reported as a liability in the general long-term debt account group to the extent that they will not be paid with current available expendable financial resources. Bonds are reported as a liability of the general long-term debt account group until due.

Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate proprietary funds.

Newton Falls Exempted Village School District

Notes to the General Purpose Financial Statements

For the fiscal year ended June 30, 2003

M. Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

N. Fund Balance Reserves

The School District records reservations for portions of fund equity that are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriations of expenditures. Unreserved fund balance indicates that portion of fund equity, which is available for appropriation in future periods. Fund equity reserves are established for encumbrances, textbook/instructional materials purchases, capital improvements, and debt service.

O. Total Columns on General Purpose Financial Statements

Total columns on the general purpose financial statements are captioned "Total - (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

P. 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.

NOTE 3 - BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations and changes in fund balance/retained earnings on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law and described above is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual, All Governmental Fund Types and Expendable Trust 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 that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).

Newton Falls Exempted Village School District

Notes to the General Purpose Financial Statements

For the fiscal year ended June 30, 2003

3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis statements for all governmental fund types and expendable trust fund.

	<i>Excess of Revenues and Other Financing Sources Over (Under)</i>			
	<i>Expenditures and Other Financing Uses</i>			
	<i>General</i>	<i>Special Revenue</i>	<i>Debt Service</i>	<i>Capital Projects</i>
<i>GAAP Basis</i>	\$ (511,842)	\$ 29,606	\$ 62,527	\$ 2,433,915
<i>Revenue Accruals</i>	1,194,538	12,139	110	-
<i>Expenditure Accruals</i>	(1,117,463)	31,664	-	62,412
<i>Encumbrances (Budget Basis)</i>				
<i>Outstanding at year end</i>	<u>(167,756)</u>	<u>(5,739)</u>	<u>(1,100)</u>	<u>(3,559,078)</u>
<i>Budget Basis</i>	<u>\$ (602,523)</u>	<u>\$ 67,670</u>	<u>\$ 61,537</u>	<u>\$ (1,062,751)</u>

NOTE 4 - DEPOSITS AND INVESTMENTS

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

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the 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 of Education has identified as not required for use within the current two-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including pass book accounts. Interim monies may be invested in the following obligations provided they mature or are redeemable within five years from the date of settlement:

1. United States treasury bills, notes, bonds, or any other obligations or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

Newton Falls Exempted Village School District

Notes to the General Purpose Financial Statements

For the fiscal year ended June 30, 2003

3. Written repurchase agreements for a period not to exceed thirty days in securities listed above that mature within five years from the date of settlement;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in item (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instruments rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits:

At year-end, the carrying amount of the School District's deposits and petty cash of \$1,000 was (\$172,961), and the bank balance was \$30,000. The bank balance was entirely covered by federal depository insurance.

Investments:

GASB Statement No. 3 "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" requires that the School District's investments be classified in categories of risk. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name.

Newton Falls Exempted Village School District

Notes to the General Purpose Financial Statements

For the fiscal year ended June 30, 2003

Interest is legally required to be placed in the general fund, debt service fund, and the classroom facilities and building capital projects funds. Interest revenue credited to the general fund, debt service fund and building fund during fiscal year 2003 amounted to \$31,251, \$51,497, and \$56,295, respectively. These amounts include \$23,055, \$47,222, and \$1,016, respectively, assigned from other School District funds.

