

Newton Falls Exempted Village School District

Basic Financial Statements
For Fiscal Year Ended: June 30, 2005



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Newton Falls Exempted Village School District, Trumbull County, prepared by Rea & Associates, Inc., for the audit period July 1, 2004 through June 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

December 21, 2007

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Newton Falls Exempted Village School District
Basic Financial Statements
For the fiscal year ended June 30, 2005

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Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.

November 14, 2007

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

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Newton Falls Exempted Village School District (the School District), as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2007 on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Newton Falls Exempted Village School District
Independent Auditor's Report
Page 2

The Management's Discussion and Analysis on pages 3 through 10 are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Hea & Associates, Inc.

Newton Falls Exempted Village School District

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2005

Unaudited

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

Financial Highlights

Key financial highlights for 2005 are as follows:

- General revenues accounted for \$13,624,024 in revenue or 88.7% of all revenues. Program specific revenues in the form of charges for services, operating grants, contributions and interest, and capital grants and contributions accounted for \$1,738,362 or 11.3% of all revenues of \$15,362,386.
- The School District had \$12,114,721 in expenses related to governmental activities; program revenues offset \$1,738,362 of these expenses. \$13,624,024 of general revenues was available to provide for these programs resulting in an increase in net assets of \$3,247,665.
- Total expenses amounted to \$12,114,721, and expenses related to instruction amounted to \$7,005,278 or 57.8% of this total.
- At the end of the fiscal year, the general fund is reporting a deficit fund balance of \$226,322, which is an increase from the prior year deficit fund balance of \$685,924.

Using this Annual Financial Report

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

The statement of net assets and statement of activities provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements present how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other nonmajor funds presented in total in one column.

Newton Falls Exempted Village School District

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2005

Unaudited

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While these statements contain information about a large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and helps answer the question, "How did we do financially during 2005?" These statements include all non-fiduciary assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the statement of net assets and the statement of activities, the School Districts' activities are considered to be all governmental activities.

Governmental Activities - Most of the School District's programs and services are reported here including instruction, support services, operation of non-instructional services and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 14. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the general fund, the bond retirement debt service fund, and the building and classroom facilities capital project funds.

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 the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds is reconciled in the financial statements.

Newton Falls Exempted Village School District
 Management's Discussion and Analysis
 For the Fiscal Year Ended June 30, 2005
 Unaudited

The School District as a Whole

Recall that the statement of net assets provides the perspective of the School District as a whole.

Table 1 provides a summary of the School District's net assets for 2005 compared to 2004:

Table 1
Net Assets

	<i>Governmental Activities</i>	
	<u>2005</u>	<u>2004</u>
<i>Assets</i>		
<i>Current and other assets</i>	\$ 12,760,216	\$ 15,039,085
<i>Capital assets, net of depreciation</i>	18,664,934	12,437,091
<i>Total assets</i>	31,425,150	27,476,176
<i>Liabilities</i>		
<i>Current and other liabilities</i>	6,149,912	4,977,030
<i>Long-term liabilities:</i>		
<i>Due within one year</i>	609,341	601,805
<i>Due in more than one year</i>	8,491,890	8,970,999
<i>Total liabilities</i>	15,251,143	14,549,834
<i>Net Assets</i>		
<i>Invested in capital assets, net of debt</i>	10,039,082	3,330,520
<i>Restricted</i>	6,256,324	10,249,874
<i>Unrestricted</i>	(121,399)	(654,052)
<i>Total net assets</i>	\$ 16,174,007	\$ 12,926,342

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the School District's assets exceeded liabilities by \$16,174,007.

Capital assets, net of related debt reported on the government-wide statements represents the largest component of net assets. Capital assets include land, buildings, improvements other than buildings, furniture, fixtures and equipment, vehicles, and construction in progress, and are used to provide services to students and are not available for future spending. Although the School District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the School District's net assets, \$6,256,324, represents resources that are subject to external restrictions on how the funds may be used. Of the total restricted net assets, \$661,936 is restricted for debt service payments and \$4,774,423 is restricted for capital projects and \$819,965, is restricted for other purposes. The remaining balance of net assets of (\$121,399) is unrestricted and indicates an amount not available to meet the government's ongoing obligations to students and staff.

Newton Falls Exempted Village School District

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2005

Unaudited

Table 2 shows changes in net assets for fiscal year 2005 compared to the fiscal year 2004.

*Table 2
Changes in Net Assets*

	<i>Governmental Activities</i>	
	<u>2005</u>	<u>2004</u>
Revenues		
<i>Program revenues:</i>		
Charges for services	\$ 638,632	\$ 638,750
Operating grants, contributions and interest	1,084,093	1,025,649
Capital grants and contributions	15,637	13,346
<i>General revenues:</i>		
Property taxes	3,760,448	3,511,735
Grants and entitlements	9,683,876	13,303,140
Payments in lieu of taxes	-	2,425
Investment earnings	122,972	102,130
Miscellaneous	56,728	22,113
Total revenues	<u>15,362,386</u>	<u>18,619,288</u>
Program Expenses		
<i>Instruction:</i>		
Regular	5,570,444	5,579,720
Special	1,379,556	1,227,040
Vocational	53,778	154,137
Adult/continuing	1,500	999
<i>Support services:</i>		
Pupils	479,575	459,641
Instructional staff	250,623	260,715
Board of education	93,863	35,150
Administration	842,288	919,788
Fiscal	485,373	321,427
Operation and maintenance of plant	863,085	810,723
Pupil transportation	816,690	695,609
Central	126,689	147,571
<i>Operation of non-instructional services:</i>		
Food service operations	385,599	396,563
Community services	118,085	119,713
Extracurricular activities	298,321	432,170
Interest and fiscal charges	349,252	355,662
Total expenses	<u>12,114,721</u>	<u>11,916,628</u>
Increase in net assets	<u>\$ 3,247,665</u>	<u>\$ 6,702,660</u>

Newton Falls Exempted Village School District

Management's Discussion and Analysis
 For the Fiscal Year Ended June 30, 2005
 Unaudited

Governmental Activities

Several revenue sources fund governmental activities with property taxes and State foundation revenues being the largest contributors. Property tax levies generated over \$3.7 million in 2005. General revenues from grants and entitlements, such as the school foundation program, generated approximately \$9.7 million. With the combination of taxes and intergovernmental funding 87.5% of all revenues, the School District monitors both of these revenue sources very closely for fluctuations.

A review of Table 2 reflects the total cost of instructional services was \$7,005,278, or 57.8% of governmental program expenses. Instructional expenses include activities directly related to the teaching of pupils and the interaction between teacher and pupil. Pupil and instructional staff services include the activities involved in assisting staff and the content and process of teaching to pupils. These expenses represent \$730,198 or 6.0% of the total governmental program expenses.

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements for fiscal year 2005 compared to the fiscal year 2004.

