



Mary Taylor, CPA
Auditor of State

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

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MIAMI COUNTY

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Members of the Board:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Newton Local School District, Miami County, (the District), as of and for the years ended June 30, 2007 and June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Newton Local School District, Miami County, as of June 30, 2007 and June 30, 2006, and the respective changes in financial position, thereof and the budgetary comparison for the General Fund for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2008, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Mary Taylor, CPA
Auditor of State

January 31, 2008

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)**

The management's discussion and analysis of the Newton Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2007 are as follows:

- In total, net assets of governmental activities increased \$186,527 which represents a 9.46% increase from 2006.
- General revenues accounted for 4,609,890 in revenue or 82.05% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,008,654 or 17.95% of total revenues of \$5,618,544.
- The District had \$5,432,017 in expenses related to governmental activities; \$1,008,654 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$4,609,890 were adequate to provide for these programs.
- The District's major governmental funds are the general fund and debt service fund. The general fund had \$4,854,285 in revenues and other financing sources and \$4,711,888 in expenditures. During fiscal year 2007, the general fund's fund balance increased \$142,397 from \$459,894 to \$602,291.
- The District's debt service fund had \$204,801 in revenues and \$180,835 in expenditures. During fiscal year 2007, the debt service fund's fund balance increased \$23,966 from \$121,882 to \$145,848.

Using these Basic Financial Statements

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

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

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)
(Continued)**

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2007?" The statement of net assets and the statement of activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the statement of net assets and the statement of activities, the governmental activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)
(Continued)**

Reporting the District's Fiduciary Responsibilities

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

Notes to the Basic Financial Statements

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

The District as a Whole

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

The table below provides a summary of the District's net assets for 2007 and 2006.

Net Assets		
	Governmental Activities 2007	Governmental Activities 2006
Assets		
Current and other assets	\$2,470,951	\$2,268,615
Capital assets, net	3,119,627	3,165,826
Total assets	5,590,578	5,434,441
Liabilities		
Current liabilities	1,646,131	1,537,174
Long-term liabilities	1,785,883	1,925,230
Total liabilities	3,432,014	3,462,404
Net Assets		
Invested in capital assets, net of related debt	1,689,627	1,632,465
Restricted	188,495	179,338
Unrestricted	280,442	160,234
Total net assets	\$2,158,564	\$1,972,037

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2007, the District's assets exceeded liabilities by \$2,158,564. Of this total, \$188,495 is restricted in use.

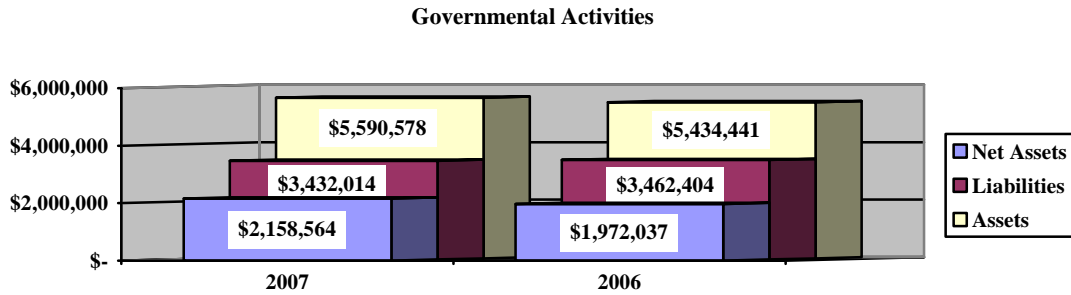
**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)
(Continued)**

At year-end, capital assets represented 55.80% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2007, were \$1,689,627. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$188,495 represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$280,442 may be used to meet the District's ongoing obligations to the students and creditors.

The graph below illustrates the governmental activities assets, liabilities and net assets at June 30, 2007 and 2006:



The table below shows the change in net assets for fiscal year 2007 and 2006.