The School District has invested funds in STAR Ohio during 2003. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2003. The School District's investment in STAR Ohio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

	<u>Category</u> <u>3</u>	<u>Fair</u> <u>Value</u>
<u>Categorized Investments</u>		
Repurchase Agreements	\$ 8,994,901	\$ 8,994,901
Total Categorized	<u>\$ 8,994,901</u>	<u>8,994,901</u>
<u>Noncategorized Investments</u>		
State Treasurer's Pool		<u>2,544,681</u>
Total Investments		<u>\$ 11,539,582</u>

A reconciliation between the classification of cash and cash equivalents on the combined balance sheet (per GASB Statement No. 9) and the classification of deposits and investments presented above per GASB Statement No. 3 is as follows:

	<u>Cash and Cash</u> <u>Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 11,366,621	\$ -
Investments of the cash management pool:		
Repurchase agreements	(8,994,901)	8,994,901
Investment in STAR Ohio	<u>(2,544,681)</u>	<u>2,544,681</u>
GASB Statement No. 3	<u>\$ (172,961)</u>	<u>\$ 11,539,582</u>

Newton Falls Exempted Village School District

Notes to the General Purpose Financial Statements

For the fiscal year ended June 30, 2003

NOTE 5 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility and tangible personal (used in business) property located in the School District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year were levied April 1 and are collected with real property taxes. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. All property is required to be revalued every six years. Public utility property taxes are assessed on tangible personal property at eighty-eight percent of true value (with certain exceptions) and on real property at thirty-five percent of true value. Tangible personal property taxes are levied after April 1 on the value listed as of December 31 of the current year. Tangible personal property assessments are twenty-five percent of true 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 alternative payment dates to be established.

Tangible personal property taxes paid 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.

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 are available to finance the current year operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, tangible personal property and public utility taxes which became measurable as of June 30. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. There were no new levies passed during the current fiscal year. The assessed values upon which the current fiscal year taxes were collected are:

<u>Property Category</u>	<u>2002 Assessed Value</u>	<u>2001 Assessed Value</u>
<u>Real Property</u>		
Residential and Agricultural	\$ 86,649,360	\$ 76,901,560
Commercial and Industrial	15,569,740	15,513,600
Public Utilities	5,167,120	4,532,470
<u>Tangible Personal Property</u>		
General	8,149,210	8,321,627
Public Utilities	63,040	61,270
Total	<u>\$ 115,598,470</u>	<u>\$ 105,330,527</u>

Newton Falls Exempted Village School District

Notes to the General Purpose Financial Statements

For the fiscal year ended June 30, 2003

NOTE 6 - RECEIVABLES

Receivables at year-end consisted of taxes, accounts (tuition and fees), interfund and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. The general, special revenue, and enterprise fund's intergovernmental receivables at June 30, 2003 consisted of \$234, \$59,115 and \$20,842, respectively.

NOTE 7 - FIXED ASSETS

A summary of the enterprise funds' fixed assets at year end follows:

<u>Classification</u>	<u>Balance</u>
<i>Equipment</i>	183,742
<i>Less: accumulated depreciation</i>	<u>(88,783)</u>
<i>Net Fixed Assets</i>	<u><u>\$ 94,959</u></u>

A summary of the changes in general fixed assets during fiscal year 2003 follows:

<u>Classification</u>	<u>Balance</u> <u>July 1</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30</u>
<i>Land and Land Improvements</i>	\$ 198,965	\$ 8,533	\$ -	\$ 207,498
<i>Buildings</i>	9,509,089	-	-	9,509,089
<i>Improvements other than Buildings</i>	56,404	-	-	56,404
<i>Furniture and Equipment</i>	2,816,140	151,194	(6,245)	2,961,089
<i>Vehicles</i>	888,187	53,555	(25,519)	916,223
<i>Construction in Progress</i>	-	<u>142,122</u>	-	<u>142,122</u>
<i>Total</i>	<u><u>\$ 13,468,785</u></u>	<u><u>\$ 355,404</u></u>	<u><u>\$ (31,764)</u></u>	<u><u>\$ 13,792,425</u></u>

NOTE 8 - RISK MANAGEMENT

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. These risks are covered by commercial insurance purchased from independent third parties. There have been no settlements paid in excess of insurance nor has insurance coverage been significantly reduced in the past three years.