*Table 3
 Governmental Activities*

	<i>Total Cost of Services 2005</i>	<i>Total Cost of Services 2004</i>	<i>Net Cost of Services 2005</i>	<i>Net Cost of Services 2004</i>
<i>Program Expenses</i>				
<i>Instruction:</i>				
<i>Regular</i>	\$ 5,570,444	\$ 5,579,720	\$ (5,156,401)	\$ (5,183,893)
<i>Special</i>	1,379,556	1,227,040	(1,043,769)	(912,844)
<i>Vocational</i>	53,778	154,137	(53,778)	(154,137)
<i>Adult/continuing</i>	1,500	999	-	1
<i>Support services:</i>				
<i>Pupils</i>	479,575	459,641	(429,411)	(459,641)
<i>Instructional staff</i>	250,623	260,715	(184,697)	(205,950)
<i>Board of education</i>	93,863	35,150	(93,863)	(35,150)
<i>Administration</i>	842,288	919,788	(797,381)	(867,314)
<i>Fiscal</i>	485,373	321,427	(447,688)	(232,187)
<i>Operation and maintenance of plant</i>	863,085	810,723	(863,085)	(810,723)
<i>Pupil transportation</i>	816,690	695,609	(788,612)	(676,692)
<i>Central</i>	126,689	147,571	(114,689)	(127,823)
<i>Operation of non-instructional services:</i>				
<i>Food service operations</i>	385,599	396,563	(25,049)	(13,121)
<i>Community services</i>	118,085	119,713	10,235	3,835
<i>Extracurricular activities</i>	298,321	432,170	(38,919)	(207,582)
<i>Interest and fiscal charges</i>	349,252	355,662	(349,252)	(355,662)
<i>Total</i>	<u>\$ 12,114,721</u>	<u>\$ 11,916,628</u>	<u>\$ (10,376,359)</u>	<u>\$ (10,238,883)</u>

Newton Falls Exempted Village School District

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2005

Unaudited

The School District's Funds

The School District's governmental funds are accounted for using the modified accrual basis of accounting. Total revenues for governmental funds were \$15,312,144 and total expenditures were \$18,815,700. The net change in fund balance for the year was significant in the general fund and the classroom facilities fund, with an increase of \$459,602 in the general fund and a decrease of \$4,242,304, in the classroom facilities fund. The increase in the general fund is related to lower instructional and pupil and instructional staff costs. The decrease in the classroom facilities fund is attributed to increased expenditures related to a major construction project.

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 budgeted fund is the general fund.

During fiscal year 2005, the School District amended its general fund budget; however these amendments were not significant. Budget revisions are presented to the Board of Education for approval.

For the general fund, the final budget basis revenue estimate was \$10,179,857 which was somewhat higher than the original budget estimate of \$9,989,382. Much of this \$190,475 difference was due to intergovernmental which were estimated during the original budgeting process. Later in the fiscal year, when this amount is known, adjustments are made to intergovernmental revenue estimates.

The final expenditures estimate of \$10,104,369 was revised during the fiscal year. The actual expenditures, however, was \$10,069,821, or a 0.3% decrease from the amount originally anticipated. This difference is not due to any one significant item.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2005, the School District had \$18,664,934 invested in land; buildings; improvements other than buildings; furniture, fixtures and equipment; vehicles; and construction in progress. Table 4 shows fiscal year 2005 balances compared to fiscal year 2004.

Newton Falls Exempted Village School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

Table 4
Capital Assets, at Fiscal Year End
(Net of Depreciation)

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
<i>Land</i>	\$ 199,565	\$ 199,565
<i>Buildings</i>	12,207,239	3,685,139
<i>Improvements other than buildings</i>	80,147	45,892
<i>Furniture, fixtures and equipment</i>	755,423	769,495
<i>Vehicles</i>	358,145	416,653
<i>Construction in progress</i>	<u>5,064,415</u>	<u>7,320,347</u>
<i>Total capital assets</i>	<u>\$ 18,664,934</u>	<u>\$ 12,437,091</u>

The School District had capital asset acquisitions during the fiscal year of \$7,026,832, which was primarily due to additional construction in progress. See Note 8 to the basic financial statements for detail on the School District's capital assets.

Debt

At June 30, 2005 the School District had \$6,447,160 (including bond accretion) in general obligation bonds outstanding with \$570,000 due within one year. It also had a state construction loan outstanding of \$2,178,692. Table 5 summarizes debt outstanding as of June 30:

Table 5
Outstanding Debt, at Fiscal Year End

	<i>Governmental</i>	<i>Governmental</i>
	<i>Activities</i>	<i>Activities</i>
	<u>2005</u>	<u>2004</u>
<i>General obligation bonds</i>	\$ 6,447,160	\$ 6,927,879
<i>Loan</i>	<u>2,178,692</u>	<u>2,178,692</u>
<i>Total outstanding debt</i>	<u>\$ 8,625,852</u>	<u>\$ 9,106,571</u>

Newton Falls Exempted Village School District

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2005

Unaudited

The outstanding bond balance reflects a net decrease of \$480,719 from the previous year's balance of \$6,927,879. The School District has budgeted to meet all of its bonded debt requirements which are to be repaid from the bond retirement debt service fund.

At June 30, 2005, the School District's overall legal debt margin was \$10,604,710, with a voted debt margin of \$3,036,456 and an unvoted debt margin of \$117,830. See Note 14 to the basic financial statements for the repayment schedules of the bonded debt and loan.

Current Issues Affecting Financial Condition

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

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

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 or need additional financial information, contact Sue Irving, Treasurer, at Newton Falls Exempted Village School District, 909 1/2 Milton Road, Newton Falls, Ohio, 44444.

Newton Falls Exempted Village School District
Statement of Net Assets
June 30, 2005

	Governmental Activities
<u>Assets:</u>	
Equity in pooled cash and cash equivalents	\$ 8,022,092
Inventory held for resale	8,994
Materials and supplies inventory	1,013
Receivables:	
Accounts	10,794
Intergovernmental	107,900
Taxes	4,424,415
Prepaid items	185,008
Capital assets:	
Land and construction in progress	5,263,980
Depreciable capital assets, net	13,400,954
Total assets	<u>31,425,150</u>
<u>Liabilities:</u>	
Accounts payable	1,204,419
Accrued wages	894,830
Intergovernmental payable	270,953
Undistributed monies	73,839
Accrued interest payable	21,846
Deferred revenue	3,684,025
Long-term liabilities:	
Due within one year	609,341
Due in more than one year	8,491,890
Total liabilities	<u>15,251,143</u>
<u>Net assets:</u>	
Invested in capital assets, net of related debt	10,039,082
Restricted for:	
Capital projects	4,774,423
Debt service	661,936
Other purposes	819,965
Unrestricted	<u>(121,399)</u>
Total net assets	<u>\$ 16,174,007</u>

See accompanying notes to the basic financial statements.