	Change in Net Assets	
	Governmental Activities 2007	Governmental Activities 2006
Revenues		
Program revenues:		
Charges for services and sales	\$387,352	\$464,080
Operating grants and contributions	617,710	339,659
Capital grants and contributions	3,592	4,992
General revenues:		
Property taxes	1,107,517	1,132,418
School district income taxes	1,116,624	1,167,182
Grants and entitlements	2,323,953	2,432,780
Investment earnings	60,546	39,647
Other	1,250	38,942
Total revenues	5,618,544	5,619,700

(Continued)

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)
(Continued)**

**Change in Net Assets
(Continued)**

	Governmental Activities 2007	Governmental Activities 2006
Expenses		
Program expenses:		
Instruction:		
Regular	2,663,544	2,600,294
Special	447,564	476,213
Vocational	1,429	1,326
Other	4,488	8,302
Support services:		
Pupil	235,304	184,479
Instructional staff	193,313	195,930
Board of education	292	5,175
Administration	626,869	556,560
Fiscal	224,742	209,972
Business	1,389	
Operations and maintenance	330,193	357,086
Pupil transportation	245,255	331,315
Central	2,178	2,088
Operations of non-instructional services		
Food service operations	146,812	144,439
Other non-instructional services	3,000	2,500
Extracurricular activities	228,234	214,073
Interest and fiscal charges	77,411	82,632
 Total expenses	 <u>5,432,017</u>	 <u>5,372,384</u>
 Change in net assets	 186,527	 247,316
Net assets at beginning of year	<u>1,972,037</u>	<u>1,724,721</u>
Net assets at end of year	<u><u>\$2,158,564</u></u>	<u><u>\$1,972,037</u></u>

Governmental Activities

Net assets of the District's governmental activities increased \$186,527. Total governmental expenses of \$5,432,017 were offset by program revenues of \$1,008,654 and general revenues of \$4,609,890. Program revenues supported 18.57% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, income taxes and unrestricted grants and entitlements. These revenue sources represent 80.95% of total governmental revenue.

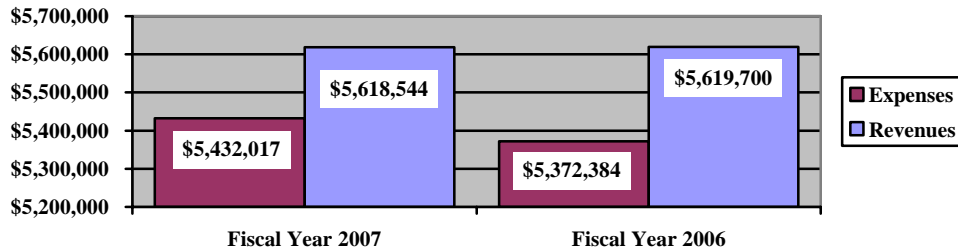
The largest expense of the District is for instructional programs. Instruction expenses totaled \$3,117,025 or 57.38% of total governmental expenses for fiscal 2007.

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)
(Continued)**

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2007 and 2006.

Governmental Activities - Revenues and Expenses



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

	Governmental Activities			
	Total Cost of Services 2007	Net Cost of Services 2007	Total Cost of Services 2006	Net Cost of Services 2006
Program expenses				
Instruction:				
Regular	\$2,663,544	\$2,251,253	\$2,600,294	\$2,250,023
Special	447,564	156,986	476,213	310,813
Vocational	1,429	(5,659)	1,326	1,326
Other	4,488	4,488	8,302	8,302
Support services:				
Pupil	235,304	235,190	184,479	183,295
Instructional staff	193,313	189,554	195,930	178,802
Board of education	292	292	5,175	5,175
Administration	626,869	562,841	556,560	523,692
Fiscal	224,742	222,281	209,972	207,092
Business	1,389	1,389		
Operations and maintenance	330,193	319,658	357,086	320,309
Pupil transportation	245,255	232,002	331,315	331,315
Central	2,178	(297)	2,088	2,088
Operations of non-instructional services				
Food service operations	146,812	9,667	144,439	11,485
Other non-instructional services	3,000	(409)	2,500	2,500
Extracurricular activities	228,234	166,716	214,073	144,804
Interest and fiscal charges	77,411	77,411	82,632	82,632
Total expenses	\$5,432,017	\$4,423,363	\$5,372,384	\$4,563,653