The School District pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

Newton Falls Exempted Village School District

Notes to the General Purpose Financial Statements

For the fiscal year ended June 30, 2003

NOTE 9 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per 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, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute nine percent of their annual covered salary and the School District is required to contribute an actuarially determined rate of fourteen percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to the statutory maximum amounts, by the SERS Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$210,189, \$207,048, and \$197,535, respectively; forty-five percent has been contributed for fiscal year 2003 and 100 percent for the fiscal years 2002 and 2001. \$116,467 representing the unpaid contribution for fiscal year 2003, is recorded as a liability within the respective funds and the general long-term obligations account group.

B. State Teachers Retirement System

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer defined benefit pension plan. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3307 of the Ohio Revised Code. STRS 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 State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371 or by calling (614) 227-4090.

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.

Newton Falls Exempted Village School District

Notes to the General Purpose Financial Statements

For the fiscal year ended June 30, 2003

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.

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

Plan members are required to contribute 9.3 percent of their annual covered salary and the School District is required to contribute an actuarially determined rate of fourteen percent of annual covered payroll. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of ten percent for members and fourteen percent for employers. The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$663,896 \$646,264, and \$615,736, respectively; eighty-three percent has been contributed for fiscal year 2003 and 100 percent for the fiscal years 2002 and 2001. \$111,424 representing the unpaid contribution for fiscal year 2003 is recorded as a liability within the respective funds. Contributions to the DC and Combined plans for fiscal year 2003 were \$465 made by the School District and \$1,530 made by the plan members.

NOTE 10 - POSTEMPLOYMENT BENEFITS

Comprehensive health care benefits are provided to retired teachers and their dependents through the State Teachers Retirement System (STRS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Benefit provisions and the obligations to contribute are established by the STRS based on authority granted by State statute. Most benefit recipients are required to pay a portion of the health care cost in the form of a monthly premium.

By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently fourteen percent of covered payroll. The retirement board currently allocates employer contributions equal to 4.50 percent of covered payroll to the Health Care Reserve Fund from which payments for health care benefits are paid. For the School District this amount equaled \$213,395 during the 2003 fiscal year. The balance in the Health Care Reserve Fund for the STRS was \$3.011 billion at June 30, 2002, (latest information available). For the year ended June 30, 2002, the net health care costs paid by the STRS were \$354,697,000 and eligible benefit recipients totaled 105,300.

Newton Falls Exempted Village School District

Notes to the General Purpose Financial Statements

For the fiscal year ended June 30, 2003

For the School Employees Retirement System (SERS), coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of seventy-five percent of the premium. For this fiscal year, employer contributions to fund health care benefits were 8.45 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to fourteen percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay has been established at \$14,500. The surcharge, added to the unallocated portion of the fourteen percent contribution rate, provides for maintenance of the asset target level for the health care fund. For the School District, the amount of employer contributions used to fund health care equaled \$150,956, which includes a surcharge of \$22,735 during the 2003 fiscal year.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2003, were \$204,930,737 and the target level was \$307.4 million. At June 30, 2003, the SERS's net assets available for payment of health care benefits was \$303.6 million, at cost. The number of participants receiving health care benefits was approximately 50,000.

NOTE 11 – OTHER EMPLOYEE BENEFITS

The School District has joined together with other school districts in the County to form the Trumbull County School Insurance Consortium Association, a public entity risk pool currently operating as a common risk management and insurance program for seventeen member school districts in Trumbull County. The School District pays a monthly premium to United Health Care for its insurance coverage. It is intended that the Trumbull County School Insurance Consortium Association will be self-supporting through member premiums. The monthly premium is for a fully insured medical and prescription program.

The School District provides health, dental, vision and life insurance coverage for employees. The dental insurance coverage is administered by Core Source, a third party administrator. Vision Service Plan administers the vision coverage. Medical Life Insurance Company provides the life insurance coverage. The School District pays the insurance premiums, as a fringe benefit for the employees.