Newton Falls Exempted Village School District
Statement of Activities
For the Fiscal Year Ended June 30, 2005

	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Revenues and Changes in Net Assets
					Governmental Activities
<u>Governmental Activities:</u>					
Instruction:					
Regular	\$ 5,570,444	\$ 250,017	\$ 164,026	\$ -	\$ (5,156,401)
Special	1,379,556	-	335,787	-	(1,043,769)
Vocational	53,778	-	-	-	(53,778)
Adult/continuing	1,500	-	1,500	-	-
Support services:					
Pupils	479,575	-	50,164	-	(429,411)
Instructional staff	250,623	-	65,926	-	(184,697)
Board of education	93,863	-	-	-	(93,863)
Administration	842,288	-	44,907	-	(797,381)
Fiscal	485,373	-	37,685	-	(447,688)
Operation and maintenance of plant	863,085	-	-	-	(863,085)
Pupil transportation	816,690	-	12,441	15,637	(788,612)
Central	126,689	-	12,000	-	(114,689)
Operation of non-instructional services:					
Food service operations	385,599	189,213	171,337	-	(25,049)
Community services	118,085	-	128,320	-	10,235
Extracurricular activities	298,321	199,402	60,000	-	(38,919)
Interest and fiscal charges	349,252	-	-	-	(349,252)
Total governmental activities	<u>\$ 12,114,721</u>	<u>\$ 638,632</u>	<u>\$ 1,084,093</u>	<u>\$ 15,637</u>	<u>(10,376,359)</u>

General Revenues:

Property taxes levied for:

General purposes	2,908,210
Debt service	852,238
Grants and entitlements not restricted to specific programs	9,683,876
Investment earnings	122,972
Miscellaneous	56,728
Total general revenues	<u>13,624,024</u>
Change in net assets	3,247,665
Net assets beginning of year	<u>12,926,342</u>
Net assets end of year	<u>\$ 16,174,007</u>

See accompanying notes to the basic financial statements.

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Newton Falls Exempted Village School District
Balance Sheet
Governmental Funds
June 30, 2005

	General	Bond Retirement	Building	Classroom Facilities
<u>Assets:</u>				
Equity in pooled cash and cash equivalents	\$ 615,575	\$ 515,438	\$ 1,737,430	\$ 4,219,999
Inventory held for resale	-	-	-	-
Materials and supplies inventory	-	-	-	-
Receivables:				
Accounts	10,794	-	-	-
Intergovernmental	1,683	-	-	-
Interfund	126,782	-	-	-
Taxes	3,407,919	1,016,496	-	-
Prepaid items	175,954	-	-	-
Total assets	<u>\$ 4,338,707</u>	<u>\$ 1,531,934</u>	<u>\$ 1,737,430</u>	<u>\$ 4,219,999</u>
<u>Liabilities and fund balances:</u>				
<u>Liabilities:</u>				
Accounts payable	\$ 17,925	\$ -	\$ -	\$ 1,183,166
Accrued wages	817,982	-	-	-
Interfund payable	-	-	-	-
Intergovernmental payable	244,284	-	-	-
Deferred revenue	3,410,999	1,016,496	-	-
Undistributed monies	73,839	-	-	-
Total liabilities	<u>4,565,029</u>	<u>1,016,496</u>	<u>-</u>	<u>1,183,166</u>
<u>Fund balances:</u>				
Reserved for encumbrances	186,016	-	-	1,193,157
Reserved for property taxes	8,460	-	-	-
Unreserved,				
Undesignated, reported in:				
General fund	(420,798)	-	-	-
Special revenue funds	-	-	-	-
Debt service fund	-	515,438	-	-
Capital projects funds	-	-	1,737,430	1,843,676
Total fund balances	<u>(226,322)</u>	<u>515,438</u>	<u>1,737,430</u>	<u>3,036,833</u>
Total liabilities and fund balances	<u>\$ 4,338,707</u>	<u>\$ 1,531,934</u>	<u>\$ 1,737,430</u>	<u>\$ 4,219,999</u>

See accompanying notes to the basic financial statements.

Other Governmental Funds	Total Governmental Funds
\$ 933,650	\$ 8,022,092
8,994	8,994
1,013	1,013
-	10,794
106,217	107,900
-	126,782
-	4,424,415
9,054	185,008
<u>\$ 1,058,928</u>	<u>\$ 12,886,998</u>

\$ 3,328	\$ 1,204,419
76,848	894,830
126,782	126,782
26,669	270,953
6,379	4,433,874
-	73,839
<u>240,006</u>	<u>7,004,697</u>

48,722	1,427,895
-	8,460
-	(420,798)
770,040	770,040
-	515,438
160	3,581,266
<u>818,922</u>	<u>5,882,301</u>
<u>\$ 1,058,928</u>	<u>\$ 12,886,998</u>

Newton Falls Exempted Village School District
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2005

Total governmental fund balances		\$ 5,882,301
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		18,664,934
Other long-term assets that are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Property taxes	\$ 731,930	
Intergovernmental	8,062	
Charges for services	9,857	
Total	<u>749,849</u>	
Long-term liabilities, including bonds payable and accrued interest payable, are not due and payable in the current period and therefore are not reported in the funds:		
General obligation bonds	\$ (8,625,852)	
Compensated absences	(475,379)	
Accrued interest payable	(21,846)	
Total	<u>(9,123,077)</u>	
Net assets of governmental activities		<u>\$ 16,174,007</u>

See accompanying notes to the basic financial statements.

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Newton Falls Exempted Village School District
Statement of Revenues, Expenditures
and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2005

	General	Bond Retirement	Building	Classroom Facilities
<u>Revenues:</u>				
Property taxes	\$ 2,793,807	\$ 836,231	\$ -	\$ -
Intergovernmental	6,970,705	101,480	-	2,692,200
Interest	37,094	31,928	33,851	20,101
Tuition and fees	235,552	-	-	-
Extracurricular activities	-	-	-	-
Gifts and donations	-	-	-	-
Customer services	-	-	-	-
Rent	922	-	-	-
Miscellaneous	1,087	-	-	13,548
Total revenues	<u>10,039,167</u>	<u>969,639</u>	<u>33,851</u>	<u>2,725,849</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	4,842,557	-	-	-
Special	1,029,396	-	-	-
Vocational	61,064	-	-	-
Adult/continuing	-	-	-	-
Support services:				
Pupils	433,989	-	-	-
Instructional staff	179,892	-	-	-
Board of education	93,863	-	-	-
Administration	785,423	-	-	-
Fiscal	346,879	14,288	-	116,740
Operation and maintenance of plant	857,168	-	-	-
Pupil transportation	745,293	-	-	-
Central	114,181	-	-	-
Operation of non-instructional services:				
Food service operations	-	-	-	-
Community services	-	-	-	-
Extracurricular activities	89,860	-	-	-
Capital outlay	-	-	-	6,851,413
Debt service:				
Principal retirement	-	560,000	-	-
Interest and fiscal charges	-	271,534	-	-
Total expenditures	<u>9,579,565</u>	<u>845,822</u>	<u>-</u>	<u>6,968,153</u>
Net change in fund balances	459,602	123,817	33,851	(4,242,304)
Fund balances at beginning of year, as restated	(685,924)	391,621	1,703,579	7,279,137
Fund balances at end of year	<u>\$ (226,322)</u>	<u>\$ 515,438</u>	<u>\$ 1,737,430</u>	<u>\$ 3,036,833</u>

See accompanying notes to the basic financial statements.