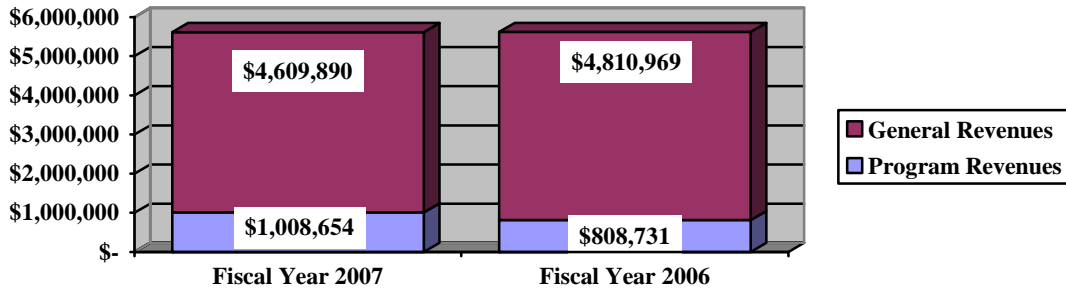
The dependence upon tax and other general revenues for governmental activities is apparent, 77.22% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 81.43%.

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)
(Continued)**

The graph below presents the District's governmental activities revenue for fiscal year 2007 and 2006.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund balance of \$820,399 which is higher than last year's total of \$680,486. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2007 and 2006.

	<u>Fund Balance June 30, 2007</u>	<u>Fund Balance June 30, 2006</u>	<u>Increase / (Decrease)</u>	<u>Percentage Change</u>
General	\$602,291	\$459,894	\$142,397	30.96 %
Debt Service	145,848	121,882	23,966	19.66 %
Other Governmental	72,260	98,710	(26,450)	(26.80) %
Total	<u><u>\$820,399</u></u>	<u><u>\$680,486</u></u>	<u><u>\$139,913</u></u>	20.56 %

General Fund

The District's general fund balance increased \$142,397. Revenues exceeded expenditures for fiscal year 2007 by \$138,897.

Tuition revenues of \$276,877, which increased 18.02% from fiscal year 2006, represent incoming open enrollment students' basic-aid from the state foundation. This is offset by expenses deducted from state foundation for out-going open enrollment students. Earnings on investments were up due to higher interest rates while the percentage decrease of other local revenues, which consist of rentals and donations, was 37.57%, the dollar amount was insignificant. Expenditures remained consistent with 2006 expenditures.

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)
(Continued)**

The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	<u>2007 Amount</u>	<u>2006 Amount</u>	<u>Increase / (Decrease)</u>	<u>Percentage Change</u>
Revenues				
Taxes	\$2,062,478	\$2,121,107	(\$58,629)	(2.76) %
Tuition	276,877	234,597	42,280	18.02 %
Earnings on investments	54,070	35,144	18,926	53.85 %
Intergovernmental	2,445,575	2,409,075	36,500	1.52 %
Other revenues	11,785	18,876	(7,091)	(37.57) %
Total	<u>4,850,785</u>	<u>4,818,799</u>	<u>31,986</u>	0.66 %
Expenditures				
Instruction	2,830,387	2,805,993	24,394	0.87 %
Support services	1,730,180	1,735,789	(5,609)	(0.32) %
Extracurricular activities	147,812	140,655	7,157	5.09 %
Capital outlay		6,650	(6,650)	(100.00) %
Debt service	3,509	3,509		0 %
Total	<u>\$4,711,888</u>	<u>\$4,692,596</u>	<u>\$19,292</u>	0.41 %

Debt Service Fund

The District's debt service fund had \$204,801 in revenues and \$180,835 in expenditures. During fiscal year 2007, the debt service fund's fund balance increased \$23,966 from \$121,882 to \$145,848.

General Fund Budgeting Highlights

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

During the course of fiscal 2007, the District did not amend its general fund budget. For the general fund, original and final budgeted revenues and other financing sources were \$4,662,628. Actual revenues and other financing sources for fiscal 2007 was \$4,932,284. This was \$269,656 higher than the final budgeted revenues.