Newton Falls Exempted Village School District

Notes to the General Purpose Financial Statements

For the fiscal year ended June 30, 2003

NOTE 12 - INTERFUND TRANSACTIONS

The District had short-term interfund loans, which are classified as “interfund receivables/payables.” An analysis of interfund balances is as follows:

<u>Interfund receivable/payable</u>		
<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Food Service enterprise fund	\$ 67,435
General	Title I special revenue fund	1,160
General	Chapter 2 special revenue fund	111
General	Class Size Reduction special revenue fund	6,391
General	Miscellaneous Federal Grants special revenue fund	3,444
Total		<u>\$ 78,541</u>
<u>Due to/from other funds</u>		
<u>Due to Fund</u>	<u>Due from Fund</u>	<u>Amount</u>
District Agency	General fund	\$ 39,868
District Agency	Auxiliary special revenue fund	135
District Agency	DPIA special revenue fund	114
District Agency	Title VI-B special revenue fund	206
District Agency	Title I special revenue fund	1,215
District Agency	Class size reduction special revenue fund	447
District Agency	Food Service enterprise fund	1,121
Total		<u>\$ 43,106</u>

NOTE 13 - LONG TERM DEBT

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

	<u>Balance</u>				<u>Balance</u>
<u>General Long-Term Debt</u>	<u>July 1</u>	<u>Additions</u>	<u>Deletions</u>		<u>June 30</u>
<u>Bonds</u>					
Various Purpose Improvement, 3 - 5.125% maturing on December 1, 2024	\$ 3,989,000	\$ -	\$ (110,000)		\$ 3,879,000
Refunding, 2.75 - 4.20% maturing on December 1, 2010	3,819,995	-	(400,000)		3,419,995
<u>Loan</u>					
State Construction Loan, 0.000% maturing on December 1, 2011	2,178,692	-	-		2,178,692
<u>Other Obligations</u>					
Long-term compensated absences	636,677	35,013	-		671,690
Employer pension obligations	69,347	71,483	(69,347)		71,483
Total Other Obligations	<u>706,024</u>	<u>106,496</u>	<u>(69,347)</u>		<u>743,173</u>
Total General Long-Term Debt	<u>\$ 10,693,711</u>	<u>\$ 106,496</u>	<u>\$ (579,347)</u>		<u>\$ 10,220,860</u>

Newton Falls Exempted Village School District

Notes to the General Purpose Financial Statements

For the fiscal year ended June 30, 2003

The annual requirements to amortize all bonds outstanding as of year-end including interest payments of \$3,454,402 are as follows:

	<i>General Obligation Bonds</i>
2004	\$ 829,419
2005	831,534
2006	822,179
2007	829,740
2008	828,404
2009-2013	3,062,519
2014-2018	1,479,474
2019-2023	1,491,684
2024-2025	<u>578,444</u>
<i>Total</i>	<u>\$ 10,753,397</u>

Compensated absences and employer pension due to the School Employees Retirement System will be paid from the fund from which the person is paid.

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 2003, the School District's adjusted valuation per pupil was less than the statewide median.

During 2002, the School District issued \$3,989,000 in Various Purpose Improvement General Obligation Bonds, the proceeds of which were used to finance the construction of a new middle school and the renovation of the high school and junior high school buildings. In conjunction with this debt issue, the School District also issued \$4,194,995 in General Obligation Bonds with an average interest rate of 3.50% to advance refund \$4,195,000 of outstanding junior and senior high school renovation bonds with an average interest rate of 6.68%. The net proceeds of \$4.2 million (after payment of \$83,547 in underwriter's fees, insurance, and other issuance costs) was deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments of the refunded bonds. As a result, the junior high and high school bonds were considered to be defeased and the liability was removed from the General Long-Term Debt Account Group. The General Obligation Bonds Payable will be paid from the Bond Retirement debt service fund.

The School District advance refunded the bonds in order to reduce its total debt service payments by over \$460,000 over the following ten years, and to obtain an economic gain (difference between the present values of the debt service payments on the old debt and new debt) of \$377,383.