Other Governmental Funds	Total Governmental Funds
\$ 98,086	\$ 3,728,124
990,334	10,754,719
-	122,974
5,250	240,802
194,741	194,741
61,500	61,500
189,214	189,214
-	922
4,513	19,148
<u>1,543,638</u>	<u>15,312,144</u>
204,539	5,047,096
326,345	1,355,741
-	61,064
1,500	1,500
49,600	483,589
62,500	242,392
-	93,863
54,524	839,947
2,388	480,295
-	857,168
12,852	758,145
12,051	126,232
373,104	373,104
121,710	121,710
201,047	290,907
-	6,851,413
-	560,000
-	271,534
<u>1,422,160</u>	<u>18,815,700</u>
121,478	(3,503,556)
697,444	9,385,857
<u>\$ 818,922</u>	<u>\$ 5,882,301</u>

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, 2005

Net change in fund balances - total governmental funds \$ (3,503,556)

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 capital assets is allocated over their estimated useful lives as depreciation expense.

In the current period, these amounts are:

Capital asset additions	\$	7,026,832	
Depreciation expense		(753,311)	
Excess of capital outlay over depreciation expense			6,273,521

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (45,678)

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

Property taxes	\$	32,323	
Intergovernmental		8,062	
Tuition and fees		9,857	
Net change in deferred revenues during the year			50,242

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 560,000

Some items 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. These activities consist of:

Increase in compensated absences	\$	(9,146)	
Increase in accrued interest		(77,718)	
Total additional expenditures			(86,864)

Change in net assets of governmental activities \$ 3,247,665

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, 2005

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<u>Revenues:</u>				
Taxes	\$ 2,453,357	\$ 2,833,844	\$ 2,833,844	\$ -
Intergovernmental	6,437,714	6,932,689	6,932,689	-
Interest	237,094	37,094	37,094	-
Tuition and fees	435,552	235,552	235,552	-
Rent	1,500	922	922	-
Miscellaneous	424,165	139,756	139,756	-
Total revenues	9,989,382	10,179,857	10,179,857	-
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	4,623,348	5,088,511	5,088,140	371
Special	951,035	1,022,604	1,022,603	1
Vocational	73,964	79,530	79,530	-
Support services:				
Pupils	411,684	442,665	442,665	-
Instructional staff	172,948	185,963	185,964	(1)
Board of education	31,396	81,157	81,094	63
Administration	770,422	828,399	827,345	1,054
Fiscal	219,385	398,245	366,610	31,635
Operation and maintenance of plant	880,144	983,305	983,151	154
Pupil transportation	647,232	777,640	777,096	544
Central	25,627	113,692	112,965	727
Operation of non-instructional services	116	125	125	-
Extracurricular activities	87,335	93,907	93,907	-
Capital outlay	8,022	8,626	8,626	-
Total expenditures	8,902,658	10,104,369	10,069,821	34,548
Excess of revenues over (under) expenditures	1,086,724	75,488	110,036	34,548
<u>Other financing sources (uses):</u>				
Proceeds from sale of capital assets	-	250	250	-
Refund of prior year expenditures	-	38,568	38,568	-
Advances in	-	50,037	50,037	-
Advances out	-	(126,782)	(126,782)	-
Total other financing sources (uses)	-	(37,927)	(37,927)	-
Net change in fund balance	1,086,724	37,561	72,109	34,548
Fund balance at beginning of year	170,779	170,779	170,779	-
Prior year encumbrances appropriated	184,800	184,800	184,800	-
Fund balance at end of year	\$ 1,442,303	\$ 393,140	\$ 427,688	\$ 34,548

See accompanying notes to the basic financial statements.

Newton Falls Exempted Village School District
Statement of Fiduciary Assets and Liabilities
Fiduciary Funds
June 30, 2005

	<u>Agency</u>
<u>Assets:</u>	
Equity in pooled cash and cash equivalents	\$ 29,187
Total assets	<u>\$ 29,187</u>
<u>Liabilities:</u>	
Due to students	\$ 29,187
Total liabilities	<u>\$ 29,187</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, 2005

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Newton Falls Exempted Village School District (the "School District") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The School District operates under a locally elected five-member Board form of government and provides educational services as mandated by state and/or federal agencies. The Board controls the School District's four instructional/support facilities staffed by 55 non-certificated employees and 98 certificated full-time teaching personnel, and six administrators, who provide services to 1,543 students and other community members.

Reporting Entity

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

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; (2) the School District is legally entitled to or can otherwise access the organization's resources; (3) 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 (4) 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 their budget, the issuance of their debt or the levying of their taxes. The School District has no component units.

Within the boundaries of the School District, Saints Mary and Joseph School is operated as a private school. State legislation provides funding to this private school. The School District receives the money and then disburses the money as directed by the private school. The accounting for the monies is reflected in a special revenue fund of the School District.

The School District is associated with the North Eastern Ohio Management Information Network and the North East Ohio Special Education Regional Resource Center, which are defined as jointly governed organizations. Jointly governed organizations are governed by representatives from each of the governments that create the organizations, but there is no ongoing financial interest or responsibility by the participating governments. Information regarding these organizations is presented in Note 16.

Newton Falls Exempted Village School District

Notes to the Basic Financial Statements

For the fiscal year ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The statement of net assets presents the financial condition of the governmental activities of the School District at 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 and 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 that 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 rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the School District are grouped into the categories; governmental and fiduciary.

Newton Falls Exempted Village School District

Notes to the Basic Financial Statements

For the fiscal year ended June 30, 2005

Governmental Funds:

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

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

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

Building Fund - The building capital projects fund is used to account for the receipts and expenditures related to all special bond funds of the School District. All proceeds from the sale of bonds, notes, or certificates of indebtedness, except premium and accrued interest, must be paid into this fund. Expenditures recorded here represent the costs of acquiring capital facilities including real property.

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

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

Fiduciary Fund Types:

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's only fiduciary fund is an agency fund, which accounts for school and extracurricular activities managed by students.

C. Measurement Focus

Government-wide Financial Statements

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

Newton Falls Exempted Village School District

Notes to the Basic Financial Statements

For the fiscal year ended June 30, 2005

Fund Financial Statements

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

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. The agency fund also uses the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Measurable" means the amount of the transaction can be determined, and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the 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, grants, investment earnings, tuition, and student fees.

Newton Falls Exempted Village School District

Notes to the Basic Financial Statements

For the fiscal year ended June 30, 2005

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes (should not include delinquent) for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenditures/Expenses

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported on the statement of activities as an expense with a like amount reported within the "Operating Grants and Contributions" program revenue account. Unused donated commodities are reported in the account "Inventory held for resale" within the basic financial statements.

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.

E. Budgetary Data

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the Tax Budget, the Certificate of Estimated Resources, and the Appropriation Resolution, all of which are prepared on the budgetary basis of accounting. All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the fund level for all funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

The Certificate of Estimated Resources and the Appropriations Resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. The amounts reported as the original budget revenue in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted revenue in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2005. The amounts reported as the original budgeted expenditures reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted expenditures represent the final appropriation amounts passed by the Board during the year.

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

Newton Falls Exempted Village School District

Notes to the Basic Financial Statements

For the fiscal year ended June 30, 2005

F. Cash and Investments

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

Under existing Ohio statutes, all investment earnings accrue to the general fund except those specifically related to certain trust funds, unless the Board specifically allows the interest to be recorded in other funds. The Board of Education has passed a resolution to allow interest to also be recorded in other funds as listed in Note 5.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year which services are consumed.

