



OHIO AUDITOR OF STATE  
**KEITH FABER**





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

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TRUMBULL COUNTY**

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# OHIO AUDITOR OF STATE KEITH FABER



## INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

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

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Newton Falls Exempted Village School District, Trumbull County, Ohio (the District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Newton Falls Exempted Village School District, Trumbull County, Ohio, as of June 30, 2018, and the respective changes in financial position thereof and the budgetary comparison for the General fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 23 to the financial statements, during 2018, the District adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. We did not modify our opinion regarding this matter.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require this presentation to include *management's discussion and analysis*, and schedules of net pension and other post-employment benefit liabilities and pension and other post-employment benefit contributions listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

*Supplementary and Other Information*

Our audit was conducted to opine on the District's basic financial statements taken as a whole.

The Schedule of Federal Awards Receipts and Expenditures (the schedule) presents additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and is not a required part of the financial statements.

The schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this information to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 19, 2019, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

Keith Faber  
Auditor of State

Columbus, Ohio

February 19, 2019

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## Newton Falls Exempted Village School District

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2018  
Unaudited*

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As management of the Newton Falls Exempted Village School District (the School District), we offer readers of the School District's financial statements this narrative and analysis of the financial activities of the School District for the fiscal year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with financial statements and notes to the basic financial statements to enhance their understanding of the School District's financial performance.

### **Financial Highlights**

- The School District's enrollment decreased from fiscal year 2017.
- Capital asset additions included land improvements, furniture and fixtures and vehicles.
- Net position increased significantly in fiscal year 2018 due mainly to changes in the net pension liability and net OPEB liability and the deferred outflows and deferred inflows of resources associated with these liabilities. The increase in net position was partially offset by a decrease in net capital assets resulting from current year depreciation outpacing capital asset additions.
- Total program expenses decreased in fiscal year 2018 due to changes in the net pension liability and net OPEB liability. Program expenses excluding amounts related to the net pension and net OPEB liabilities actually increased due to higher purchased service costs during fiscal year 2018. Salaries and benefits remained consistent with the prior fiscal year largely attributable to certified and classified employees not receiving any base wage increases in fiscal year 2018.
- The School District actively pursues grants and controls expenses while still maintaining the high academic standards the residents expect of the School District.

### **Overview of the Financial Statements**

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

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

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

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

## Newton Falls Exempted Village School District

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2018*

*Unaudited*

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

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

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

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

***Notes to the Basic Financial Statements*** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

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

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. Table 1 provides a comparison of the School District's Net Position for 2018 compared to 2017.

**Newton Falls Exempted Village School District**

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2018*

*Unaudited*

**Table 1**  
Net Position  
Governmental Activities

	<u>2018</u>	<u>2017</u>	<u>Change</u>
<b>Assets</b>			
Current and Other Assets	\$6,969,416	\$7,005,874	(\$36,458)
Capital Assets, Net	<u>12,468,610</u>	<u>13,393,394</u>	<u>(924,784)</u>
<i>Total Assets</i>	<u>19,438,026</u>	<u>20,399,268</u>	<u>(961,242)</u>
<b>Deferred Outflows of Resources</b>			
Deferred Charge on Refunding	21,761	25,778	(4,017)
Pension	3,834,030	3,320,384	513,646
OPEB	<u>130,721</u>	<u>24,654</u>	<u>106,067</u>
<i>Total Deferred Outflows of Resources</i>	<u>3,986,512</u>	<u>3,370,816</u>	<u>615,696</u>
<b>Liabilities</b>			
Current Liabilities	1,421,042	1,483,719	62,677
Long-Term Liabilities			
Due Within One Year	414,743	373,306	(41,437)
Due In More Than One Year			
Net Pension Liability	13,278,168	18,536,022	5,257,854
Net OPEB Liability	2,969,077	3,802,653	833,576
Other Amounts	<u>2,965,915</u>	<u>3,348,551</u>	<u>382,636</u>
<i>Total Liabilities</i>	<u>21,048,945</u>	<u>27,544,251</u>	<u>6,495,306</u>
<b>Deferred Inflows of Resources</b>			
Property Taxes	3,709,097	3,712,782	3,685
Pension	1,003,185	461,708	(541,477)
OPEB	<u>422,976</u>	<u>0</u>	<u>(422,976)</u>
<i>Total Deferred Inflows of Resources</i>	<u>5,135,258</u>	<u>4,174,490</u>	<u>(960,768)</u>
<b>Net Position</b>			
Net Investment in Capital Assets	9,813,934	10,359,350	(545,416)
Restricted for:			
Capital Projects	99,041	99,041	0
Debt Service	344,107	212,702	131,405
Other Purposes	384,737	540,741	(156,004)
Unrestricted (Deficit)	<u>(13,401,484)</u>	<u>(19,160,491)</u>	<u>5,759,007</u>
<i>Total Net Position</i>	<u><u>(\$2,759,665)</u></u>	<u><u>(\$7,948,657)</u></u>	<u><u>\$5,188,992</u></u>

## Newton Falls Exempted Village School District

### *Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2018*

*Unaudited*

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The net pension liability (NPL) is the largest single liability reported by the School District at June 30, 2018 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." For fiscal year 2018, the School District adopted GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the School District's actual financial condition by adding deferred inflows related to pension and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability* or *net OPEB liability*. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension liability and the net OPEB liability to equal the School District's proportionate share of each plan's collective:

1. Present value of estimated future pension/OPEB benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

GASB notes that pension and OPEB obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension and other postemployment benefits. GASB noted that the unfunded portion of this promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the School District is not responsible for certain key factors affecting the balance of these liabilities. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

## Newton Falls Exempted Village School District

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2018  
Unaudited*

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The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The retirement system is responsible for the administration of the pension and OPEB plans.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability or the net OPEB liability. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68 and GASB 75, the School District's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension liability and net OPEB liability, respectively, not accounted for as deferred inflows/outflows.

As a result of implementing GASB 75, the School District is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2017, from a deficit of \$4,170,658 to a deficit of \$7,948,657.

Current assets decreased due to a decrease in cash and cash equivalents that was offset by an increase in intergovernmental and property tax receivables. The decrease in capital assets was due to depreciation exceeding current year additions.

Current liabilities decreased during fiscal year 2018 due primarily to decreases in notes payable as principle amounts are paid down. Net position increased significantly due to changes in the net pension liability and net OPEB liability and the deferred outflows and deferred inflows of resources associated with these liabilities.

Table 2 shows the changes in net position for fiscal year 2018 compared to 2017.

**Newton Falls Exempted Village School District**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2018  
Unaudited*

**Table 2**  
Change in Net Position  
Governmental Activities

	2018	2017	Change
<b>Program Revenues</b>			
Charges for Services and Sales	\$729,378	\$847,327	(\$117,949)
Operating Grants, Contributions and Interest	1,641,106	1,872,971	(231,865)
<i>Total Program Revenues</i>	<u>2,370,484</u>	<u>2,720,298</u>	<u>(349,814)</u>
<b>General Revenues</b>			
Property Taxes	3,884,979	3,741,955	143,024
Grants and Entitlements	7,362,133	7,293,312	68,821
Investment Earnings	12,650	10,302	2,348
Miscellaneous	296,197	244,216	51,981
<i>Total General Revenues</i>	<u>11,555,959</u>	<u>11,289,785</u>	<u>266,174</u>
<i>Total Revenues</i>	<u>13,926,443</u>	<u>14,010,083</u>	<u>(83,640)</u>
<b>Program Expenses</b>			
Instruction:			
Regular	2,964,343	6,769,174	3,804,831
Special	1,223,721	2,246,168	1,022,447
Vocational	39,839	88,977	49,138
Support Services:			
Pupils	344,056	630,063	286,007
Instructional Staff	105,590	246,377	140,787
Board of Education	76,949	60,516	(16,433)
Administration	472,478	1,135,068	662,590
Fiscal	348,025	335,632	(12,393)
Operation and Maintenance of Plant	1,505,975	1,271,339	(234,636)
Pupil Transportation	550,238	609,073	58,835
Central	173,257	188,092	14,835
Operation of Food Service	461,746	515,471	53,725
Extracurricular Activities	376,467	425,193	48,726
Interest and Fiscal Charges	94,767	94,124	(643)
<i>Total Program Expenses</i>	<u>8,737,451</u>	<u>14,615,267</u>	<u>5,877,816</u>
<i>Change in Net Position</i>	5,188,992	(605,184)	5,794,176
Net Position (Deficit) Beginning of Year	<u>(7,948,657)</u>	N/A	
Net Position (Deficit) End of Year	<u>(\$2,759,665)</u>	<u>(\$7,948,657)</u>	<u>\$5,188,992</u>

The information necessary to restate the 2017 beginning balances and the 2017 OPEB expense amounts for the effects of the initial implementation of GASB 75 is not available. Therefore, 2017 functional expenses still include OPEB expense of \$24,654 computed under GASB 45. GASB 45 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements report negative OPEB expense of \$486,132. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

**Newton Falls Exempted Village School District**

*Management's Discussion and Analysis  
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Unaudited*

Total 2018 program expenses under GASB 75	\$8,737,451
Negative OPEB expense under GASB 75	486,132
2018 contractually required contribution	<u>30,535</u>
Adjusted 2018 program expenses	9,254,118
Total 2017 program expenses under GASB 45	<u>14,615,267</u>
Decrease in program expenses not related to OPEB	<u><u>(\$5,361,149)</u></u>

The largest component of the decrease in program expenses results from changes in assumptions and benefit terms related to pensions. STRS adopted certain assumption changes, including a reduction in their discount rate, and also voted to suspend cost of living adjustments (COLA). SERS decreased their COLA assumption. (See Note 17) As a result of these changes, pension expense decreased from \$1,362,208 in fiscal year 2017 to a negative pension expense of \$4,386,064 for fiscal year 2018. The allocation of the fiscal year 2018 negative pension expense to program expenses is as follows:

<b>Program Expenses</b>	<b>2018 Program Expenses Related to Negative Pension Expense</b>
Instruction:	
Regular	(\$2,710,828)
Special	(781,961)
Vocational	(51,031)
Support Services:	
Pupils	(247,317)
Instructional Staff	(68,846)
Board of Education	(2,846)
Administration	(381,691)
Fiscal	(21,385)
Operation and Maintenance of Plant	(49,243)
Pupil Transportation	(36,751)
Central	(11,630)
Operation of Non-Instructional Services:	
Food Service Operations	(22,439)
Extracurricular Activities	<u>(96)</u>
Total Expenses	<u><u>(\$4,386,064)</u></u>

Program revenues decreased for governmental activities in fiscal year 2018. Charges for services and sales decreased due to lower tuition and fees collections. Operating grants decreased due to reductions in restricted grant monies. General revenues increased in fiscal year 2018 primarily resulting from higher property tax revenues as well as increased grants and entitlements received through State Foundation and higher miscellaneous revenues.