Newton Falls Exempted Village School District

Notes to the General Purpose Financial Statements

For the fiscal year ended June 30, 2003

NOTE 14 - JOINTLY GOVERNED ORGANIZATIONS

North Eastern Ohio Management Information Network (NEOMIN) is the computer service organization or Data Acquisition Site (DAS) used by the School District. NEOMIN is an association of public school districts in a geographic area determined by the Ohio Department of Education. The Trumbull County Educational Service Center acts as the fiscal agent for the consortium. The purpose of the consortium is to develop and employ a computer system efficiently and effectively for the needs of the member Boards of Education. All Districts in the consortium are required to pay fees, charges, and assessments as charged. NEOMIN is governed by a board made up of superintendents from all of the participating districts. An elected Executive Board consisting of five members of the governing board is the managerial body of the consortium and meets on a monthly basis. The School District does not maintain an ongoing financial interest or an ongoing financial responsibility. Payments to NEOMIN are made from the general fund. During the fiscal year, the School District contributed \$23,610 to NEOMIN.

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. NEO/SERRC is governed by a governing board of thirty-nine members made up of representatives from thirty-five superintendents of the participating districts, one non-public school, one county board of mental retardation and two parents whose terms rotate every year. Information can be obtained by contacting the treasurer at Mahoning County Educational Service Center, 2801 Market Street, Youngstown, Ohio 44507.

NOTE 15 - 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 year-end.

B. Litigation:

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

C. Other Contingencies:

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 Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...".

Newton Falls Exempted Village School District

Notes to the General Purpose Financial Statements

For the fiscal year ended June 30, 2003

As of the date of these financial statements, the School District is unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

NOTE 16 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The School District maintains two enterprise funds to account for the operations of food service and uniform school supplies programs. The table below reflects in a summarized format the more significant financial data relating to the enterprise funds of the School District as of and for the fiscal year ended June 30, 2003.

<u>Description</u>	<u>Food Service</u>	<u>Uniform School Supplies</u>	<u>Total</u>
<i>Operating revenues</i>	\$ 251,575	\$ 14,736	\$ 266,311
<i>Depreciation expense</i>	2,901	-	2,901
<i>Operating income (loss)</i>	(200,608)	(197)	(200,805)
<i>Operating grants</i>	165,923	-	165,923
<i>Donated commodities</i>	20,491	-	20,491
<i>Net income (loss)</i>	(14,194)	(197)	(14,391)
<i>Net working capital</i>	(57,743)	-	(57,743)
<i>Total assets</i>	136,189	-	136,189
<i>Compensated absences payable</i>	9,533	-	9,533
<i>Contributed capital</i>	1,420	-	1,420
<i>Total equity</i>	21,745	-	21,745
<i>Encumbrances outstanding (budget basis) at June 30, 2003</i>	\$ 2,626	\$ -	\$ 2,626

NOTE 17 – FUND DEFICITS

As of June 30, 2003, there were several funds that had deficit balances. These deficits were caused by the application of generally accepted accounting principles. The general fund provides transfers to cover deficit balances in other funds; however, this is done when cash is needed rather than when accruals occur. The following funds had deficits at year-end:

<i>General Fund</i>	\$ 365,998
<i>Student Managed Activities agency</i>	5,717
<i>Auxiliary Services special revenue</i>	2,753
<i>DPIA special revenue</i>	2,821
<i>Title VI-R special revenue</i>	8,198
<i>Title VI-B special revenue</i>	41,976

Newton Falls Exempted Village School District

Notes to the General Purpose Financial Statements

For the fiscal year ended June 30, 2003

NOTE 18 – STATUTORY RESERVES

The School District is required by State statute to annually set aside monies for the purchase of textbooks and other instructional materials, and for capital improvements. The amounts set-aside may be reduced by offset credits, which are monies received and restricted for the same specific purpose. Amounts not spent by year-end or reduced by offset credits must be held in cash at year-end and carried forward to be used for the same purposes in future years.

Although no longer required by state statute, a budget stabilization reserve may still be set-aside at the discretion of the School District.