H. Inventory

On the government-wide financial statements, inventories are presented at cost on a first-in, first-out basis and are expensed when used.

Inventories of the food service special revenue fund are stated at cost, which is determined on a first-in, first-out basis. Inventories of the food service fund consist of donated food, purchased food, and supplies held for resale. Inventories reported on the fund financial statements are expensed when used.

I. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other government or imposed by enabling legislation.

J. Capital Assets

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

Newton Falls Exempted Village School District

Notes to the Basic Financial Statements

For the fiscal year ended June 30, 2005

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of two thousand dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. It is the policy of the School District to not capitalize interest costs incurred as part of construction.

All reported capital assets, other than land, are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

<i>Description</i>	<i>Estimated Lives</i>
<i>Buildings</i>	<i>30 years</i>
<i>Improvements other than buildings</i>	<i>10 - 20 years</i>
<i>Furniture, fixtures and equipment</i>	<i>8 - 20 years</i>
<i>Vehicles</i>	<i>10 - 20 years</i>

K. Interfund Balances

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental activities column of the statement of net assets, except for the agency fund.

L. 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 School District will compensate the employees for the benefits through paid time off or some other means.

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

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the account "matured compensated absences payable" in the fund from which the employees who have accumulated leave are paid.

M. Accrued Liabilities and Long-term Obligations

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

Newton Falls Exempted Village School District

Notes to the Basic Financial Statements

For the fiscal year ended June 30, 2005

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

N. Net Assets

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

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

O. Fund Balance Reserves

The School District reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of the fund balance that is available for appropriation in future periods. Fund balance reserves have been established for encumbrances, text books and instructional materials, and capital improvements.

P. Estimates

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

NOTE 3- CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCES

For fiscal year 2005, the School District has implemented GASB Statement No. 40, "Deposits and Investment Risk Disclosures"; GASB Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers" and GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits and Other Than Pensions.

As a result of the implementation of the Technical Bulletin and GASB Statement No. 45, certain beginning fund balances were required to be restated. These restatements involve reporting pension and other postemployment benefit liabilities on the governmental fund financial statements where beforehand were exclusively 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, 2005

The restatement of fund balance is presented below:

	<u>General</u>	<u>Bond Retirement</u>	<u>Building</u>	<u>Classroom Facilities</u>	<u>Nonmajor</u>	<u>Total</u>
<i>Fund balances at</i>						
<i>June 30, 2004</i>	\$ (644,819)	\$ 391,621	\$ 1,703,579	\$ 7,279,137	\$ 737,737	\$ 9,467,255
<i>Restatement of inter- governmental payable</i>	<u>(41,105)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(40,293)</u>	<u>(81,398)</u>
<i>Restated fund balances at July 1, 2004</i>	<u>\$ (685,924)</u>	<u>\$ 391,621</u>	<u>\$ 1,703,579</u>	<u>\$ 7,279,137</u>	<u>\$ 697,444</u>	<u>\$ 9,385,857</u>

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

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

The major differences between the budget basis and GAAP basis are that:

1. Revenues and other sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures and other uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund.

<i>Net Change in Fund Balance</i>	
	<u>General</u>
<i>GAAP Basis</i>	\$ 459,602
<i>Revenue Accruals</i>	229,545
<i>Expenditure Accruals</i>	(429,152)
<i>Encumbrances (Budget Basis)</i>	
<i>Outstanding at year end</i>	(187,886)
<i>Budget Basis</i>	<u>\$ 72,109</u>

Newton Falls Exempted Village School District

Notes to the Basic Financial Statements

For the fiscal year ended June 30, 2005

NOTE 5 - DEPOSITS AND INVESTMENTS

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

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

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

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

1. United States Treasury bills, notes, bonds, or any other obligations or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements for a period not to exceed thirty days in securities listed above that mature within five years from the date of settlement;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in item (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes in an amount not to exceed 25% of the interim moneys available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Newton Falls Exempted Village School District

Notes to the Basic Financial Statements

For the fiscal year ended June 30, 2005

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

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

Deposits:

Custodial credit risk is the risk that, in the event of a bank failure, the School District's deposits may not be returned. According to state law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the federal deposit insurance corporation (FDIC) or by any other agency or instrumentality of the federal government. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution. The School District's policy is to deposit money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

The carrying value of the School District's deposits and petty cash totaled (\$185,636) and the bank balances of the deposits totaled \$29,888. The entire bank balance of \$29,888 was covered by federal depository insurance.

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

	<i>Fair</i>		
<u>Investment type</u>	<u>Value</u>	<u>Maturity</u>	<u>Rating</u>
Repurchase agreements	\$ 5,921,253	Daily	N/A ⁽¹⁾
STAROhio	<u>2,315,662</u>	N/A	AAAm ⁽²⁾
	<u>\$ 8,236,915</u>		

⁽¹⁾ Underlying securities are exempt.

⁽²⁾ Standard and Poor's rating

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

All interest is legally required to be placed in the general fund, debt service fund, the classroom facilities and building capital project funds. Interest revenue credited to the general fund during fiscal year 2005 amount to \$37,094, which includes \$24,348 assigned from other School District funds.

Newton Falls Exempted Village School District

Notes to the Basic Financial Statements

For the fiscal year ended June 30, 2005

Custodial credit risk for an investment is the risk that in the event of failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District's \$5,921,253 investment in repurchase agreements is to be secured by the specific government securities upon which the repurchase agreements are based. These securities, held by the counterparty and not in the School District's name, must be obligations of or guaranteed by the United States and mature or be redeemable within five years of the date of the related repurchase agreement. The School District's policy is to invest money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

Interest rate risk is the possibility that changes in interest rates will adversely affect the fair value of an investment. The School District's investment policy does not address limits on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk is the possibility that an issuer or other counterparty to an investment will not fulfill its obligation. The School District's investment policy requires certain credit ratings for some investments as allowed by state law.

NOTE 6 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility and tangible personal (used in business) property located in the School District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year were levied April 1 and are collected with real property taxes. Assessed values for real property taxes are established by State law at 35% of appraised market value. All property is required to be revalued every six years. Public utility property taxes are assessed on tangible personal property at varying percentages of true value and on real property at 35% of true value. Tangible personal property taxes are levied after April 1 on the value listed as of December 31 of the current year. Tangible personal property assessments are 25% of true value for capital assets and 23% of true value for inventory.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits earlier or later payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

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

Newton Falls Exempted Village School District

Notes to the Basic Financial Statements

For the fiscal year ended June 30, 2005

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes which became measurable as of year end. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30 was \$8,460. These advances are recognized as revenue on the fund financial statements.