Program expenses decreased in fiscal year 2018 due to changes in the net pension liability and net OPEB liability. As mentioned previously, pension expense decreased by \$5,748,272 attributable to changes in the net pension liability. The recording on a net OPEB liability resulted in an additional \$486,132 decrease to program expenses. Changes in deferred outflows relating to payments made subsequent to the measurement date resulted in an increase of \$8,920 to program expenses as well.

**Newton Falls Exempted Village School District**

*Management's Discussion and Analysis  
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Unaudited*

Program expenses excluding amounts related to the net pension and net OPEB liabilities actually increased by approximately \$366,000 due to higher purchased service costs fiscal year 2018.

The *statement of activities* shows the cost of program services and charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services for 2018 compared to 2017.

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

	2018		2017	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction Expenses	\$4,227,903	\$2,556,576	\$9,104,319	\$7,086,626
Support Services:				
Pupils and Instructional Staff	449,646	449,646	876,440	876,440
Board of Education and Administration	549,427	419,468	1,195,584	1,129,793
Fiscal and Operation and Maintenance of Plant	1,854,000	1,807,813	1,606,971	1,562,082
Pupil Transportation and Central	723,495	716,295	797,165	789,965
Operation of Food Service	461,746	57,912	515,471	45,438
Extracurricular Activities	376,467	264,490	425,193	310,501
Interest and Fiscal Charges	94,767	94,767	94,124	94,124
Total	<u>\$8,737,451</u>	<u>\$6,366,967</u>	<u>\$14,615,267</u>	<u>\$11,894,969</u>

The dependence upon general revenues for governmental activities is apparent from Table 3. The majority of expenses are supported through taxes and other general revenues.

**Financial Analysis of the Government's Funds**

**Governmental Funds** Information about the School District's major fund begins with the balance sheet. These funds are accounted for using the modified accrual basis of accounting. The general fund had a decrease in fund balance due to increased instruction and support service costs from changes in base wages and increases in healthcare. Revenues remained relatively consistent.

**General Fund Budgeting Highlights**

The School District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant fund to be budgeted is the main operating fund of the School District, the general fund. During the course of fiscal year 2018, the School District amended its general fund budget numerous times. The School District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the general fund, the final budget basis revenue estimate was equal to the original budget estimate. The final budget appropriations were higher than the original budget appropriations of the general fund. The change was attributed to increases in instruction and support service expenditures due to higher estimated expenditures expected.



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

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2018  
Unaudited*

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### **Capital Assets and Debt**

#### ***Capital Assets***

During fiscal year 2018, the School District's capital asset additions included land improvements, various furniture and fixtures, a bus, a truck and a van. Deletions included vehicles. For more information about the School District's capital assets, see Note 9 to the basic financial statements.

#### ***Debt***

In fiscal year 2012, the School District refunded the 2002 various purpose improvement general obligation bonds. The original bonds were issued for the purpose of the construction of a new middle school, the renovation of the junior/senior high school building and renovations to convert the old middle school into an elementary school. The 2012 various improvement refunding bonds were issued for a twelve year period with a final maturity at December 1, 2023. The bonds will be retired from the debt service fund.

In fiscal year 2016, the School District issued limited tax general obligation energy conservation bonds. The bonds were issued for the purpose of general energy conservation measures for the School District. These proceeds allowed for HVAC and electrical upgrades along with new boilers. The bonds were issued for a fifteen year period with a final maturity at December 1, 2030. The bonds will be retired from the debt service fund.

In 2017, the School District entered into a \$128,940 five year lease purchase agreement for the acquisition of copiers. The School District also has a second five-year capital lease outstanding for new copiers.

The School District's overall legal debt margin was \$8,863,380 with an unvoted debt margin of \$122,553. For more information about the School District's long-term obligations, see Note 11 to the basic financial statements.

### **School District Outlook**

The Board of Education and administration closely monitor revenues and expenditures in accordance with its financial forecast. The financial future of the School District is not without its challenges though. These challenges stem from issues that are local and at the State level. The local challenges will continue to exist, as the School District must rely heavily on property taxes to fund its operations.

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

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

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

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

*Basic Financial Statements*

**Newton Falls Exempted Village School District**

*Statement of Net Position*

*June 30, 2018*

	Governmental Activities
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$1,894,732
Intergovernmental Receivable	335,809
Prepaid Items	13,803
Inventory Held for Resale	12,025
Materials and Supplies Inventory	1,281
Property Taxes Receivable	4,711,766
Nondepreciable Capital Assets	58,300
Depreciable Capital Assets, Net	12,410,310
<i>Total Assets</i>	19,438,026
<b>Deferred Outflows of Resources</b>	
Deferred Charge on Refunding	21,761
Pension	3,834,030
OPEB	130,721
<i>Total Deferred Outflows of Resources</i>	3,986,512
<b>Liabilities</b>	
Accounts Payable	50,148
Contracts Payable	12,187
Accrued Wages and Benefits	818,762
Intergovernmental Payable	223,653
Matured Compensated Absences Payable	11,389
Matured Capital Leases Payable	6,447
Matured Interest Payable	1,914
Accrued Interest Payable	6,542
Notes Payable	290,000
Long-Term Liabilities:	
Due Within One Year	414,743
Due In More Than One Year	
Net Pension Liability (See Note 17)	13,278,168
Net OPEB Liability (See Note 18)	2,969,077
Other Amounts	2,965,915
<i>Total Liabilities</i>	21,048,945
<b>Deferred Inflows of Resources</b>	
Property Taxes	3,709,097
Pension	1,003,185
OPEB	422,976
<i>Total Deferred Inflows of Resources</i>	5,135,258
<b>Net Position</b>	
Net Investment in Capital Assets	9,813,934
Restricted for:	
Capital Projects	99,041
Debt Service	344,107
Other Purposes	384,737
Unrestricted (Deficit)	(13,401,484)
<i>Total Net Position</i>	(\$2,759,665)

See accompanying notes to the basic financial statements

**Newton Falls Exempted Village School District**

*Statement of Activities*

*For the Fiscal Year Ended June 30, 2018*

	Program Revenues			Net (Expense)
	Expenses	Charges for Services and Sales	Operating Grants, Contributions and Interest	Revenue and Changes in Net Position
<b>Governmental Activities</b>				
Instruction:				
Regular	\$2,964,343	\$380,356	\$53,651	(\$2,530,336)
Special	1,223,721	119,589	1,058,371	(45,761)
Vocational	39,839	7,072	52,288	19,521
Support Services:				
Pupils	344,056	0	0	(344,056)
Instructional Staff	105,590	0	0	(105,590)
Board of Education	76,949	0	0	(76,949)
Administration	472,478	0	129,959	(342,519)
Fiscal	348,025	0	0	(348,025)
Operation and Maintenance of Plant	1,505,975	0	46,187	(1,459,788)
Pupil Transportation	550,238	0	0	(550,238)
Central	173,257	0	7,200	(166,057)
Operation of Food Service	461,746	110,384	293,450	(57,912)
Extracurricular Activities	376,467	111,977	0	(264,490)
Interest and Fiscal Charges	94,767	0	0	(94,767)
<b>Totals</b>	<b>\$8,737,451</b>	<b>\$729,378</b>	<b>\$1,641,106</b>	<b>(6,366,967)</b>

**General Revenues**

Property Taxes Levied for:

General Purposes	3,362,720
Debt Service	476,797
Classroom Facilities Maintenance	45,462

Grants and Entitlements not Restricted  
to Specific Programs

Investment Earnings	12,650
Miscellaneous	296,197

**Total General Revenues** 11,555,959

Change in Net Position 5,188,992

*Net Position Beginning of Year*  
*- Restated (See Note 23)* (7,948,657)

*Net Position End of Year* (\$2,759,665)

See accompanying notes to the basic financial statements

**Newton Falls Exempted Village School District**

*Balance Sheet*

*Governmental Funds*

*June 30, 2018*

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$1,199,883	\$694,849	1,894,732
Intergovernmental Receivable	78,716	257,093	335,809
Inventory Held for Resale	0	12,025	12,025
Materials and Supplies Inventory	0	1,281	1,281
Property Taxes Receivable	4,363,537	348,229	4,711,766
Prepaid Items	13,803	0	13,803
<i>Total Assets</i>	<u>\$5,655,939</u>	<u>\$1,313,477</u>	<u>\$6,969,416</u>
<b>Liabilities</b>			
Accounts Payable	\$44,528	\$5,620	\$50,148
Contracts Payable	12,187	0	12,187
Accrued Wages and Benefits	720,002	98,760	818,762
Intergovernmental Payable	209,025	14,628	223,653
Matured Compensated Absences Payable	11,389	0	11,389
Matured Capital Leases Payable	6,447	0	6,447
Matured Interest Payable	1,914	0	1,914
Accrued Interest Payable	967	62	1,029
Notes Payable	272,665	17,335	290,000
<i>Total Liabilities</i>	<u>1,279,124</u>	<u>136,405</u>	<u>1,415,529</u>
<b>Deferred Inflows of Resources</b>			
Property Taxes	3,436,296	272,801	3,709,097
Unavailable Revenue	917,749	331,760	1,249,509
<i>Total Deferred Inflows of Resources</i>	<u>4,354,045</u>	<u>604,561</u>	<u>4,958,606</u>
<b>Fund Balances</b>			
Nonspendable	13,803	1,281	15,084
Restricted	938	642,908	643,846
Assigned	8,029	0	8,029
Unassigned (Deficit)	0	(71,678)	(71,678)
<i>Total Fund Balances</i>	<u>22,770</u>	<u>572,511</u>	<u>595,281</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$5,655,939</u>	<u>\$1,313,477</u>	<u>\$6,969,416</u>

See accompanying notes to the basic financial statements

**Newton Falls Exempted Village School District**  
*Reconciliation of Total Governmental Fund Balances to*  
*Net Position of Governmental Activities*  
*June 30, 2018*

<b>Total Governmental Fund Balances</b>	<b>\$595,281</b>
 <i>Amounts reported for governmental activities in the statement of net position are different because</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	12,468,610
Other long-term assets are not available to pay for current-period expenditures and therefore are unavailable in the funds.	
Delinquent Property Taxes	992,416
Intergovernmental	<u>257,093</u>
Total	1,249,509
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(5,513)
The net pension liability and net OPEB liability are not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds.	
Deferred Outflows - Pension	3,834,030
Deferred Outflows - OPEB	130,721
Net Pension Liability	(13,278,168)
Net OPEB	(2,969,077)
Deferred Inflows - Pension	(1,003,185)
Deferred Inflows - OPEB	<u>(422,976)</u>
Total	(13,708,655)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	
General Obligation Bonds	(2,648,009)
Capital Leases	(133,140)
Special Termination Benefits	(80,322)
Compensated Absences	(519,187)
Deferred Charge on Refunding	<u>21,761</u>
Total	<u>(3,358,897)</u>
 <i>Net Position of Governmental Activities</i>	 <u><u>(\$2,759,665)</u></u>