General fund original and final appropriations (appropriated expenditures including other financing uses) were \$5,067,942. The actual budget basis expenditures for fiscal year 2007 totaled \$4,732,411, which was \$335,531 less than the final budget appropriations.

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)
(Continued)**

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2007, the District had \$3,119,627 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2007 balances compared to 2006:

Capital Assets at June 30 (Net of Depreciation)		
	Governmental Activities	
	2007	2006
Land	\$203,373	\$203,373
Land improvements	14,568	16,134
Building and improvements	2,461,659	2,503,745
Furniture and equipment	303,420	284,417
Vehicles	136,607	158,157
Total	<u>\$3,119,627</u>	<u>\$3,165,826</u>

The overall decrease in capital assets of \$46,199 is primarily due to depreciation expense of \$154,687 exceeding additions for fiscal 2007.

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

Debt Administration

At June 30, 2007, the District had \$1,430,000 in general obligation bonds outstanding. Of this total, \$110,000 is due within one year and \$1,320,000 is due within greater than one year. The following table summarizes the bonds outstanding.

Outstanding Debt, at Year End		
	Governmental Activities 2007	Governmental Activities 2006
	General obligation bonds	\$1,430,000
Capital lease obligation		3,361
Total	<u>\$1,430,000</u>	<u>\$1,533,361</u>

At June 30, 2007, the District's overall legal debt margin was \$3,506,585, and an unvoted debt margin of \$53,230.

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

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)
(Continued)**

Current Financial Related Activities

The District continues to be challenged by flat growth in revenues. A positive is recent growth in new housing in the District. Approximately twenty new homes will be on the real estate tax duplicate within the next one to three years. There are building lots available, which could lead to a continuing growth of new housing. The Miami County Auditor had a six year reevaluation in calendar year 2007. Property values were appreciated by 10 to 13 percent. This will result in limited growth because of inside millage not being subject to the House Bill 920 reduction factor. Newton's student enrollment is up by a count of fifteen as of the October count for ADM purposes. Any growth in this area is significant, as ADM has decreased for the last eight years. Student enrollment has been tracked for the last number of years. Open enrollment as the last count had 75 students leaving and 68 students coming in. The District's voters approved to renew the current three-year income tax of 0.75% on the November 7, 2006 election. This percentage will generate approximately \$450,000. The renewal tax will expire December 31, 2010. The District has forecasted that if the income tax is not renewed again in 2011 a negative ending cash balance would appear for fiscal year 2012. The District approved the issuance of a School Facilities Construction and Improvement Bond Anticipation Note not to exceed \$6,445,000 on November 15, 2007. A note in the amount of \$6,445,000 was issued on December 19, 2007 with a maturity date of June 11, 2008 and an interest rate of 4.25%. The Newton Teachers Association (NTA) negotiated a two year contract. Because of this, base salary increases were 3% in the first year and 2.75% in the second. Contracted and purchased services are a major expense for special education services from the Miami County Educational Service Center. Other expenses include plant, building and grounds, utilities and maintenance, bus fuel and maintenance, and open enrollment. The Board continues to use budgetary controls to monitor finances while maintaining an excellent academic program for its students. It is a top priority of the Board to set and meet goals and objectives to keep the District financially sound and to provide instructional elements in order for students to excel educationally.

Contacting the District's Financial Management

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

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2007**

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents	\$812,067
Receivables:	
Taxes	1,604,656
Accounts	3,500
Intergovernmental	39,275
Accrued interest	3,197
Materials and supplies inventory	8,256
Capital assets:	
Land	203,373
Depreciable capital assets, net	2,916,254
Capital assets, net	3,119,627
Total assets	5,590,578
 Liabilities:	
Accounts payable	6,152
Accrued wages and benefits	391,819
Pension obligation payable	104,492
Intergovernmental payable	15,650
Unearned revenue	1,122,283
Accrued interest payable	5,735
Long-term liabilities:	
Due within one year	142,331
Due within more than one year	1,643,552
Total liabilities	3,432,014
 Net Assets:	
Invested in capital assets, net of related debt	1,689,627
Restricted for:	
Capital projects	1,327
Debt service	140,430
State funded programs	25,872
Federally funded programs	2,211
Student activities	18,655
Unrestricted	280,442
Total net assets	\$2,158,564

See accompanying notes to the basic financial statements.