During the fiscal year ended June 30, 2003, the reserve activity was as follows:

	<i>Textbook Reserve</i>	<i>Capital Maintenance Reserve</i>	<i>Total</i>
<i>Set-aside Cash Balance as of June 30, 2002</i>	\$ 49,541	\$ -	\$ 49,541
<i>Current Year Set-aside Requirement</i>	220,612	220,612	441,224
<i>Qualifying Disbursements</i>	<u>(222,781)</u>	<u>(193,112)</u>	<u>(415,893)</u>
<i>Total</i>	<u>\$ 47,372</u>	<u>\$ 27,500</u>	<u>\$ 74,872</u>
<i>Cash Balance Carried Forward to FY 2004</i>	<u>\$ 47,372</u>	<u>\$ 27,500</u>	<u>\$ 74,872</u>

NOTE 19 – CONTRIBUTED CAPITAL

As of fiscal year ended June 30, 2003, the School District began to record contributed capital in its financial statements. Amounts contributed previously are not reasonably determinable and, therefore, were included in retained earnings. Contributed capital of \$1,420 was recorded during the fiscal year.

NOTE 20 – CONTRACTUAL COMMITMENTS

The School District had outstanding or planned construction projects as of June 30, 2003, including the construction of a new middle school. Construction of the middle school had not begun as of year-end, but the project was evidenced by contractual commitments with contractors and include:

	<i>Spent to Date</i>	<i>Commitment Remaining</i>
<i>General contracting</i>	\$ 134,840	\$ 4,850,360
<i>HVAC</i>	-	1,068,000
<i>Electric</i>	-	687,000
<i>Mechanical</i>	2,162	354,838
<i>Fire protection</i>	<u>5,120</u>	<u>109,380</u>
<i>Total</i>	<u>\$ 142,122</u>	<u>\$ 7,069,578</u>

The construction and related contracts are being financed from bonds issued in a prior year. All construction commitments will be paid from the classroom facilities capital projects fund.

Newton Falls Exempted Village School District

Notes to the General Purpose Financial Statements

For the fiscal year ended June 30, 2003

NOTE 21 – COMPLIANCE AND ACCOUNTABILITY

The School District was in violation of Ohio Revised Code Section 5705.41(B), as total expenditures plus encumbrances outstanding at year-end exceeded the appropriation authority in the general fund by \$126,756. This is significant, considering that the fund balance at year-end in the general fund is \$228,409. This violation will be disclosed in the Report of Independent Accountants on Compliance as finding number 2003.001.

NEWTON FALLS EXEMPTED VILLAGE SCHOOL DISTRICT
TRUMBULL COUNTY

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through Ohio Department of Education:</i>						
<i>Nutrition Cluster:</i>						
National School Lunch Program	N/A	10.555	\$118,775		\$118,775	
National School Breakfast Program	N/A	10.553	17,781		17,781	
Food Distribution Program	N/A	10.550		\$20,491		\$20,491
Total U.S. Department of Agriculture - Nutrition Cluster			136,556	20,491	\$136,556	20,491
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed Through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	C1S1-2002 C1S1-2003	84.010	36,224 193,120		50,361 181,930	
Total Title I Grants to Local Educational Agencies			229,344		232,291	
Special Education Cluster:						
Special Education - Grant to States	6BSF-2002	84.027	152,306		172,697	
Safe and Drug-Free Schools And Communities -- State Grants	DRS1 2002 DRS1 2003	84.186	4,681 9,204		616 9,204	
Total Drug Free School Grant			13,885		9,820	
Goals 2000	G2-S4-00	84.276	(4,686)		20	
Goals 2000	G2-S4-01				4,912	
Total Innovative Education Program Strategies			(4,686)		4,932	
Eisenhower Professional Development	MS-S1-2001	84.281			25	
Eisenhower Professional Development	MS-S1-2002		51		51	
Total Eisenhower			51		76	
Title V Innovative	C2-S1-2003	84.298	10,461		10,572	
Title IID Technology		84.318	2,547		5,991	
Class Size Reduction	CR-S1-2002 CR-S1-2003	84.340	6,007 56,071		6,801 62,463	
Total Class Size Reduction			62,078		69,264	
Assistive Technology	ATS1 2002	84.352	8,221		8,136	
Total U.S. Department of Education			474,207	0	513,779	0
Total Federal Awards Expenditures			\$ 610,763	\$ 20,491	\$ 650,335	\$ 20,491

The accompanying notes to this schedule are an integral part of this schedule.