See accompanying notes to the basic financial statements

**Newton Falls Exempted Village School District**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2018*

	General	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Property Taxes	\$3,285,806	\$517,144	\$3,802,950
Intergovernmental	8,033,062	848,661	8,881,723
Interest	12,650	725	13,375
Tuition and Fees	514,517	0	514,517
Extracurricular Activities	49,009	62,968	111,977
Charges for Services	0	110,384	110,384
Rentals	70	0	70
Miscellaneous	295,907	290	296,197
<i>Total Revenues</i>	<u>12,191,021</u>	<u>1,540,172</u>	<u>13,731,193</u>
<b>Expenditures</b>			
Current:			
Instruction:			
Regular	5,387,233	52,850	5,440,083
Special	1,794,982	440,470	2,235,452
Vocational	105,129	0	105,129
Support Services:			
Pupils	661,453	0	661,453
Instructional Staff	142,259	0	142,259
Board of Education	82,438	0	82,438
Administration	884,648	123,144	1,007,792
Fiscal	393,013	2,230	395,243
Operation and Maintenance of Plant	1,474,424	180,078	1,654,502
Pupil Transportation	661,187	0	661,187
Central	189,004	5,850	194,854
Operation of Food Service	100	485,294	485,394
Extracurricular Activities	297,295	73,061	370,356
Debt Service:			
Principal Retirement	55,776	315,000	370,776
Interest and Fiscal Charges	21,457	69,886	91,343
<i>Total Expenditures</i>	<u>12,150,398</u>	<u>1,747,863</u>	<u>13,898,261</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>40,623</u>	<u>(207,691)</u>	<u>(167,068)</u>
<b>Other Financing Sources (Uses)</b>			
Transfers In	0	53,737	53,737
Transfers Out	(53,737)	0	(53,737)
<i>Total Other Financing Sources (Uses)</i>	<u>(53,737)</u>	<u>53,737</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	(13,114)	(153,954)	(167,068)
<i>Fund Balances Beginning of Year</i>	<u>35,884</u>	<u>726,465</u>	<u>762,349</u>
<i>Fund Balances End of Year</i>	<u>\$22,770</u>	<u>\$572,511</u>	<u>\$595,281</u>

See accompanying notes to the basic financial statements

**Newton Falls Exempted Village School District**  
*Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Fiscal Year Ended June 30, 2018*

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**Net Change in Fund Balances - Total Governmental Funds** (\$167,068)

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

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

Capital Asset Additions	175,053	
Current Year Depreciation	(1,099,837)	
Total		(924,784)

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

Delinquent Property Taxes	82,029	
Intergovernmental	120,791	
Tuition and Fees	(7,570)	
Total		195,250

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 370,776

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

Accrued Interest Payable	1,722	
Bond Accretion	(15,504)	
Amortization of Premium on Bonds	14,375	
Amortization of Deferred Charge on Refunding	(4,017)	
Total		(3,424)

Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.

Pension	843,959	
OPEB	30,535	
Total		874,494

Except for amounts reported as deferred inflows/outflows, changes in the net pension/OPEB liability are reported as pension/OPEB expense in the statement of activities.

Pension	4,386,064	
OPEB	486,132	
Total		4,872,196

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

Special Termination Benefits	(80,322)	
Compensated Absences	51,874	
Total		(28,448)

*Change in Net Position of Governmental Activities* \$5,188,992

See accompanying notes to the basic financial statements



**Newton Falls Exempted Village School District**  
*Statement of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*General Fund*  
For the Fiscal Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Property Taxes	\$4,086,306	\$4,086,306	\$3,209,223	(\$877,083)
Intergovernmental	7,862,851	7,862,851	8,028,371	165,520
Interest	6,993	6,993	12,650	5,657
Tuition and Fees	246,615	246,615	537,682	291,067
Rentals	1,382	1,382	70	(1,312)
Miscellaneous	155,757	155,757	293,190	137,433
<i>Total Revenues</i>	<u>12,359,904</u>	<u>12,359,904</u>	<u>12,081,186</u>	<u>(278,718)</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	5,437,155	5,478,375	5,478,375	0
Special	1,818,271	1,846,858	1,846,858	0
Vocational	104,048	104,590	104,590	0
Support Services:				
Pupils	661,758	665,415	665,415	0
Instructional Staff	141,237	143,780	143,780	0
Board of Education	69,769	73,004	73,004	0
Administration	903,500	933,100	933,100	0
Fiscal	386,877	390,659	390,659	0
Operation and Maintenance of Plant	1,399,423	1,468,410	1,468,410	0
Pupil Transportation	656,748	676,367	676,367	0
Central	175,047	183,638	183,638	0
Operation of Food Service	100	100	100	0
Extracurricular Activities	244,909	246,196	246,196	0
<i>Total Expenditures</i>	<u>11,998,842</u>	<u>12,210,492</u>	<u>12,210,492</u>	<u>0</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	361,062	149,412	(129,306)	(278,718)
<b>Other Financing Sources (Uses)</b>				
Transfers Out	(13,221)	(53,737)	(53,737)	0
<i>Net Change in Fund Balance</i>	347,841	95,675	(183,043)	(278,718)
<i>Fund Balance Beginning of Year</i>	1,103,484	1,103,484	1,103,484	0
Prior Year Encumbrances Appropriated	<u>69,431</u>	<u>69,431</u>	<u>69,431</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$1,520,756</u>	<u>\$1,268,590</u>	<u>\$989,872</u>	<u>(\$278,718)</u>

See accompanying notes to the basic financial statements

**Newton Falls Exempted Village School District**

*Statement of Fiduciary Assets and Liabilities*

*Agency Fund*

*June 30, 2018*

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	<u>Agency</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$22,452</u>
<b>Liabilities</b>	
Due to Students	<u>\$22,452</u>
See accompanying notes to the basic financial statements	

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

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018*

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

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

The School District operates under a locally-elected five-member Board form of government and provides educational services as mandated by State and federal agencies. The Board of Education controls the School District's four instructional/support facilities staffed by 44 classified employees, 68 certificated full and part-time teaching, 5 administrators and 5 supervisors who provide services to 1,012 students and other community members.

#### *Reporting Entity*

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

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

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

The School District participates in two jointly governed organizations and two public entity pools. The organizations are the Northeast Ohio Management Information Network, the Trumbull County Career and Technical Center, the Ohio Schools Council Workers' Compensation Group Retrospective Rating Program and the Trumbull County Schools Employee Insurance Benefits Consortium. These organizations are presented in Notes 15 and 16 to the basic financial statements.

## Newton Falls Exempted Village School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018*

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

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School District's accounting policies are described below.

#### ***Basis of Presentation***

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

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

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

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

#### ***Fund Accounting***

The School District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. In reporting its financial activities, the School District uses two categories of funds: governmental and fiduciary.

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

## Newton Falls Exempted Village School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018*

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**General Fund** The general fund is the operating fund of the School District and is used to account for and report all financial resources except those required to be accounted for and reported 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.

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

**Fiduciary Funds** Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District has no trust fund. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency fund accounts for student activities.

### **Measurement Focus**

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

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

### **Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements and the statement presented for the fiduciary fund are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred outflows/inflows of resources, and in the presentation of expenses versus expenditures.

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

## Newton Falls Exempted Village School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018*

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

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

***Deferred Outflows/Inflows of Resources*** In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School District, deferred outflows of resources are reported on the government-wide statement of net position for pension and OPEB plans. The deferred outflows of resources related to pension and OPEB plans are explained in Notes 17 and 18.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the School District, deferred inflows of resources include property taxes, pension, OPEB plans and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2018, but which were levied to finance fiscal year 2019 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the School District, unavailable revenue includes delinquent property taxes and income taxes. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. The details of these unavailable revenues are identified on the Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities found on page 18. Deferred inflows of resources related to pension and OPEB plans are reported on the government-wide statement of net position. (See Notes 17 and 18)

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

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

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

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018*

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### ***Pensions/Other Postemployment Benefits (OPEB)***

For purposes of measuring the net pension/OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions/OPEB, and pension/OPEB expense, information about the fiduciary net position of the pension/OPEB plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension/OPEB plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension/OPEB plans report investments at fair value.

### ***Cash and Cash Equivalents***

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

During fiscal year 2018, the School District invested in STAR Ohio. 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 has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The School District measures its investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For fiscal year 2018, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, twenty-four hours advance notice is appreciated for deposits and withdrawals of \$25 million or more. STAR Ohio reserves the right to limit the transactions to \$100 million per day, requiring the excess amount to be transacted the following business day(s), but only to the \$100 million limit. All accounts of the participant will be combined for these purposes.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2018 amounted to \$12,650 which includes \$4,180 assigned from other School District funds.

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

### ***Prepaid Items***

Payments made to vendors for services that will benefit periods beyond June 30, 2018, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditures/expense in the year in which the services are consumed.

**Newton Falls Exempted Village School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2018*

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**Capital Assets**

The School District’s only capital assets are general capital assets. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The School District was able to estimate the historical cost for the initial reporting of assets by backtrending (i.e., estimating the current replacement cost of the asset to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year.) Donated capital assets are recorded at their acquisition values as of the date received. The School District maintains a capitalization threshold of two thousand dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not capitalized.

All reported capital assets, except land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

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

**Inventory**

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

**Compensated Absences**

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

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

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



**Newton Falls Exempted Village School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018*

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

***Accrued Liabilities and Long-term Obligations***

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. Capital leases are recognized as a liability on the governmental fund financial statements when due. Net pension/OPEB liability should be recognized in the governmental funds to the extent that benefit payments are due and payable and the pension/OPEB plan’s fiduciary net position is not sufficient for payment of those benefits.

***Internal Activity***

Transfers between governmental funds are eliminated on the government-wide financial statements. Internal events that are allocations of overhead expenses from one function to another or within the same function are eliminated on the Statement of Activities. Interfund payments for services provided and used are not eliminated.

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

***Fund Balance***

Fund balance is divided into five classifications based primarily on the extent to which the School is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

***Nonspendable*** The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

***Restricted*** Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions.

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

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018*

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***Committed*** The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by the highest level formal action (resolution) of the School District Board of Education. Those committed amounts cannot be used for any other purpose unless the School District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

***Assigned*** Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance includes the remaining amount that is not restricted or committed. These assigned balances are established by the School District Board of Education. In the general fund, assigned amounts represent intended uses established by the School District Board of Education, delegated that authority by State statute.

***Unassigned*** Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The School District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

### ***Net Position***

Net position represents the difference between all other elements in a statement of financial position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for other purposes include resources restricted for auxiliary services, food services and extracurricular activities.

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

### ***Deferred Charge on Refunding***

On the government-wide financial statements, the difference between the reacquisition price (funds required to refund the old debt) and the net carrying amount of the old debt, the gain/loss on the refunding, is being amortized as a component of interest expense. This deferred amount is amortized over the life of the old or new debt, whichever is shorter, using the effective interest method and is presented as deferred outflows of resources on the statement of net position.

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

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018*

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### ***Bond Premiums***

On the government-wide financial statements, bond premiums are deferred and amortized over the term of the bonds using the straight line method. Bond premiums are presented as an increase of the face amount of the general obligation bonds payable. On fund financial statements, bond premiums are reported in the year the bonds are issued.