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
Governmental activities:					
Instruction:					
Regular	\$2,663,544	\$300,098	\$112,193	(\$2,251,253)	
Special	447,564	5,981	284,597	(156,986)	
Vocational	1,429		7,088	5,659	
Other	4,488			(4,488)	
Support services:					
Pupil	235,304		114	(235,190)	
Instructional staff	193,313		3,759	(189,554)	
Board of education	292			(292)	
Administration	626,869	37,694	26,334	(562,841)	
Fiscal	224,742		2,461	(222,281)	
Business	1,389			(1,389)	
Operations and maintenance	330,193	10,535		(319,658)	
Pupil transportation	245,255		9,661	(232,002)	
Central	2,178		2,475	297	
Operation of non-instructional services:					
Food service operations	146,812	33,044	104,101	(9,667)	
Other non-instructional services	3,000		3,409	409	
Extracurricular activities	228,234		61,518	(166,716)	
Interest and fiscal charges	77,411			(77,411)	
Total governmental activities	\$5,432,017	\$387,352	\$617,710	\$3,592	(4,423,363)
General Revenues:					
Property taxes levied for:					
				935,061	
				172,456	
				1,116,624	
				2,323,953	
				60,546	
				1,250	
				4,609,890	
				186,527	
				1,972,037	
				\$2,158,564	

See accompanying notes to the basic financial statements.

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007**

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents	\$586,326	\$141,118	\$84,623	\$812,067
Receivables:				
Taxes	1,424,429	180,227		1,604,656
Accounts	1,500		2,000	3,500
Intergovernmental			39,275	39,275
Accrued interest	3,197			3,197
Interfund receivable	1,600			1,600
Due from other funds	33,521			33,521
Materials and supplies inventory	4,899		3,357	8,256
Total assets	<u>2,055,472</u>	<u>321,345</u>	<u>129,255</u>	<u>2,506,072</u>
Liabilities:				
Accounts payable	6,059		93	6,152
Accrued wages and benefits	385,906		5,913	391,819
Compensated absences payable			5,337	5,337
Pension obligation payable	97,485		7,007	104,492
Intergovernmental payable	14,680		970	15,650
Interfund payable			1,600	1,600
Due to other funds			33,521	33,521
Deferred revenue	1,948	317	2,554	4,819
Unearned revenue	947,103	175,180		1,122,283
Total liabilities	<u>1,453,181</u>	<u>175,497</u>	<u>56,995</u>	<u>1,685,673</u>
Fund Balances:				
Reserved for encumbrances	7,601		5,469	13,070
Reserved for materials and supplies inventory	4,899		3,357	8,256
Reserved for property tax unavailable for appropriation	24,918	4,730		29,648
Reserved for debt service		141,118		141,118
Unreserved, undesignated, reported in:				
General fund	564,873			564,873
Special revenue funds			62,107	62,107
Capital projects funds			1,327	1,327
Total fund balances	<u>602,291</u>	<u>145,848</u>	<u>72,260</u>	<u>820,399</u>
Total liabilities and fund balances	<u>\$2,055,472</u>	<u>\$321,345</u>	<u>\$129,255</u>	<u>\$2,506,072</u>

See accompanying notes to the basic financial statements.

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2007**

Total governmental fund balances		\$820,399
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		3,119,627
Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds.		
Taxes	\$2,265	
Intergovernmental revenue	<u>2,554</u>	
		4,819
In the statement of activities interest is accrued on outstanding bonds, whereas in governmental funds, interest expenditures are reported when due.		(5,735)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	350,546	
General obligation bonds payable	<u>1,430,000</u>	
Total		<u>(1,780,546)</u>
Net assets of governmental activities		<u><u>\$2,158,564</u></u>

See accompanying notes to the basic financial statements.