There were no new levies passed during the current fiscal year. The assessed values upon which the current fiscal year taxes were collected are:

<u>Property Category</u>	<u>2003</u> <u>Assessed Value</u>	<u>2004</u> <u>Assessed Value</u>
<u>Real Property</u>		
Residential and Agricultural	\$ 87,997,230	\$ 89,776,480
Commercial and Industrial	15,504,360	15,943,160
Public Utilities	4,682,840	4,344,880
<u>Tangible Personal Property</u>		
General	7,569,218	7,699,138
Public Utilities	65,770	66,450
Total	<u>\$ 115,819,418</u>	<u>\$ 117,830,108</u>

NOTE 7 - RECEIVABLES

Receivables at year-end consisted of taxes, accounts, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables follows:

<u>Governmental activities</u>	<u>Amount</u>
General fund	\$ 1,683
<u>Special revenue funds:</u>	
Summer intervention	6,379
Title VI-B	50,763
Title I	30,035
Reducing class size	1,666
Food service	17,374
Total intergovernmental receivable	<u>\$ 107,900</u>

Newton Falls Exempted Village School District

Notes to the Basic Financial Statements

For the fiscal year ended June 30, 2005

NOTE 8 - CAPITAL ASSETS

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

<u>Governmental Activities</u>	<u>Balance</u> <u>June 30, 2004</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2005</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 199,565	\$ -	\$ -	\$ 199,565
Construction in progress	7,320,347	5,064,415	(7,320,347)	5,064,415
Total capital assets, not being depreciated	<u>7,519,912</u>	<u>5,064,415</u>	<u>(7,320,347)</u>	<u>5,263,980</u>
<i>Capital assets, being depreciated:</i>				
Buildings	9,506,800	9,107,345	-	18,614,145
Improvements other than buildings	79,679	52,631	-	132,310
Furniture, fixtures and equipment	1,727,620	69,333	(10,075)	1,786,878
Vehicles	967,659	53,455	(99,571)	921,543
Total capital assets, being depreciated	<u>12,281,758</u>	<u>9,282,764</u>	<u>(109,646)</u>	<u>21,454,876</u>
<i>Less: Accumulated depreciation</i>				
Buildings	(5,821,661)	(585,245)	-	(6,406,906)
Improvements other than buildings	(33,787)	(18,376)	-	(52,163)
Furniture, fixtures and equipment	(958,125)	(80,683)	7,353	(1,031,455)
Vehicles	(551,006)	(69,007)	56,615	(563,398)
Total accumulated depreciation	<u>(7,364,579)</u>	<u>(753,311)</u>	<u>63,968</u>	<u>(8,053,922)</u>
Total capital assets being depreciated, net	<u>4,917,179</u>	<u>8,529,453</u>	<u>(45,678)</u>	<u>13,400,954</u>
Governmental activities capital assets, net	<u>\$ 12,437,091</u>	<u>\$ 13,593,868</u>	<u>\$ (7,366,025)</u>	<u>\$ 18,664,934</u>

Newton Falls Exempted Village School District

Notes to the Basic Financial Statements

For the fiscal year ended June 30, 2005

Depreciation expense was charged to governmental functions as follows:

<i>Instruction:</i>	
<i>Regular</i>	\$ 628,091
<i>Special</i>	8,588
<i>Vocational</i>	136
<i>Support services:</i>	
<i>Administration</i>	554
<i>Fiscal</i>	1,846
<i>Operation and maintenance of plant</i>	24,110
<i>Pupil transportation</i>	67,860
<i>Central</i>	457
<i>Operation of non-instructional services:</i>	
<i>Food service operations</i>	10,668
<i>Community services</i>	3,587
<i>Extracurricular activities</i>	7,414
<i>Total depreciation expense</i>	<u>\$ 753,311</u>

NOTE 9 - INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables result from the time lag between dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, or (3) payments between funds are made. During the year, the general fund advanced money to three nonmajor special revenue funds. The advances to the special revenue funds were used to fund state and federal grants where the money has not yet been received. All of these advances are expected to be repaid during the next fiscal year.

<i>Due to general fund from:</i>	
<i>Nonmajor governmental funds</i>	\$ 126,782

NOTE 10 - INTERFUND TRANSFERS

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the fund collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Typically, the general fund makes transfers to special revenue funds to help support program activities and to fund grant programs until awards are received. However, the School District made no such transfers during the fiscal year.

Newton Falls Exempted Village School District

Notes to the Basic Financial Statements

For the fiscal year ended June 30, 2005

NOTE 11 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. There have been no settlements paid in excess of insurance nor has insurance coverage been significantly reduced in the past three years.

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

NOTE 12 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, annual cost-of-living adjustments, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand alone financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, by calling toll free (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

Plan members are required to contribute 10% of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14% of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005 10.57% of annual covered salary was the portion used to fund pension obligations. For the fiscal year 2004, 9.09% was used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS Retirement Board.

The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$124,503, \$115,890, and \$210,189, respectively; 39% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. The unpaid contribution for fiscal year 2005, in the amount of \$75,955, is recorded as an intergovernmental payable.

B. State Teachers Retirement System

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

Newton Falls Exempted Village School District

Notes to the Basic Financial Statements

For the fiscal year ended June 30, 2005

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor.

The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment.

The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001.

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

For the fiscal year ended June 30, 2005, plan members were required to contribute 10% of their annual covered salaries and the School District was required to contribute an actuarially determined rate of 14% of annual covered payroll, which includes 13% for pension obligations. For fiscal year 2004, the portion used to fund pension obligations was also 13%. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$607,605, \$660,979, and \$663,896, respectively; 84% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$95,145, representing the unpaid contribution for fiscal year 2005, is recorded as an intergovernmental payable. Contributions to the DC and Combined plans for fiscal year 2005 were \$118 made by the School District and \$3,948 made by the plan members.

Newton Falls Exempted Village School District

Notes to the Basic Financial Statements

For the fiscal year ended June 30, 2005

NOTE 13 - POSTEMPLOYMENT BENEFITS

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

By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. The retirement board currently allocates employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund from which payments for health care benefits are paid. For the School District this amount equaled \$46,739 during the 2005 fiscal year. The balance in the Health Care Stabilization Fund for the STRS was \$3.3 billion at June 30, 2005. For the year ended June 30, 2005, the net health care costs paid by the STRS were \$254,780,000 and eligible benefit recipients totaled 115,395.

For the School Employees Retirement System (SERS), coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply. For this fiscal year, employer contributions to fund health care benefits were 3.43% of covered payroll.

In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$27,400. The surcharge, added to the unallocated portion of the 14% contribution rate, provides for maintenance of the asset target level for the health care fund. For the School District, the amount of employer contributions used to fund health care equaled \$58,551, which includes a surcharge of \$18,150 during the 2005 fiscal year.

Health care benefits are financed on a pay-as-you-go basis. Net health care costs for the year ending June 30, 2005 were \$178,221,113. The target level for the health care reserve is 150% of projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was \$267.5 million, which is about 168% of next year's projected net health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150% of estimated annual claims costs. The number of participants eligible to receive benefits is 58,123.