### ***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.

### ***Budgetary Data***

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

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

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year. Prior to fiscal year-end, the School District passed an amended appropriation measure which matched appropriations to expenditures plus encumbrances in all of the categories.

### **Note 3 – Fund Balances**

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of resources in the governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

**Newton Falls Exempted Village School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018*

Fund Balances	General	Other Governmental Funds	Total
<b><i>Nonspendable</i></b>			
Prepaid Items	\$13,803	\$0	\$13,803
Materials and Supplies Inventory	0	1,281	1,281
<i>Total Nonspendable</i>	<u>13,803</u>	<u>1,281</u>	<u>15,084</u>
<b><i>Restricted for</i></b>			
Food Service Operations	0	40,366	40,366
Scholarships	0	77,479	77,479
Classroom Facilities Maintenance	0	101,874	101,874
Athletics	0	11,010	11,010
Auxiliary Services	0	980	980
Data and Information Systems	0	3,540	3,540
Student Programs	938	0	938
Debt Service Payments	0	308,618	308,618
Capital Improvements	0	99,041	99,041
<i>Total Restricted</i>	<u>938</u>	<u>642,908</u>	<u>643,846</u>
<b><i>Assigned to</i></b>			
Purchases on Order:			
Instruction	4,925	0	4,925
Support Services	3,104	0	3,104
<i>Total Assigned</i>	<u>8,029</u>	<u>0</u>	<u>8,029</u>
<b><i>Unassigned (Deficit)</i></b>	<u>0</u>	<u>(71,678)</u>	<u>(71,678)</u>
<b><i>Total Fund Balances</i></b>	<u><u>\$22,770</u></u>	<u><u>\$572,511</u></u>	<u><u>\$595,281</u></u>

**Note 4 – Accountability**

Fund balances at June 30, 2018, included the following individual fund deficits:

<i>Special Revenue Funds</i>	
Title VI-B	28,875
Title I	35,929
Class Size Reduction	6,874

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

**Newton Falls Exempted Village School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018*

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**Note 5 - Budgetary Basis of Accounting**

While the School District is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than restricted, committed or assigned fund balance (GAAP).
4. Budgetary revenues and expenditures of the uniform school supplies and public school support funds are classified to general fund for GAAP Reporting.

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements on a fund type basis for the general fund:

	<u>General</u>
GAAP Basis	(\$13,114)
Net Adjustment for Revenue Accruals	(31,942)
Perspective Difference:	
Uniform School Supplies	427
Public School Support	(695)
Net Adjustment for Expenditure Accruals	17,913
Encumbrances	(155,632)
Budget Basis	<u><u>(\$183,043)</u></u>

**Note 6 - Deposits and Investments**

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

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

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

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

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018*

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

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

1. United States Treasury bills, bonds notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio, and with certain limitations bonds and other obligations of political subdivisions of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio); and
8. Certain bankers' acceptances and commercial paper for a period not to exceed one hundred eighty days in an amount not to exceed 40 percent of the interim monies available for investment at any one time if training requirements have been met.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity.

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

## Newton Falls Exempted Village School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018*

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### ***Deposits***

***Custodial credit risk*** for deposits is the risk that in the event of a bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At June 30, 2018, \$240,683 of the School District's total bank balance of \$1,573,053 was exposed to custodial credit risk because those deposits were uninsured and uncollateralized. The School District's financial institution participates in the Ohio Pooled Collateral System (OPCS) and was approved for a reduced collateral floor of 58.65 percent resulting in the uninsured and uncollateralized balance.

The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or be protected by:

Eligible securities pledged to the School District and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105 percent of the deposits being secured; or

Participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State.

### ***Investments***

As of June 30, 2018, the School District had STAR Ohio as the only investment with an amount of \$363,644, which is measured at net asset value per share. The average maturity is 48.9 days.

***Credit Risk*** Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The School District has no investment policy that addresses credit risk.

***Interest Rate Risk*** The School District has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date purchase, unless matched to a specific obligation or debt of the School District, and that an investment must be purchased with the expectation that it will be held to maturity.

### **Note 7 – Property Taxes**

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

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenues received in calendar year 2018 represent the collection of calendar year 2017 taxes. Real property taxes received in calendar year 2018 were levied after April 1, 2017, on the assessed values as of January 1, 2017, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

**Newton Falls Exempted Village School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018*

Public utility property tax revenues received in calendar year 2018 represent the collection of calendar year 2017 taxes. Public utility real and tangible personal property taxes received in calendar year 2018 became a lien on December 31, 2016, were levied after April 1, 2017, and are collected with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

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, 2018, are available to finance fiscal year 2019 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property and public utility property taxes which are measurable as of June 30, 2018 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 were levied to finance current fiscal year operations are reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows of resources – property taxes. On the accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on the modified accrual basis the revenue has been reported as deferred inflows of resources – unavailable revenue.

The amount available as an advance at June 30, 2018, was \$9,492 in the general fund, \$126 in the classroom facilities maintenance special revenue fund and \$635 in the bond retirement fund. The amount available as an advance at June 30, 2017, was \$6,857 in the general fund, \$91 in the classroom facilities maintenance special revenue fund and \$474 in the bond retirement fund.

The assessed values upon which the fiscal year 2018 taxes were collected are:

	2017 Second Half Collections		2018 First Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$120,400,460	97.51%	\$119,425,100	97.45%
Public Utility Personal	3,073,130	2.49	3,127,810	2.55
<b>Total</b>	<b>\$123,473,590</b>	<b>100.00%</b>	<b>\$122,552,910</b>	<b>100.00%</b>
Full Tax Rate per \$1,000 of assessed valuation	\$43.65		\$43.75	

**Note 8 - Receivables**

Receivables at June 30, 2018, consisted of taxes and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables except property taxes are expected to be received within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.



**Newton Falls Exempted Village School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018*

A summary of the principal items of intergovernmental receivables follows:

<u>Intergovernmental Receivables</u>	<u>Amounts</u>
Title VI-B Grant	\$153,345
Title I Grant	54,789
Bureau of Workers Compensation	41,164
Class Size Reduction Grant	38,959
Regular and Special Tuition	17,859
Foundation Adjustment	17,449
Miscellaneous Federal Grants	10,000
Medicaid	2,244
<b>Total</b>	<b>\$335,809</b>

**Note 9 – Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2018, was as follows:

	<u>Balance June 30, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2018</u>
<b>Nondepreciable Capital Assets</b>				
Land	\$58,300	\$0	\$0	\$58,300
<b>Depreciable Capital Assets</b>				
Land Improvements	269,562	35,000	0	304,562
Buildings and Improvements	29,111,491	0	0	29,111,491
Furniture and Fixtures	1,711,321	16,000	0	1,727,321
Vehicles	937,187	124,053	(97,133)	964,107
Textbooks	953,225	0	0	953,225
<i>Total at Historical Cost</i>	<u>32,982,786</u>	<u>175,053</u>	<u>(97,133)</u>	<u>33,060,706</u>
<b>Less: Accumulated Depreciation</b>				
Land Improvements	(158,184)	(14,353)	0	(172,537)
Buildings and Improvements	(16,549,602)	(890,439)	0	(17,440,041)
Furniture and Fixtures	(1,276,667)	(99,511)	0	(1,376,178)
Vehicles	(769,146)	(41,669)	97,133	(713,682)
Textbooks	(894,093)	(53,865)	0	(947,958)
<i>Total Accumulated Depreciation</i>	<u>(19,647,692)</u>	<u>(1,099,837) *</u>	<u>97,133</u>	<u>(20,650,396)</u>
<i>Depreciable Capital Assets, Net of Accumulated Depreciation</i>	<u>13,335,094</u>	<u>(924,784)</u>	<u>0</u>	<u>12,410,310</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$13,393,394</u>	<u>(\$924,784)</u>	<u>\$0</u>	<u>\$12,468,610</u>

**Newton Falls Exempted Village School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018*

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

Instruction	
Regular	\$965,595
Vocational	31
Support Services	
Instructional Staff	53,865
Operation and Maintenance of Plant	14,389
Pupil Transportation	39,492
Central	886
Operation of Food Service	19,283
Extracurricular Activities	6,296
Total Depreciation Expense	<u>\$1,099,837</u>

**Note 10 - Capital Leases**

In prior years the School District entered into two 5 year purchase agreements of \$128,940 and \$149,940 for the acquisition of copiers. The School District's lease obligations meet the criteria of a capital lease. Capital lease payments for the copier's leases are reflected as debt service expenditures in the general fund on the basic financial statements.

Capital assets acquired by lease have been capitalized as follows:

<b>Assets:</b>	
Equipment	\$278,880
Less: Accumulated Depreciation	<u>(143,640)</u>
<i>Current Book Value</i>	<u>\$135,240</u>

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2018.

Fiscal Year Ending June 30	<u>Governmental Activities</u>
2019	\$63,432
2020	33,444
2021	33,444
2022	<u>33,444</u>
Total	163,764
Less: Amount Representing Interest	<u>(30,624)</u>
Present Value of Net Minimum Lease Payments	<u>\$133,140</u>

**Newton Falls Exempted Village School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018*

**Note 11 – Long-Term Obligations**

Original issue amounts and interest rates of the School District’s debt issues were as follows:

<u>Debt Issue</u>	<u>Interest Rate</u>	<u>Original Issue</u>	<u>Year of Maturity</u>
2012 Various Purpose Refunding Bonds:			
Serial Bonds	2.90% to 3.70%	\$2,665,000	2024
Capital Appreciation Bonds	6.70	160,000	2019
2015 LTGO Energy Conservation Bonds:			
Term Bonds	1.10 to 4.00	1,145,000	2030

Changes in long-term obligations of the School District during fiscal year 2018 were as follows:

	<u>Principal Outstanding June 30, 2017</u>	<u>Additions</u>	<u>Deductions</u>	<u>Principal Outstanding June 30, 2018</u>	<u>Amount Due in One Year</u>
<b>Governmental Activities</b>					
<b>General Obligation Bonds</b>					
2012 Various Purpose Refunding Bonds					
Serial Bonds	\$1,545,000	\$0	(\$250,000)	\$1,295,000	\$0
Capital Appreciation Bonds	160,000	0	0	160,000	160,000
Accretion on Bonds	67,719	15,504	0	83,223	83,223
Premium	80,906	0	(12,609)	68,297	0
<b>Total 2012 Various Purpose Refunding Bonds</b>	<b>1,853,625</b>	<b>15,504</b>	<b>(262,609)</b>	<b>1,606,520</b>	<b>243,223</b>
2015 LTGO Energy Conservation Bonds					
Term Bonds	1,085,000	0	(65,000)	1,020,000	70,000
Premium	23,255	0	(1,766)	21,489	0
<b>Total 2015 LTGO Energy Conservation Bonds</b>	<b>1,108,255</b>	<b>0</b>	<b>(66,766)</b>	<b>1,041,489</b>	<b>70,000</b>
<i>Total General Obligation Bonds</i>	<u>2,961,880</u>	<u>15,504</u>	<u>(329,375)</u>	<u>2,648,009</u>	<u>313,223</u>
<b>Other Long-term Obligations</b>					
Net Pension Liability:					
STRS	14,963,529	0	(4,396,680)	10,566,849	0
SERS	3,572,493	0	(861,174)	2,711,319	0
<i>Total Net Pension Liability</i>	<u>18,536,022</u>	<u>0</u>	<u>(5,257,854)</u>	<u>13,278,168</u>	<u>0</u>
Net OPEB Liability:					
STRS	2,390,742	0	(655,210)	1,735,532	0
SERS	1,411,911	0	(178,366)	1,233,545	0
<i>Total OPEB Liability</i>	<u>3,802,653</u>	<u>0</u>	<u>(833,576)</u>	<u>2,969,077</u>	<u>0</u>
Capital Lease	188,916	0	(55,776)	133,140	55,776
Special Termination Benefits	0	80,322	0	80,322	15,912
Compensated Absences	571,061	96,206	(128,080)	539,187	29,832
<i>Total Other Long-term Obligations</i>	<u>23,098,652</u>	<u>176,528</u>	<u>(6,275,286)</u>	<u>16,999,894</u>	<u>101,520</u>
<i>Total Governmental Activities Long-Term Liabilities</i>	<u>\$26,060,532</u>	<u>\$192,032</u>	<u>(\$6,604,661)</u>	<u>\$19,647,903</u>	<u>\$414,743</u>