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes	\$2,062,478	\$174,509		\$2,236,987
Tuition	276,877			276,877
Charges for services			\$101,580	101,580
Earnings on investments	54,070	6,417	267	60,754
Extracurricular			99,212	99,212
Classroom materials and fees			29,202	29,202
Other local revenues	11,785		37,898	49,683
Intergovernmental - State	2,440,924	23,875	37,258	2,502,057
Intergovernmental - Federal	4,651		267,833	272,484
Total revenues	<u>4,850,785</u>	<u>204,801</u>	<u>573,250</u>	<u>5,628,836</u>
Expenditures:				
Current:				
Instruction:				
Regular	2,555,571		129,635	2,685,206
Special	269,889		174,557	444,446
Vocational	439			439
Other	4,488			4,488
Support services:				
Pupil	224,703		123	224,826
Instructional staff	171,747		17,973	189,720
Board of education	4,868			4,868
Administration	566,280		59,062	625,342
Fiscal	217,442	3,134	2,461	223,037
Business	1,389			1,389
Operations and maintenance	321,615			321,615
Pupil transportation	222,136			222,136
Central			2,178	2,178
Food service operations			145,894	145,894
Other non-instructional services			3,000	3,000
Extracurricular activities	147,812		58,401	206,213
Facilities acquisition and construction			2,916	2,916
Debt service:				
Principal retirement	3,361	100,000		103,361
Interest and fiscal charges	148	77,701		77,849
Total expenditures	<u>4,711,888</u>	<u>180,835</u>	<u>596,200</u>	<u>5,488,923</u>
Excess (deficiency) of revenues over (under) expenditures	<u>138,897</u>	<u>23,966</u>	<u>(22,950)</u>	<u>139,913</u>
Other financing sources (uses):				
Transfers in	3,500			3,500
Transfers (out)			(3,500)	(3,500)
Total other financing sources (uses)	<u>3,500</u>		<u>(3,500)</u>	
Net change in fund balances	142,397	23,966	(26,450)	139,913
Fund balances at beginning of year	459,894	121,882	98,710	680,486
Increase in reserve for inventory				
Fund balances at end of year	<u>\$602,291</u>	<u>\$145,848</u>	<u>\$72,260</u>	<u>\$820,399</u>

See accompanying notes to the basic financial statements.

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Net change in fund balances - total governmental funds \$139,913

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

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

Capital asset additions	\$125,822	
Current year depreciation	(154,687)	
Total		(28,865)

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets. (17,334)

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

Taxes	(12,846)	
Intergovernmental	2,554	
Total		(10,292)

Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. 103,361

Governmental funds report expenditures for interest when it is due. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. 438

Some expenses reported in the statement of activities, such as compensated absences do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (694)

Change in net assets of governmental activities **\$186,527**

See accompanying notes to the basic financial statements.

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$2,019,353	\$2,019,353	\$2,136,141	\$116,788
Tuition	261,740	261,740	276,877	15,137
Earnings on investments	51,274	51,274	54,239	2,965
Other local revenues	11,141	11,141	11,785	644
Intergovernmental - State	2,307,475	2,307,475	2,440,924	133,449
Intergovernmental - Federal	4,397	4,397	4,651	254
Total revenue	<u>4,655,380</u>	<u>4,655,380</u>	<u>4,924,617</u>	<u>269,237</u>
Expenditures:				
Current:				
Instruction:				
Regular	2,738,603	2,738,603	2,557,287	181,316
Special	315,796	315,796	294,888	20,908
Vocational	470	470	439	31
Other	4,836	4,836	4,516	320
Support services:				
Pupil	239,480	239,480	223,625	15,855
Instructional staff	185,424	185,424	173,148	12,276
Board of education	5,213	5,213	4,868	345
Administration	628,388	628,388	586,785	41,603
Fiscal	200,421	200,421	187,152	13,269
Business	1,487	1,487	1,389	98
Operations and maintenance	344,351	344,351	321,553	22,798
Pupil transportation	242,839	242,839	226,761	16,078
Extracurricular activities	158,921	158,921	148,400	10,521
Total expenditures	<u>5,066,229</u>	<u>5,066,229</u>	<u>4,730,811</u>	<u>335,418</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(410,849)</u>	<u>(410,849)</u>	<u>193,806</u>	<u>604,655</u>
Other financing sources (uses):				
Refund of prior year expenditure	3,939	3,939	4,167	228
Transfers in	3,309	3,309	3,500	191
Advances (out)	(1,713)	(1,713)	(1,600)	113
Total other financing sources (uses)	<u>5,535</u>	<u>5,535</u>	<u>6,067</u>	<u>532</u>
Net change in fund balance	(405,314)	(405,314)	199,873	605,187
Fund balance at beginning of year	374,870	374,870	374,870	
Prior year encumbrances appropriated	30,444	30,444	30,444	
Fund balance at end of year	<u>\$0</u>	<u>\$0</u>	<u>\$605,187</u>	<u>\$605,187</u>

See accompanying notes to the basic financial statements.