Newton Falls Exempted Village School District

Notes to the Basic Financial Statements

For the fiscal year ended June 30, 2005

NOTE 14 - LONG-TERM OBLIGATIONS

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

<u>Governmental activities</u>	<u>Balance</u>			<u>Balance</u>	<u>Due in</u>
<u>Bonds</u>	<u>July 1</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30</u>	<u>one year</u>
<i>Various Purpose Improvement, 3 - 5.125%</i>					
<i>maturing on December 1, 2024</i>					
<i>Serial bonds</i>	\$ 3,655,000	\$ -	\$ (125,000)	\$ 3,530,000	\$ 130,000
<i>Capital appreciation bonds</i>	103,998	-	-	103,998	-
<i>Accretion on bonds</i>	55,833	25,794	-	81,627	-
 <i>Refunding, 2.75 - 4.20%</i>					
<i>maturing on December 1, 2010</i>					
<i>Serial bonds</i>	2,810,000	-	(435,000)	2,375,000	440,000
<i>Capital appreciation bonds</i>	189,994	-	-	189,994	-
<i>Accretion on bonds</i>	113,054	53,487	-	166,541	-
<i>Total Bonds</i>	<u>6,927,879</u>	<u>79,281</u>	<u>(560,000)</u>	<u>6,447,160</u>	<u>570,000</u>
 <u>Loan</u>					
<i>State Construction Loan, 0.000%</i>					
<i>maturing on December 1, 2011</i>					
	<u>2,178,692</u>	<u>-</u>	<u>-</u>	<u>2,178,692</u>	<u>-</u>
 <u>Other Obligations</u>					
<i>Compensated absences</i>	<u>466,233</u>	<u>76,791</u>	<u>(67,645)</u>	<u>475,379</u>	<u>39,341</u>
 <i>Governmental activities</i>					
<i>long-term liabilities</i>	<u>\$ 9,572,804</u>	<u>\$ 156,072</u>	<u>\$ (627,645)</u>	<u>\$ 9,101,231</u>	<u>\$ 609,341</u>

The State Construction Loan represents money received from the State for construction. The School District must repay the State by levying a property tax of one-half mill until the 2009 tax year. At the end of this period, any remaining obligation is forgiven. Effective May 20, 1997, in any year in which the School District's adjusted valuation per pupil is less than the statewide median, no repayment would be required. In lieu of the repayment, the School District would be required to set aside the proceeds of the half-mill levy for facilities repair and maintenance. In any year in which the School District's per pupil valuation increases above the state-wide median, half of the levy proceeds will have to be used to repay the debt with the remaining half used for repairs and maintenance. For fiscal year 2005, the School District's adjusted valuation per pupil was less than the statewide median.

Newton Falls Exempted Village School District

Notes to the Basic Financial Statements

For the fiscal year ended June 30, 2005

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

Both of these bond issues include serial and capital appreciation bonds. Current year additions to the Various Purpose Improvement Bonds and the Refunding Bonds amounted to \$25,794 and \$53,487, respectively, which represent the accretion of discounted interest. The final amounts of the capital appreciation bonds will be \$455,000 and \$290,000, respectively.

Compensated absences will be paid from the fund from which the person is paid. In prior years this has primarily been the general fund.

Principal and interest requirements to retire the long-term debt obligations outstanding at June 30, 2005 are as follows:

<i>Fiscal</i> <u>Year Ending</u>	<u>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 570,000	\$ 252,179
2007	324,994	504,746
2008	510,886	317,518
2009	523,112	306,919
2010	630,000	187,459
2011-2015	1,315,000	689,824
2016-2020	1,030,000	464,191
2021-2025	1,295,000	170,615
<i>Total</i>	<u>\$ 6,198,992</u>	<u>\$ 2,893,451</u>

NOTE 15 – CONTRACTUAL COMMITMENTS

The School District has ongoing construction projects as of June 30, 2005, including the construction of a new high school and renovations of the old middle school. These projects began during fiscal year 2005, and will continue into the following years. The renovation project for the middle/high school was awarded in fiscal 2004 for a total amount of \$6,064,175 and \$817,223 was still outstanding at June 30, 2005. A project for the renovation of the K-2 elementary school was awarded in fiscal year 2005 for a total amount of \$5,117,691, with \$5,004,735 still outstanding. The construction and related contracts are being financed from bonds issued in a prior year and will be paid from the classroom facilities capital projects fund.

Newton Falls Exempted Village School District

Notes to the Basic Financial Statements

For the fiscal year ended June 30, 2005

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS

A. North Eastern Ohio Management Information Network (NEOMIN)

North Eastern Ohio Management Information Network (NEOMIN) is the computer service organization or Data Acquisition Site (DAS) used by the School District. NEOMIN is an association of public school districts in a geographic area determined by the Ohio Department of Education. The Trumbull County Educational Service Center acts as the fiscal agent for the consortium. The purpose of the consortium is to develop and employ a computer system efficiently and effectively for the needs of the member Boards of Education. All school districts in the consortium are required to pay fees, charges, and assessments as charged. NEOMIN is governed by a board made up of superintendents from all of the participating school districts. An elected Executive Board consisting of five members of the governing board is the managerial body of the consortium and meets on a monthly basis. The School District does not maintain an ongoing financial interest or an ongoing financial responsibility. Payments to NEOMIN are made from the general fund and amounted to \$35,130 during the fiscal year.

B. North East Ohio Special Education Regional Resource Center (NEO/SERRC)

North East Ohio Special Education Regional Resource Center (NEO/SERRC) is a special education service center, which selects its own board, adopts its own budget and receives direct federal and state grants for its operation. NEO/SERRC is governed by a board of thirty-nine members made up of representatives from thirty-five of the participating districts, one non-public school, one county board of mental retardation and two parents whose terms rotate every year. Information can be obtained by contacting the treasurer at Mahoning County Educational Service Center, 2801 Market Street, Youngstown, Ohio 44507.

NOTE 17 - CONTINGENCIES

A. Grants

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

B. Litigation

The School District is party to various legal proceedings. The amount of the liability, if any, cannot be reasonably estimated at this time. However, in the opinion of management, any such claim or lawsuit will not have material adverse effect, if any, on the financial condition of the School District.

Newton Falls Exempted Village School District

Notes to the Basic Financial Statements

For the fiscal year ended June 30, 2005

NOTE 18 - STATUTORY RESERVES

The School District is required by State statute to annually set aside monies for the purchase of textbooks and other instructional materials, and for capital improvements. The amounts set-aside may be reduced by offset credits, which are monies received and restricted for the same specific purpose. Amounts not spent by year-end or reduced by offset credits must be held in cash at year-end and carried forward to be used for the same purposes in future years. During the fiscal year ended June 30, 2005, the reserve activity was as follows:

	<u>Textbook Reserve</u>	<u>Capital Improvements Reserve</u>	<u>Total</u>
<i>Set-aside cash balance as of June 30, 2004</i>	\$ 31,949	\$ 21,789	\$ 53,738
<i>Current year set-aside requirement</i>	221,012	221,012	442,024
<i>Qualifying disbursements</i>	<u>(280,778)</u>	<u>(242,801)</u>	<u>(523,579)</u>
<i>Total</i>	<u>\$ (27,817)</u>	<u>\$ -</u>	<u>\$ (27,817)</u>
<i>Balance carried forward</i>	<u>\$ (27,817)</u>	<u>\$ -</u>	<u>\$ (27,817)</u>

NOTE 19 – ACCOUNTABILITY

As of June 30, 2005, several funds had deficit fund balances. These deficits were caused by the application of GAAP; namely in the reporting of various liabilities attributable to the fiscal year. These deficit balances will be eliminated by anticipated future intergovernmental revenues or other subsidies not recognized and recorded at June 30. The following funds had deficit balances as follows:

<u>Fund</u>	<u>Amount</u>
<i>General</i>	\$ 226,322
<i>Special Revenue:</i>	
<i>Food service</i>	83,098
<i>Student Intervention</i>	6,202
<i>Title I</i>	2,012

Newton Falls Exempted Village School District

Notes to the Basic Financial Statements

For the fiscal year ended June 30, 2005

NOTE 20 – SUBSEQUENT EVENTS

In July of 2005, the School District entered into a contract amounting to \$446,930 for roofing as part of the High School construction project.