**Newton Falls Exempted Village School District**

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On February 23, 2012, the School District issued \$2,825,000 in general obligation bonds to refund the 2002 various purpose improvement bonds. The general obligation bonds included serial and capital appreciation (deep discount) bonds in the amount of \$2,665,000 and \$160,000, respectively. The bonds were issued for a twelve year period with a final maturity at December 1, 2023. The bonds will be retired from the debt service fund.

The capital appreciation bonds were originally sold at a discount of \$160,000, which is being accreted annually until the point of maturity of the capital appreciation bonds, which is 2019.

The maturity amount of outstanding capital appreciation bonds at June 30, 2018 is \$250,000. The accretion recorded for 2018 was \$15,504, for a total outstanding bond liability of \$243,223 at June 30, 2018.

In fiscal year 2016, the School District issued \$1,145,000 in limited tax general obligation energy conservation bonds. The bonds were issued for the purpose of improving the School District's energy efficiency measures. The bonds were issued for a fifteen year period with a final maturity at December 1, 2030. The bonds will be retired from the debt service fund.

In fiscal year 2013, the School District defeased a 2002 various purpose general obligation bond issue in order to take advantage of lower interest rates. The proceeds of the new bonds were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the School District's financial statements. On June 30, 2018, \$1,745,000 of the defeased bonds are still outstanding.

Compensated absences will be paid from the general fund and the food service, title VI-B, title I and class size reduction grants special revenue funds. Special termination benefits will be paid out of the general fund. There are no repayment schedules for the net pension liability and net OPEB liability. However, employer pension contributions are made from the following funds: the general fund and the food service, title VI-B, title I and class size reduction grants special revenue funds. For additional information related to the net pension and net OPEB liabilities see Notes 17 and 18.

The overall debt margin of the School District as of June 30, 2018, was \$8,863,380 with an unvoted debt margin of \$122,553. Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2018, are as follows:

Fiscal Year Ending June 30	General Obligation Bonds					
	Serial		Term		Capital Appreciation	
	Principal	Interest	Principal	Interest	Principal	Accretion
2019	\$0	\$35,075	\$70,000	\$30,550	\$160,000	\$90,000
2020	250,000	32,575	70,000	29,500	0	0
2021	255,000	26,888	70,000	28,275	0	0
2022	260,000	19,800	70,000	26,875	0	0
2023	260,000	12,000	70,000	25,125	0	0
2024 - 2028	270,000	4,050	395,000	89,687	0	0
2029 - 2031	0	0	275,000	16,700	0	0
<b>Total</b>	<b>\$1,295,000</b>	<b>\$130,388</b>	<b>\$1,020,000</b>	<b>\$246,712</b>	<b>\$160,000</b>	<b>\$90,000</b>

**Newton Falls Exempted Village School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2018*

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**Note 12 – Notes Payable**

The School District’s note activity, including amount outstanding and interest rate is as follows:

	<u>Outstanding 6/30/2017</u>	<u>Issued</u>	<u>Retired</u>	<u>Outstanding 6/30/2018</u>
<b>Governmental Activities</b>				
Tax Anticipation Notes 4 to 4.5%	<u>\$355,000</u>	<u>\$0</u>	<u>(\$65,000)</u>	<u>\$290,000</u>

On June 30, 2015, the School District issued \$355,000 in tax anticipation notes for operations. The notes will be paid from the general fund and the bond retirement fund. Principal and interest payments to retire the tax anticipation notes are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$70,000	\$10,950	\$80,950
2020	70,000	8,150	78,150
2021	75,000	5,062	80,062
2022	75,000	1,688	76,688
Total	<u>\$290,000</u>	<u>\$25,850</u>	<u>\$315,850</u>

All notes are backed by the full faith and credit of the School District. The note liability is reflected in the fund which received the proceeds and will repay the debt.

**Note 13 - Interfund Transfers**

The general fund made transfers of \$53,737 to other governmental funds to help provide funding for fiscal year 2018.

**Note 14 - Risk Management**

***Property and Liability***

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2018, the School District contracted for the following insurance coverage:

**Newton Falls Exempted Village School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2018*

Company	Type of Coverage	Coverage Amount
Liberty Mutual	Building and Content	\$61,150,170
	General Liability	
	Bodily Injury and Property Damage	1,000,000
	Personal Injury/Advertising Liability	1,000,000
	Products/Completed Operations	2,000,000
	Employers Stop Gap Liability	
	Bodily Injury by Accident, each accident	1,000,000
	Bodily Injury by Disease, Limit	1,000,000
	Bodily Injury by Disease, each employee	1,000,000
	Aggregate Limit	2,000,000
	General Annual Aggregate Limit	N/A
	Fire Legal Liability	300,000
	Medical Payments - Occurrence/Aggregate	15,000
	Educators' Legal Liability	
	Wrongful Acts, per occurrence	1,000,000
	Wrongful Acts, in aggregate with \$1,000 deductible	1,000,000
	Employee Benefits Liability	1,000,000/3,000,000
	Automobile Liability	
	Bodily Injury and Property Damage, per occurrence	1,000,000
	Medical Payments - Occurrence/Aggregate	5,000 / N/A
	Uninsured/Underinsured Motorist, per person	1,000,000
	Uninsured/Underinsured Motorist, per occurrence	1,000,000

The School District has contracted with the Trumbull County Schools Employee Insurance Benefit Consortium to provide employee medical/surgical, dental, and prescription drug benefits. The Trumbull County Schools Employee Insurance Benefit Consortium is a shared risk pool comprised of sixteen Trumbull County school districts. Rates are set through an annual calculation process. The Newton Falls Exempted Village School District pays a monthly contribution which is placed in a common fund from which claim payments are made for all participating school districts. Claims are paid for all participants regardless of claims flow. The board of directors has the right to return monies to an exiting district subsequent to the settlement of all expenses and claims. The School District pays medical/prescription drug premiums of \$1,734 for family coverage and \$667 for single coverage per employee per month. If the School District were to withdraw from the consortium, there would be no liability because premium levels fund a reserve for subsequent claim payments. The School District provides dental coverage through Delta Dental which is paid through the Trumbull County School Employee Insurance Benefit Consortium.

Settled claims have not exceeded this commercial coverage in any of the past three years. The School District did not make significant reductions in coverage from last year.

***Worker's Compensation***

For fiscal year 2018, the School District participated in the Ohio Schools Council Workers' Compensation Group Retrospective Rating Program, an insurance purchasing pool (Note 16). The intent of the program is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the program. The participating school districts pay experience or rate based premiums to the Bureau of Workers' Compensation (BWC). The total premium for the entire group is the standard premium of the group. The BWC recalculates the group retrospective premium 12 months after the end of the policy year, based on developed incurred claim losses. If the new calculated

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

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018*

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premium is lower than the standard premium, the BWC will distribute a refund to the school districts in the group. Participation in the program is limited to school districts that can meet the Ohio Schools Council's selection criteria. The firm of Sheakley provides administrative, cost control, and actuarial services for the program.

### **Note 15 - Jointly Governed Organizations**

***Northeast Ohio Management Information Network (NEOMIN)*** NEOMIN is a jointly governed organization among twenty-nine school districts and two educational service centers in Trumbull and Ashtabula Counties. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the districts supports NEOMIN based upon a per pupil charge. Newton Falls Exempted Village School District paid \$31,697 to NEOMIN during fiscal year 2018.

The Governing board consists of ten members: The Trumbull and Ashtabula County superintendents (permanent members), three superintendents from Ashtabula County participating school districts, three superintendents from Trumbull County participating school districts, the fiscal agent (or NEOMIN). The Newton Falls Exempted Village School District was not represented on the Governing Board during fiscal year 2018. The Board exercises total control over the operations of NEOMIN including budgeting, appropriating, contracting and designating management. The degree of control exercised by any participating school district is limited to its representation on the Governing Board. To obtain a copy of NEOMIN's financial statements, write to the Trumbull County Educational Service Center, 6000 Youngstown Warren Road, Niles, Ohio 44446.

***Trumbull County Career and Technical Center*** The Trumbull County Career and Technical Center is a distinct political subdivision of the State of Ohio providing vocational needs of the students. The center is operated under the direction of a Board consisting of one representative from each of the nineteen participating school districts' elected boards, which possesses its own budgeting and taxing authority. The Board exercises total control over the operations of the Trumbull County Career and Technical Center including budgeting, appropriating, contracting and designating management. The degree of control exercised by any participating school district is limited to its representation on the Governing Board. To obtain financial information write to the Trumbull County Career and Technical Center, Cody Holecko, who serves as Treasurer, at 528 Educational Highway, Warren, Ohio 44483.

### **Note 16 – Public Entity Pool**

#### ***Insurance Purchasing Pool***

***Ohio Schools Council Workers' Compensation Group Retrospective Rating Program*** The School District participates in the Ohio Schools Council Group Retrospective Rating Program, an insurance purchasing pool. Each district supports the Council by paying an annual participation fee. The program was created for the purpose of reducing the cost of workers' compensation premiums.

#### ***Shared Risk Pool***

***Trumbull County Schools Employee Insurance Benefits Consortium*** The School District participates in the Trumbull County Schools Employee Insurance Benefits Consortium. This is a shared risk pool comprised of sixteen Trumbull County School Districts. The Consortium is governed by an assembly which

## Newton Falls Exempted Village School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018*

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consists of one representative from each participating school district (usually the superintendent or designee). The assembly elects officers for one year terms to serve as the Board of Directors. The assembly exercises control over the operation of the Consortium. Consortium revenues are generated from charges for services.

### **Note 17 – Defined Benefit Pension Plans**

The Statewide retirement systems provide both pension benefits and other postemployment benefits (OPEB).