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2007**

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$2,407	\$26,839
Investments	43,491	
Receivables:		
Interest	147	
Notes	19,900	
Total assets	65,945	26,839
Liabilities:		
Accounts payable		409
Due to students		26,430
Total liabilities		\$26,839
Net Assets:		
Held in trust for scholarships	65,945	
Total net assets	\$65,945	

See accompanying notes to the basic financial statements.

NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>Private-Purpose Trust</u>
	<u>Scholarship</u>
Additions:	
Interest	\$2,159
Gifts and contributions	<u>2,001</u>
Total additions	<u>4,160</u>
Change in net assets	4,160
Net assets at beginning of year	<u>61,785</u>
Net assets at end of year	<u><u>\$65,945</u></u>

See accompanying notes to the basic financial statements.

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**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

1. DESCRIPTION OF THE SCHOOL DISTRICT

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

The District was established in 1923 through the consolidation of existing land areas and school districts. The District serves an area of approximately 42 square miles. It is located in Miami County, and includes all of the Village of Pleasant Hill and a portion of Darke County. It is staffed by 26 non-certificated employees, 46 certificated full-time teaching personnel and three administrative employees who provide services to 506 students and other community members. The District currently operates one instructional-administrative building and one bus garage.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

The following organizations are described due to their relationship to the District:

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Jointly Governed Organizations

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

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

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

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

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

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

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Insurance Purchasing Pools

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

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

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

B. Fund Accounting

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

1. Governmental Funds

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

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

2. Fiduciary Funds

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

C. Basis of Presentation and Measurement Focus

1. Government-wide Financial Statements

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

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

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Fund Financial Statements

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

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

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

D. Basis of Accounting

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

1. Revenues – Exchange and Non-exchange Transactions

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

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 6).

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

2. Unearned Revenue and Deferred Revenue

Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2007, but which were levied to finance fiscal year 2008 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2007 are recorded as deferred revenue.

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

3. Expenses/Expenditures

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

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

E. Budgets

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

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

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Tax Budget

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

2. Estimated Resources

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

3. Appropriations

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

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

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

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4. Encumbrances

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

5. Lapsing of Appropriations

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

F. Cash and Investments

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

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal 2007. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2007.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Board of Education, investment earnings are assigned to the general fund and the private-purpose trust funds. Interest revenue credited to the general fund during fiscal year 2007 amounted to \$54,070, which includes \$14,312 assigned from other funds.

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

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

G. Inventory

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

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

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Capital Assets

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

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

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

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

I. Interfund Balances

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

J. Compensated Absences

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2007, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees with at least ten years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2007, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

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

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Fund Balance Reserves

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

M. Net Assets

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

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

N. Estimates

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

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Interfund Activity

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

P. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2007.

3. ACCOUNTABILITY AND COMPLIANCE

A. Deficit Fund Balances

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

<u>Non-major Funds</u>	<u>Deficit</u>
Food Service	\$12,958
Public School Support	601
EMIS	26
Title VI-B	336
Title I	281
Class Size Reduction	46

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

4. DEPOSITS AND INVESTMENTS

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

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

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

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

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

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

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

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

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

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

A. Cash on Hand

At June 30, 2007, the District had \$300 in undeposited cash on hand which is included on the financial statements of the District as part of "Equity in Pooled Cash and Cash Equivalents."

B. Deposits with Financial Institutions

At June 30, 2007, the carrying amount of all District deposits was \$390,896. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2007, \$369,738 of the District's bank balance of \$469,738 was exposed to custodial risk as discussed below, while \$100,000 was covered by the Federal Deposit Insurance Corporation.