In September of 2005, the School District entered into a contract amounting to \$57,500 for the abatement of hazardous material from the elementary school.

Newton Falls Exempted Village School District

* * *

Report Letters

June 30, 2005

NEWTON FALLS EXEMPTED VILLAGE SCHOOL DISTRICT

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Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.

November 14, 2007

To the Board of Education
Newton Falls Exempted Village School District
Trumbull County, Ohio

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Newton Falls Exempted Village School District as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated November 14, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Newton Falls Exempted Village School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted matters involving the internal control over financial reporting that we have reported to management of Newton Falls Exempted Village School District in a separate letter dated November 14, 2007.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Newton Falls Exempted Village School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instances of noncompliance that we have reported to management of Newton Falls Exempted Village School District in a separate letter dated November 14, 2007.

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

Hea & Associates, Inc.



Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.

November 14, 2007

To the Board of Education
Newton Falls Exempted Village School District
Trumbull County, Ohio

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

Compliance

We have audited the compliance of Newton Falls Exempted Village School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that are applicable to the School District's major programs for the year ended June 30, 2005. The School District's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs are the responsibility of Newton Falls Exempted Village School District's management. Our responsibility is to express an opinion on Newton Fall's compliance based on our audit.

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

In our opinion, Newton Falls Exempted Village School District complied, in all material respects, with the requirements referred to above that are applicable to its major programs for the year ended June 30, 2005. The results of our auditing procedures disclosed no instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133.

Internal Control Over Compliance

The management of Newton Falls Exempted Village School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Newton Falls Exempted Village School District's internal control over compliance with requirements that could have a direct and material effect on its major program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control that we have reported to management of Newton Falls Exempted Village School District in a separate letter dated November 14, 2007.

Schedule of Expenditures of Federal Awards – Non GAAP Budgetary Basis

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Newton Falls Schools as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated November 14, 2007. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Rea & Associates, Inc.

**NEWTON FALLS EXEMPTED VILLAGE SCHOOL DISTRICT
TRUMBULL COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Federal Grantor/ Pass Through Grantor/ Program Title	CFDA Number	Grant Number	Federal Receipts	Federal Disbursements	Non-Cash Expenditures
U. S. Department of Education (Passed Through Ohio Department of Education):					
Title I, Part A, to LEA's	84.010	C1-S1-2004	\$ 26,482	\$ 37,158	\$ 0
Title I, Part A, to LEA's	84.010	C1-S1-2005	167,088	167,231	0
Total Title I, Part A, to LEA's			<u>193,570</u>	<u>204,389</u>	<u>0</u>
<i>Special Education Cluster</i>					
IDEA-B Special Education Grant {C}	84.027	6B-SF-2004	(810)	11,474	0
IDEA-B Special Education Grant	84.027	6B-SF-2005	257,991	293,157	0
Total IDEA-B Special Education Grant			<u>257,181</u>	<u>304,631</u>	<u>0</u>
<i>Total Special Education Cluster</i>					
			<u>257,181</u>	<u>304,631</u>	<u>0</u>
Title IV-A Safe and Drug-Free Schools & Communities	84.186	DR-S1-2005	6,538	6,538	0
Total Title IV-A Safe and Drug-Free Schools & Communities			<u>6,538</u>	<u>6,538</u>	<u>0</u>
Title III Goals 2000 {C}	84.276	G2-S2-2001	(2,812)	1,406	0
Total Title III Goals 2000			<u>(2,812)</u>	<u>1,406</u>	<u>0</u>
Eisenhower Professional Development {C}	84.281	MS-S1-2001	(4,235)	0	0
Total			<u>(4,235)</u>	<u>0</u>	<u>0</u>
Title V Part A ESEA Innovative Programs	84.298	C2-S1-2005	7,433	7,433	0
Total Title V Part A ESEA Innovative Programs			<u>7,433</u>	<u>7,433</u>	<u>0</u>
Title II D ESEA Education Technology {C}	84.318	TJ-S1-2004	(21)	21	0
Title II D ESEA Education Technology	84.318	TJ-S1-2005	5,091	5,091	0
Total Title II-D ESEA Education Technology			<u>5,070</u>	<u>5,112</u>	<u>0</u>
Assistive Technology {C}	84.352A	AT-S2-2002	(80)	0	0
Assistive Technology {C}	84.352A	AT-S3-2002	(6)	0	0
Total			<u>(86)</u>	<u>0</u>	<u>0</u>
Title II A Improving Teacher Quality {C}	84.367	TR-S1-2004	(207)	9,909	0
Title II A Improving Teacher Quality	84.367	TR-S1-2005	74,348	73,517	0
Total Title II A			<u>74,141</u>	<u>83,426</u>	<u>0</u>
Total Department of Education			<u>536,800</u>	<u>612,935</u>	<u>0</u>
U. S. Department of Agriculture (Passed Through Ohio Department of Education):					
Nutrition - Federal Commodities (A)	10.550		36,455	0	36,455
Total Nutrition - Federal Commodities			<u>36,455</u>	<u>0</u>	<u>36,455</u>
<i>Nutrition Cluster</i>					
School Breakfast Program (B)	10.553	05-PU-2004	4,338	4,338	0
School Breakfast Program (B)	10.553	05-PU-2005	14,707	14,707	0
Total School Breakfast Program (B)			<u>19,045</u>	<u>19,045</u>	<u>0</u>
National School Lunch Program (B)	10.555	LL-P4-2004	28,120	28,120	0
National School Lunch Program (B)	10.555	LL-P4-2005	89,345	89,345	0
Total National School Lunch Program (B)			<u>117,465</u>	<u>117,465</u>	<u>0</u>
<i>Total Nutrition Cluster</i>					
			<u>136,510</u>	<u>136,510</u>	<u>0</u>
Total US Department of Agriculture			<u>172,965</u>	<u>136,510</u>	<u>36,455</u>
Total Federal Assistance			<u>\$ 709,765</u>	<u>\$ 749,445</u>	<u>\$ 36,455</u>

(A) Government commodities are reported at the fair market value of the commodities received and disbursed.

(B) Federal money commingled with state subsidy reimbursements. It is assumed federal moneys are expended first.

{C} Refunded Receipt

**NEWTON FALLS EXEMPTED VILLAGE SCHOOL DISTRICT
TRUMBULL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 , Section .505
JUNE 30, 2005**

1. SUMMARY OF AUDITOR'S RESULTS

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

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

None noted.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None noted.



Mary Taylor, CPA
Auditor of State

NEWTON FALLS EXEMPTED VILLAGE SCHOOL DISTRICT

TRUMBULL COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 10, 2008**