#### ***Net Pension Liability/Net OPEB Liability***

The net pension liability and the net OPEB liability reported on the statement of net position represent liabilities to employees for pensions and OPEB, respectively. Pensions/OPEB are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions/OPEB are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension/OPEB liability represent the School District's proportionate share of each pension/OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension/OPEB plan's fiduciary net position. The net pension/OPEB liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting these estimates annually.

Ohio Revised Code limits the School District's obligation for this liability to annually required payments. The School District cannot control benefit terms or the manner in which pensions are financed; however, the School District does receive the benefit of employees' services in exchange for compensation including pension and OPEB.

GASB 68/75 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires funding to come from these employers. All pension contributions to date have come solely from these employers (which also includes pension costs paid in the form of withholdings from employees). The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits. In addition, health care plan enrollees pay a portion of the health care costs in the form of a monthly premium. State statute requires the retirement systems to amortize unfunded pension liabilities within 30 years. If the pension amortization period exceeds 30 years, each retirement system's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension/OPEB liability. Resulting adjustments to the net pension/OPEB liability would be effective when the changes are legally enforceable. The Ohio Revised Code permits, but does not require the retirement systems to provide health care to eligible benefit recipients.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension/OPEB liability* on the accrual basis of accounting. Any liability for the contractually-required pension/OPEB contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting. The remainder of this note includes the required pension disclosures. See Note 18 for the required OPEB disclosures.



**Newton Falls Exempted Village School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2018*

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***Plan Description - School Employees Retirement System (SERS)***

Plan Description – School District non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS’ fiduciary net position. That report can be obtained by visiting the SERS website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

\* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on years of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2018, the allocation to pension, death benefits, and Medicare B was 13.5 percent. The remaining .5 percent was allocated to the Health Care Fund.

The School District’s contractually required contribution to SERS was \$197,572 for fiscal year 2018. Of this amount \$7,945 is reported as an intergovernmental payable.

***Plan Description - State Teachers Retirement System (STRS)***

Plan Description – School District licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple employer public employee system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information, and detailed information about STRS’ fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at [www.strsoh.org](http://www.strsoh.org).

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

*Notes to the Basic Financial Statements  
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New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307.

The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Effective July 1, 2017, the cost-of-living adjustment was reduced to zero. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent goes to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit to apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2018, the employer rate was 14 percent and the plan members were also required to contribute 14 percent of covered salary. The fiscal year 2018 contribution rates were equal to the statutory maximum rates.

The School District's contractually required contribution to STRS was \$646,387 for fiscal year 2018. Of this amount \$88,028 is reported as an intergovernmental payable.

**Newton Falls Exempted Village School District**

*Notes to the Basic Financial Statements  
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***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on the School District's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net Pension Liability Prior Measurement Date	0.04881070%	0.04470326%	
Proportion of the Net Pension Liability Current Measurement Date	<u>0.04537940%</u>	<u>0.04448223%</u>	
Change in Proportionate Share	<u>-0.00343130%</u>	<u>-0.00022103%</u>	
Proportionate Share of the Net Pension Liability	\$2,711,319	\$10,566,849	\$13,278,168
Pension Expense	(\$196,998)	(\$4,189,066)	(\$4,386,064)

At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Differences between expected and actual experience	\$116,685	\$408,042	\$524,727
Changes of assumptions	140,205	2,311,086	2,451,291
Changes in proportionate Share and difference between School District contributions and proportionate share of contributions	14,053	0	14,053
School District contributions subsequent to the measurement date	<u>197,572</u>	<u>646,387</u>	<u>843,959</u>
Total Deferred Outflows of Resources	<u>\$468,515</u>	<u>\$3,365,515</u>	<u>\$3,834,030</u>
<b>Deferred Inflows of Resources</b>			
Differences between expected and actual experience	\$0	\$85,165	\$85,165
Net difference between projected and actual earnings on pension plan investments	12,870	348,718	361,588
Changes in Proportionate Share and Difference between School District contributions and proportionate share of contributions	<u>240,634</u>	<u>315,798</u>	<u>556,432</u>
Total Deferred Inflows of Resources	<u>\$253,504</u>	<u>\$749,681</u>	<u>\$1,003,185</u>

**Newton Falls Exempted Village School District**

*Notes to the Basic Financial Statements  
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\$843,959 reported as deferred outflows of resources related to pension resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2019	\$12,374	\$366,583	\$378,957
2020	71,244	840,958	912,202
2021	(2,972)	595,786	592,814
2022	<u>(63,207)</u>	<u>166,120</u>	<u>102,913</u>
Total	<u>\$17,439</u>	<u>\$1,969,447</u>	<u>\$1,986,886</u>

***Actuarial Assumptions - SERS***

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2017, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	2.5 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

Prior to 2017, an assumption of 3 percent was used for COLA or Ad Hoc COLA.

**Newton Falls Exempted Village School District**

*Notes to the Basic Financial Statements*

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For 2017, the mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. Mortality among service retired members, and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120 percent of male rates, and 110 percent of female rates. Mortality among disabled members were based upon the RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent for female rates, set back five years is used for the period after disability retirement.

The most recent experience study was completed for the five year period ended June 30, 2015.

The long-term return expectation for the Pension Plan Investments has been determined by using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating an arithmetic weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalanced uncorrelated asset classes.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	1.00 %	0.50 %
US Stocks	22.50	4.75
Non-US Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
 Total	 <u>100.00 %</u>	

**Discount Rate** The total pension liability was calculated using the discount rate of 7.50 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

**Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.50 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

**Newton Falls Exempted Village School District**

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	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
School District's proportionate share of the net pension liability	\$3,762,606	\$2,711,319	\$1,830,652

***Actuarial Assumptions - STRS***

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2017, actuarial valuation, compared with July 1, 2016 are presented as follows:

	July 1, 2017	July 1, 2016
Inflation	2.50 percent	2.75 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65	12.25 percent at age 20 to 2.75 percent at age 70
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation	7.75 percent, net of investment expenses, including inflation
Payroll Increases	3 percent	3.5 percent
Cost-of-Living Adjustments (COLA)	0.0 percent, effective July 1, 2017	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA commences on fifth anniversary of retirement date.

For the July 1, 2017, actuarial valuation, post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

For the July 1, 2016 actuarial valuation, mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89, and no set back from age 90 and above.

Actuarial assumptions used in the July 1 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016. Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

STRS' investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

**Newton Falls Exempted Village School District**

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Asset Class	Target Allocation	Long-Term Expected Rate of Return *
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
 Total	 <u>100.00 %</u>	

\* 10 year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25 percent and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

**Discount Rate** The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2017. The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2017. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2017.

**Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** The following table presents the School District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.45 percent, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.45 percent) or one-percentage-point higher (8.45 percent) than the current rate:

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
School District's proportionate share of the net pension liability	\$15,147,219	\$10,566,849	\$6,708,574

## Newton Falls Exempted Village School District

*Notes to the Basic Financial Statements  
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### **Note 18 - Defined Benefit OPEB Plans**

See Note 17 for a description of the net OPEB liability.

#### ***Plan Description - School Employees Retirement System (SERS)***

Health Care Plan Description - The School District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage. Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2018, .5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2018, this amount was \$23,700. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2018, the School District's surcharge obligation was \$23,218.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The School District's contractually required contribution to SERS was \$30,535 for fiscal year 2018. Of this amount \$23,512 is reported as an intergovernmental payable.



**Newton Falls Exempted Village School District**

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***Plan Description - State Teachers Retirement System (STRS)***

Plan Description – The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians’ fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2020. The Plan is included in the report of STRS which can be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2018, STRS did not allocate any employer contributions to post-employment health care.

***OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB***

The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The School District's proportion of the net OPEB liability was based on the School District's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net OPEB Liability			
Prior Measurement Date	0.04953430%	0.04470326%	
Proportion of the Net OPEB Liability			
Current Measurement Date	<u>0.04596370%</u>	<u>0.04448223%</u>	
Change in Proportionate Share	<u><u>-0.00357060%</u></u>	<u><u>-0.00022103%</u></u>	
Proportionate Share of the Net			
OPEB Liability	\$1,233,545	\$1,735,532	\$2,969,077
OPEB Expense	\$45,148	(\$531,280)	(\$486,132)

At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

**Newton Falls Exempted Village School District**

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	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Differences between expected and actual experience	\$0	\$100,186	\$100,186
School District contributions subsequent to the measurement date	<u>30,535</u>	<u>0</u>	<u>30,535</u>
Total Deferred Outflows of Resources	<u>\$30,535</u>	<u>\$100,186</u>	<u>\$130,721</u>
<b>Deferred Inflows of Resources</b>			
Changes of assumptions	\$117,057	\$139,803	\$256,860
Net difference between projected and actual earnings on OPEB plan investments	3,257	74,181	77,438
Changes in Proportionate Share and Difference between School District contributions and proportionate share of contributions	<u>78,546</u>	<u>10,132</u>	<u>88,678</u>
Total Deferred Inflows of Resources	<u>\$198,860</u>	<u>\$224,116</u>	<u>\$422,976</u>

\$30,535 reported as deferred outflows of resources related to OPEB resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ending June 30:	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2019	(\$71,685)	(\$26,837)	(\$98,522)
2020	(71,685)	(26,837)	(98,522)
2021	(54,675)	(26,837)	(81,512)
2022	(815)	(26,837)	(27,652)
2023	0	(8,292)	(8,292)
Thereafter	<u>0</u>	<u>(8,290)</u>	<u>(8,290)</u>
Total	<u>(\$198,860)</u>	<u>(\$123,930)</u>	<u>(\$322,790)</u>

**Actuarial Assumptions - SERS**

The total OPEB liability is determined by SERS' actuaries in accordance with GASB Statement No. 74, as part of their annual actuarial valuation for each retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment terminations). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

**Newton Falls Exempted Village School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2018*

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Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases, actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation date of June 30, 2017, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation
Municipal Bond Index Rate:	
Measurement Date	3.56 percent
Prior Measurement Date	2.92 percent
Single Equivalent Interest Rate, net of plan investment expense, including price inflation	
Measurement Date	3.63 percent
Prior Measurement Date	2.98 percent
Medical Trend Assumption	
Medicare	5.50 to 5.00 percent
Pre-Medicare	7.50 to 5.00 percent

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, 120 percent of male rates and 110 percent of female rates. RP-2000 Disabled Mortality Table with 90 percent for male rates and 100 percent for female rates set back five years.

The most recent experience study was completed for the five year period ended June 30, 2015.

The long-term expected rate of return on plan assets is reviewed as part of the actuarial five-year experience study. The most recent study covers fiscal years 2010 through 2015, and was adopted by the Board on April 21, 2016. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return, 7.50 percent, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The SERS health care plan follows the same asset allocation and long-term expected real rate of return for each major asset class as the pension plan, see Note 17.