**NEWTON FALLS EXEMPTED VILLAGE SCHOOL DISTRICT
TRUMBULL COUNTY
FISCAL YEAR ENDED JUNE 30, 2003**

NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This nonmonetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

NOTE C - MATCHING REQUIREMENTS

Certain Federal programs require that the District contribute non-Federal funds (matching funds) to support the Federally-funded programs. The District has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.

NOTE D – REFUNDING OF EXPIRED GRANT MONEY

Monies from the Goals 2000 grant were returned to the grantor because of the expiration of its period of availability. The amount of the refund was \$4,686 and is reflected as a negative receipt on the Schedule of Federal Awards Expenditures.



**Auditor of State
Betty Montgomery**

**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON
INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Newton Falls Exempted Village School District
Trumbull County
909 ½ Milton Blvd.
Newton Falls, Ohio 44444

To the Board of Education:

We have audited the financial statements of the Newton Falls Exempted Village School District, Trumbull County, (the District) as of and for the year ended June 30, 2003, and have issued our report thereon dated January 30, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2003-001.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated January 30, 2004.

Newton Falls Exempted Village School District
Trumbull County
Report of Independent Accountants on Compliance and on Internal Control
Required by *Government Auditing Standards*
Page 2

This report is intended solely for the information and use of the management, Board of Education, 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.

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

Betty Montgomery
Auditor of State

January 30, 2004



Auditor of State Betty Montgomery

REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Newton Falls Exempted Village School District
Trumbull County
909 ½ Milton Blvd.
Newton Falls, Ohio 44444

To the Board of Education:

We have audited the compliance of the Newton Falls Exempted Village School District, Trumbull County (the 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 program for the year ended June 30, 2003. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

Compliance

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the 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 District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2003.

Internal Control Over Compliance

The management of the 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 the 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Voinovich Government Center / 242 Federal Plaza W. / Suite 302 / Youngstown, OH 44503
Telephone: (330) 797-9900 (800) 443-9271 Fax: (330) 797-9949
www.auditor.state.oh.us

Newton Falls Exempted Village School District
Trumbull County
Report of Independent Accountants on Compliance with Requirements
Applicable to Major Federal Programs and Internal Control Over
Compliance in Accordance with OMB Circular A-133
Page 2

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the management, Board of Education, 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.



Betty Montgomery
Auditor of State

January 30, 2004

**NEWTON FALLS EXEMPTED VILLAGE SCHOOL DISTRICT
TRUMBULL COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2003**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes – Finding 2003-001
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Special Educational Cluster CFDA # 84.027
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

Finding Number	2003-001
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Ohio Revised Code Section 5705.41(B) states no subdivision or taxing unit is to expend money unless it has been appropriated.

At June 30, 2003, the District's total expenditures plus encumbrances outstanding in the general fund exceeded the appropriation authority for that fund by \$126,756. This is significant, considering that the fund balance at year-end in the general fund is \$228,409.

Appropriations were adjusted on June 27, 2003 by the District, but not enough to cover the general fund expenditures and obligations.

We recommend the District comply with above code section by monitoring to make sure that appropriations are sufficient to cover expenditures and outstanding encumbrances. Appropriations are an important budgetary tool which restricts the amount of money that can be spent at a particular budgetary level of control.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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Finding Number	N/A – No findings are reported
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**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

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
MARCH 18, 2004**