**Newton Falls Exempted Village School District**

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**Discount Rate** The discount rate used to measure the total OPEB liability at June 30, 2017 was 3.63 percent. The discount rate used to measure total OPEB liability prior to June 30, 2017 was 2.98 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the state statute contribution rate of 2.00 percent of projected covered employee payroll each year, which includes a 1.50 percent payroll surcharge and 0.50 percent of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan’s fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2025. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2024 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.56 percent, as of June 30, 2017 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

**Sensitivity of the School District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates** The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.63 percent) and higher (4.63 percent) than the current discount rate (3.63 percent). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.5 percent decreasing to 4.0 percent) and higher (8.5 higher decreasing to 6.0 percent) than the current rate.

	1% Decrease (2.63%)	Current Discount Rate (3.63%)	1% Increase (4.63%)
School District's proportionate share of the net OPEB liability	\$1,489,663	\$1,233,545	\$1,030,634

  

	1% Decrease (6.5 % decreasing to 4.0 %)	Current Trend Rate (7.5 % decreasing to 5.0 %)	1% Increase (8.5 % decreasing to 6.0 %)
School District's proportionate share of the net OPEB liability	\$1,000,929	\$1,233,545	\$1,541,416

**Actuarial Assumptions – STRS**

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2017, actuarial valuation are presented below:

## Newton Falls Exempted Village School District

*Notes to the Basic Financial Statements  
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Inflation	2.50 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Payroll Increases	3 percent
Cost-of-Living Adjustments (COLA)	0.0 percent, effective July 1, 2017
Blended Discount Rate of Return	4.13 percent
Health Care Cost Trends	6 to 11 percent initial, 4.5 percent ultimate

Projections of benefits include the historical pattern of sharing benefit costs between the employers and retired plan members.

For healthy retirees the mortality rates are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. For disabled retirees, mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the June 30, 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

Since the prior measurement date, the discount rate was increased from 3.26 percent to 4.13 percent based on the methodology defined under *GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)* and the long term expected rate of return was reduced from 7.75 percent to 7.45 percent. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

Also since the prior measurement date, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019. Subsequent to the current measurement date, the date for discontinuing remaining Medicare Part B premium reimbursements was extended to January 2020.

The STRS health care plan follows the same asset allocation and long-term expected real rate of return for each major asset class as the pension plan, see Note 17.

**Discount Rate** The discount rate used to measure the total OPEB liability was 4.13 percent as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes STRS Ohio continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was not projected to be sufficient to make all projected future benefit payments of current plan members. The OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2037. Therefore, the long-term expected rate of return on OPEB plan assets was used to determine the present value of the projected benefit payments

**Newton Falls Exempted Village School District**

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through the fiscal year ending June 30, 2036 and the Bond Buyer 20-year municipal bond rate of 3.58 percent as of June 30, 2017 (i.e. municipal bond rate), was used to determine the present value of the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The blended discount rate of 4.13 percent, which represents the long-term expected rate of return of 7.45 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 3.58 percent for the unfunded benefit payments, was used to measure the total OPEB liability as of June 30, 2017. A blended discount rate of 3.26 percent which represents the long term expected rate of return of 7.75 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 2.85 percent for the unfunded benefit payments was used to measure the total OPEB liability at June 30, 2016.

***Sensitivity of the School District's Proportionate Share of the Net OPEB Liability to Changes in the Discount and Health Care Cost Trend Rate*** The following table represents the net OPEB liability as of June 30, 2017, calculated using the current period discount rate assumption of 4.13 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (3.13 percent) or one percentage point higher (5.13 percent) than the current assumption. Also shown is the net OPEB liability as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

	1% Decrease (3.13%)	Current Discount Rate (4.13%)	1% Increase (5.13%)
School District's proportionate share of the net OPEB liability	\$2,329,924	\$1,735,532	\$1,265,769

  

	1% Decrease	Current Trend Rate	1% Increase
School District's proportionate share of the net OPEB liability	\$1,205,774	\$1,735,532	\$2,432,757

**Note 19 - Other Employee Benefits**

***Compensated Absences***

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn ten to twenty-five days of vacation per year, depending upon length of service and hours worked. Teachers and most administrators do not earn vacation. The Superintendent earns 20 days of vacation annually and may be paid up to 7 days of unused vacation at the end of each year. The Treasurer earns 15 days of vacation annually. Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Teachers, administrators and classified employees who reach 200 days of accumulated sick leave, may store up to 10 days of personal leave as an addition to their sick leave severance. Upon retirement and having been employed by the School District for at least ten years, all employees receive payment for one-fourth of the total sick leave accumulation, up to a maximum of 50 days for classified employees and 55 days for certificated employees.

**Newton Falls Exempted Village School District**

*Notes to the Basic Financial Statements*

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***Life Insurance Benefits***

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

***Special Termination Benefits***

During fiscal year 2018, the School District negotiated an early retirement incentive with an employee. The incentive is to cover costs for the employee's health care beginning in July of 2018 and ending in March of 2024. The School District will be making payments directly to the employee on a quarterly basis as reimbursement for the employee's costs. The liability for these special termination benefits was \$80,322 as of June 30, 2018.

**Note 20 - Contingencies**

***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, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2018, if applicable, cannot be determined at this time.

***School Foundation***

School district Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end. As of the date of this report, additional ODE adjustments for fiscal year 2018 are not finalized. ODE has finalized the impact of enrollment adjustments to the June 30, 2018 foundation funding for the School District. These adjustments were insignificant for the School district.

***Litigation***

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

**Note 21 - Set Asides**

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

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

	<u>Capital Improvements</u>
Set Aside Balance as of June 30, 2017	\$0
Current Year Set-aside Requirement	203,454
Current Year Offsets	<u>(287,575)</u>
Total	<u>(\$84,121)</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>\$0</u>
Set Aside Balance as of June 30, 2018	<u>\$0</u>

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

**Note 22 - Encumbrances**

Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At year end the amount of encumbrances expected to be honored upon performance by the vendor in the next year were as follows:

<b>Governmental Funds</b>	
General	\$155,632
Other Governmental Funds	<u>48,083</u>
<i>Total Governmental Funds</i>	<u>\$203,715</u>

**Note 23 – Change in Accounting Principle and Restatement of Net Position**

For fiscal year 2018, the School District implemented Governmental Accounting Standards Board (GASB) Statement No. 85, *Omnibus 2017*, Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, and related guidance from (GASB) Implementation Guide No. 2017-3, *Accounting and Financial Reporting for Postemployment Benefits other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)*.

For fiscal year 2018, the School District also implemented the Governmental Accounting Standards Board's (GASB) *Implementation Guide No. 2017-1*. These changes were incorporated in the School District's fiscal year 2018 financial statements; however, there was no effect on beginning net position/fund balance.

GASB 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB)). These changes were incorporated in the School District's fiscal year 2018 financial statements; however, there was no effect on beginning net position/fund balance.



**Newton Falls Exempted Village School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018*

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GASB 75 established standards for measuring and recognizing Postemployment benefit liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditure. The implementation of this pronouncement had the following effect on net position as reported June 30, 2017:

Net Position June 30, 2017	(\$4,170,658)
Adjustments:	
Net OPEB Liability	(3,802,653)
Deferred Outflow - Payments Subsequent to Measurement Date	<u>24,654</u>
Restated Net Position June 30, 2017	<u><u>(\$7,948,657)</u></u>

Other than employer contributions subsequent to the measurement date, the School District made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

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## Required Supplementary Information

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**Newton Falls Exempted Village School District**  
*Required Supplementary Information*  
*Schedule of the School District's Proportionate Share of the Net Pension Liability*  
*School Employees Retirement System of Ohio*  
*Last Five Fiscal Years (1)*

	2018	2017	2016
School District's Proportion of the Net Pension Liability	0.04537940%	0.04881070%	0.05184320%
School District's Proportionate Share of the Net Pension Liability	\$2,711,319	\$3,572,493	\$2,958,224
School District's Covered Payroll	\$1,450,550	\$1,515,507	\$1,556,007
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered - Payroll	186.92%	235.73%	190.12%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.50%	62.98%	69.16%

(1) Information prior to 2014 is not available.

\*Amounts presented for each fiscal year were determined as of the School District's measurement date which is the prior fiscal year end.

See accompanying notes to the required supplementary information

<u>2015</u>	<u>2014</u>
0.05094500%	0.05094500%
\$2,578,298	\$3,029,536
\$1,479,328	\$1,555,924
174.29%	194.71%
71.70%	65.52%

**Newton Falls Exempted Village School District**  
*Required Supplementary Information*  
*Schedule of the School District's Proportionate Share of the Net OPEB Liability*  
*School Employees Retirement System of Ohio*  
*Last Two Fiscal Years (1)*

	2018	2017
School District's Proportion of the Net OPEB Liability	0.04596370%	0.04953430%
School District's Proportionate Share of the Net OPEB Liability	\$1,233,545	\$1,411,911
School District's Covered Payroll	\$1,450,550	\$1,515,507
School District's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered - Payroll	85.04%	93.16%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	12.46%	11.49%

(1) Information prior to 2017 is not available.

\*Amounts presented for each fiscal year were determined as of the School District's measurement date which is the prior fiscal year end.

See accompanying notes to the required supplementary information

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**Newton Falls Exempted Village School District**  
*Required Supplementary Information*  
*Schedule of the School District's Proportionate Share of the Net Pension Liability*  
*State Teachers Retirement System of Ohio*  
*Last Five Fiscal Years (1)*

	2018	2017	2016
School District's Proportion of the Net Pension Liability	0.04448223%	0.04470326%	0.04572868%
School District's Proportionate Share of the Net Pension Liability	\$10,566,849	\$14,963,529	\$12,638,070
School District's Covered Payroll	\$4,732,121	\$4,759,871	\$4,863,521
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered - Payroll	223.30%	314.37%	259.85%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.30%	66.80%	72.10%

(1) Information prior to 2014 is not available.

\*Amounts presented for each fiscal year were determined as of the School District's measurement date which is the prior fiscal year end.

See accompanying notes to the required supplementary information



2015	2014
0.04625010%	0.04625010%
\$11,241,090	\$13,390,313
\$4,696,893	\$5,259,169
239.33%	254.61%
74.70%	69.30%

**Newton Falls Exempted Village School District**  
*Required Supplementary Information*  
*Schedule of the School District's Proportionate Share of the Net OPEB Liability*  
*State Teachers Retirement System of Ohio*  
*Last Two Fiscal Years (1)*

	2018	2017
School District's Proportion of the Net OPEB Liability	0.04448223%	0.04470326%
School District's Proportionate Share of the Net OPEB Liability	\$1,735,532	\$2,390,742
School District's Covered Payroll	\$4,732,121	\$4,759,871
School District's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered - Payroll	36.68%	50.23%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	47.10%	37.30%

(1) Information prior to 2017 is not available.

\*Amounts presented for each fiscal year were determined as of the School District's measurement date which is the prior fiscal year end.

See accompanying notes to the required supplementary information

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**Newton Falls Exempted Village School District**  
*Required Supplementary Information*  
*Schedule of the School District's Contributions*  
*School Employees Retirement System of Ohio*  
*Last Ten Fiscal Years*

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>Net Pension Liability</b>				
Contractually Required Contribution	\$197,572	\$203,077	\$212,171	\$205,082
Contributions in Relation to the Contractually Required Contribution	<u>(197,572)</u>	<u>(203,077)</u>	<u>(212,171)</u>	<u>(205,082)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School District Covered Payroll (1)	\$1,463,496	\$1,450,550	\$1,515,507	\$1,556,007
Pension Contributions as a Percentage of Covered Payroll	<u>13.50%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>13.18%</u>
<b>Net OPEB Liability</b>				
Contractually Required Contribution (2)	30,535	24,654	25,355	78,978
Contributions in Relation to the Contractually Required Contribution	<u>(30,535)</u>	<u>(24,654)</u>	<u>(25,355)</u>	<u>(78,978)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
OPEB Contributions as a Percentage of Covered Payroll	<u>2.09%</u>	<u>1.70%</u>	<u>1.67%</u>	<u>5.08%</u>
Total Contributions as a Percentage of Covered Payroll (2)	<u>15.59%</u>	<u>15.70%</u>	<u>15.67%</u>	<u>18.26%</u>

(1) The School District's covered payroll is the same for Pension and OPEB.

(2) Includes Surcharge

See accompanying notes to the required supplementary information

2014	2013	2012	2011	2010	2009
\$205,035	\$215,340	\$200,622	\$181,427	\$196,121	\$136,571
(205,035)	(215,340)	(200,622)	(181,427)	(196,121)	(136,571)
\$0	\$0	\$0	\$0	\$0	\$0
\$1,479,328	\$1,555,924	\$1,491,614	\$1,443,336	\$1,448,459	\$1,387,921
13.86%	13.84%	13.45%	12.57%	13.54%	9.84%
25,846	29,675	29,871	42,592	27,097	78,810
(25,846)	(29,675)	(29,871)	(42,592)	(27,097)	(78,810)
\$0	\$0	\$0	\$0	\$0	\$0
1.75%	1.91%	2.00%	2.95%	1.87%	5.68%
15.61%	15.75%	15.45%	15.52%	15.41%	15.52%

**Newton Falls Exempted Village School District**  
*Required Supplementary Information*  
*Schedule of the School District's Contributions*  
*State Teachers Retirement System of Ohio*  
*Last Ten Fiscal Years*

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>Net Pension Liability</b>				
Contractually Required Contribution	\$646,387	\$662,497	\$666,382	\$680,893
Contributions in Relation to the Contractually Required Contribution	<u>(646,387)</u>	<u>(662,497)</u>	<u>(666,382)</u>	<u>(680,893)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School District Covered Payroll (1)	\$4,617,050	\$4,732,121	\$4,759,871	\$4,863,521
Pension Contributions as a Percentage of Covered Payroll	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>
<b>Net OPEB Liability</b>				
Contractually Required Contribution	\$0	\$0	\$0	\$0
Contributions in Relation to the Contractually Required Contribution	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
OPEB Contributions as a Percentage of Covered Payroll	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
Total Contributions as a Percentage of Covered Payroll	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>

(1) The School District's covered payroll is the same for Pension and OPEB.

See accompanying notes to the required supplementary information

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$610,596	\$683,692	\$664,705	\$643,492	\$651,806	\$612,672
<u>(610,596)</u>	<u>(683,692)</u>	<u>(664,705)</u>	<u>(643,492)</u>	<u>(651,806)</u>	<u>(612,672)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$4,696,893	\$5,259,169	\$5,113,115	\$4,949,938	\$5,013,892	\$4,712,862
<u>13.00%</u>	<u>13.00%</u>	<u>13.00%</u>	<u>13.00%</u>	<u>13.00%</u>	<u>13.00%</u>
\$46,969	\$52,592	\$51,131	\$49,499	\$50,139	\$47,129
<u>(46,969)</u>	<u>(52,592)</u>	<u>(51,131)</u>	<u>(49,499)</u>	<u>(50,139)</u>	<u>(47,129)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>1.00%</u>	<u>1.00%</u>	<u>1.00%</u>	<u>1.00%</u>	<u>1.00%</u>	<u>1.00%</u>
<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>

**Newton Falls Exempted Village School District**

*Notes to Required Supplementary Information*

*For the Fiscal Year Ended June 30, 2018*

**Net Pension Liability**

**Changes in Assumptions – SERS**

For fiscal year 2018, an assumption of 2.5 percent was used for COLA or Ad Hoc Cola. Prior to 2018, an assumption of 3 percent was used.

Beginning with fiscal year 2017, amounts reported incorporate changes in assumptions used by SERS in calculating the total pension liability in the latest actuarial valuation. These new assumptions compared with those used in fiscal year 2016 and prior are presented below:

	<u>Fiscal Year 2017</u>	<u>Fiscal Year 2016 and Prior</u>
Wage Inflation	3.00 percent	3.25 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent	4.00 percent to 22.00 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation	7.75 percent net of investments expense, including inflation

Beginning with fiscal year 2017, mortality assumptions use mortality rates that are based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. Amounts reported for fiscal year 2016 and prior, use mortality assumptions that are based on the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables were used for the period after disability retirement.

**Changes in Assumptions - STRS**

Amounts reported for fiscal year 2018 incorporate changes in assumptions and changes in benefit terms used by STRS in calculating the total pension liability in the latest actuarial valuation. These new assumptions compared with those used in fiscal year 2017 and prior are presented below:

	<u>Fiscal Year 2018</u>	<u>Fiscal Year 2017 and Prior</u>
Inflation	2.50 percent	2.75 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65	12.25 percent at age 20 to 2.75 percent at age 70
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation	7.75 percent, net of investment expenses, including inflation
Payroll Increases	3 percent	3.5 percent
Cost-of-Living Adjustments (COLA)	0.0 percent, effective July 1, 2017	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA commences on fifth anniversary of retirement date.

For fiscal year 2018 post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuity Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014



**Newton Falls Exempted Village School District**

*Notes to Required Supplementary Information*

*For the Fiscal Year Ended June 30, 2018*

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Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

For fiscal year 2017 and prior actuarial valuation, mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89, and no set back from age 90 and above.

**Net OPEB Liability**

**Changes in Assumptions – SERS**

Amounts reported for fiscal year 2018 incorporate changes in key methods and assumptions used in calculating the total OPEB liability as presented below:

Municipal Bond Index Rate:	
Fiscal year 2018	3.56 percent
Fiscal year 2017	2.92 percent
Single Equivalent Interest Rate, net of plan investment expense, including price inflation	
Fiscal year 2018	3.63 percent
Fiscal year 2017	2.98 percent

**Changes in Assumptions – STRS**

For fiscal year 2018, the discount rate was increased from 3.26 percent to 4.13 percent based on the methodology defined under GASB *Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)* and the long term expected rate of return was reduced from 7.75 percent to 7.45 percent. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

Also for fiscal year 2018, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019.

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NEWTON FALLS EXEMPTED VILLAGE SCHOOL DISTRICT  
TRUMBULL COUNTY

SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2018

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program / Cluster Title	Federal CFDA Number	Total Federal Receipts	Total Federal Expenditures
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
<i>Passed Through Ohio Department of Education:</i>			
Child Nutrition Cluster:			
School Breakfast Program	10.553	\$50,619	\$50,619
National School Lunch Program	10.555	<u>250,896</u>	<u>\$242,817</u>
<b>Total U.S. Department of Agriculture - Nutrition Cluster</b>		<b><u>301,515</u></b>	<b><u>293,436</u></b>
<b>U.S. DEPARTMENT OF EDUCATION</b>			
<i>Passed Through Ohio Department of Education:</i>			
Title I Grants to Local Educational Agencies - 2017	84.010	36,177	52,433
Title I Grants to Local Educational Agencies - 2018	84.010	<u>259,734</u>	<u>259,734</u>
Total Title I Grants to Local Educational Agencies		295,911	312,167
Special Education Grants to States (IDEA, Part B) - 2017	84.027		81,717
Special Education Grants to States (IDEA, Part B) - 2018	84.027	<u>121,426</u>	<u>121,426</u>
Total Special Education Grants to States		121,426	203,143
Improving Teacher Quality State Grants (Title II-A) - 2017	84.367	7,881	11,045
Improving Teacher Quality State Grants (Title II-A) - 2018	84.367	<u>37,573</u>	<u>37,573</u>
Total Improving Teacher Quality State Grants		45,454	48,618
<b>Total U.S. Department of Education</b>		<b><u>462,791</u></b>	<b><u>563,928</u></b>
<b>Total Federal Awards Receipts and Expenditures</b>		<b><u>\$ 764,306</u></b>	<b><u>\$ 857,364</u></b>

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

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

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
2 CFR 200.510(b)(6)  
FOR THE YEAR ENDED JUNE 30, 2018**

**NOTE A – BASIS OF PRESENTATION**

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) includes the federal award activity of Newton Falls Exempted Village School District (the District's) under programs of the federal government for the year ended June 30, 2018. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position or changes in net position of the District.

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The District has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**NOTE C - CHILD NUTRITION CLUSTER**

The District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the District assumes it expends federal monies first.

**NOTE D – FOOD DONATION PROGRAM**

The District reports commodities consumed on the Schedule at the entitlement value. The District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.

# OHIO AUDITOR OF STATE KEITH FABER



## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS 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, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Newton Falls Exempted Village School District, Trumbull County, (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 19, 2019, wherein we noted the District adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

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

As part of our financial statement audit, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the District's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the District's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

***Compliance and Other Matters***

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

***Purpose of this Report***

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this report is not suitable for any other purpose.



Keith Faber  
Auditor of State

Columbus, Ohio

February 19, 2019

# OHIO AUDITOR OF STATE KEITH FABER



## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

To the Board of Education:

### ***Report on Compliance for the Major Federal Program***

We have audited Newton Falls Exempted Village School District's (the District) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect the District's major federal program for the year ended June 30, 2018. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the District's major federal program.

### ***Management's Responsibility***

The District's Management is responsible for complying with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

### ***Auditor's Responsibility***

Our responsibility is to opine on the District's compliance for the District's major federal program based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards and the Uniform Guidance require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. 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 our audit provides a reasonable basis for our compliance opinion on the District's major program. However, our audit does not provide a legal determination of the District's compliance.

### ***Opinion on the Major Federal Program***

In our opinion, Newton Falls Exempted Village School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2018.

***Report on Internal Control Over Compliance***

The District's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the District's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on the major federal program's compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This report only describes the scope of our internal control over compliance tests and the results of this testing based on Uniform Guidance requirements. Accordingly, this report is not suitable for any other purpose.



Keith Faber  
Auditor of State

Columbus, Ohio

February 19, 2019



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

**SCHEDULE OF FINDINGS  
2 CFR § 200.515  
JUNE 30, 2018**

**1. SUMMARY OF AUDITOR'S RESULTS**

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unmodified
<i>(d)(1)(ii)</i>	Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material weaknesses in internal control reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unmodified
<i>(d)(1)(vi)</i>	Are there any reportable findings under 2 CFR § 200.516(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Nutrition Cluster (CFDA # 10.553, 10.555)
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$750,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee under 2 CFR §200.520?	Yes

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

None

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

None

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# OHIO AUDITOR OF STATE KEITH FABER



**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 7, 2019**