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

C. Investments

As of June 30, 2007, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturity 6 Months or Less</u>
STAR Ohio	\$493,608	\$493,608

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

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

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2007:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$493,608	100.00

D. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2007:

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$390,896
Investments	493,608
Cash on hand	300
Total	\$884,804

<u>Cash and Investments per Statement of Net Assets</u>	
Governmental activities	\$812,067
Private-purpose trust funds	45,898
Agency funds	26,839
Total	\$884,804

5. INTERFUND TRANSACTIONS

A. Interfund balances at June 30, 2007 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Non-major Governmental	\$1,600

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

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2007 are reported on the statement of net assets.

B. Interfund balances at June 30, 2007 as reported on the fund statements, consist of the following amounts due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Non-major governmental funds	\$33,521

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

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2007 are reported on the statement of net assets.

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

5. INTERFUND TRANSACTIONS (Continued)

- C. Interfund transfers for the year ended June 30, 2007, consisted of the following, as reported on the fund financial statements:

	<u>Amount</u>
Transfers to General fund from: Non-major Governmental fund	\$3,500

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, and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers between governmental funds are eliminated for reporting in the statement of activities.

All transfers were made in compliance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

6. PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2007 represents collections of calendar year 2006 taxes. Real property taxes received in calendar year 2007 were levied after April 1, 2006, on the assessed value listed as of January 1, 2006, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2007 represents collections of calendar year 2006 taxes. Public utility real and tangible personal property taxes received in calendar year 2007 became a lien December 31, 2005, were levied after April 1, 2006 and are collected in 2007 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2007 (other than public utility property) represents the collection of 2007 taxes. Tangible personal property taxes received in calendar year 2007 were levied after April 1, 2007 on the value as of December 31, 2006. For 2006, tangible personal property is assessed at 18.75% for property including inventory. This percentage will be reduced to 12.5% for 2007, 6.25% for 2008 and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

6. PROPERTY TAXES (Continued)

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to the phasing out of the tax. In calendar years 2006-2010, the District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

The District receives property taxes from Miami County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County Auditor by June 30, 2007, are available to finance fiscal year 2007 operations. The amount available to be advanced can vary based on the date tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2007 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to unearned revenue.

The amount available as an advance at June 30, 2007 was \$24,918 in the general fund and \$4,730 in the debt service fund. This amount has been recorded as revenue. The amount that was available as an advance at June 30, 2006 was \$64,083 in the general fund and \$12,138 in the debt service fund.

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

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

	2006 Second Half Collections		2007 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$50,930,300	96.61	\$52,055,970	96.85
Public Utility Personal	1,446,370	2.74	1,419,010	2.64
Tangible Personal Property	343,340	0.65	272,980	0.51
Total	\$ 52,720,010	100.00	\$ 53,747,960	100.00
Tax rate per \$1,000 of assessed valuation	\$39.60		\$39.60	

7. SCHOOL DISTRICT INCOME TAX

The District levies a voted tax of one percent continuing and a .75% three year temporary for general operations on the income of residents and of estates. The tax was effective on January 1, 1993, and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The state makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax revenue in the amount of \$1,116,624 was credited to the general fund during fiscal year 2007.

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

8. RECEIVABLES

Receivables at June 30, 2007 consisted of taxes, accounts (billings for user charged services and student fees), and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the Statement of Net Assets follows:

Governmental Activities	
Taxes	\$1,604,656
Accounts	3,500
Accrued interest	3,197
Intergovernmental	39,275
Total	<u><u>\$1,650,628</u></u>

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

9. CAPITAL ASSETS

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

	Balance June 30, 2006	Additions	Deductions	Balance June 30, 2007
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$203,373			\$203,373
Total capital assets, not being depreciated	<u>203,373</u>			<u>203,373</u>
Capital assets, being depreciated:				
Land improvements	55,053			55,053
Buildings and improvements	3,600,070	\$2,876		3,602,946
Furniture and equipment	1,122,201	120,921	(\$117,605)	1,125,517
Vehicles	453,018	2,025		455,043
Total capital assets, being depreciated	<u>5,230,342</u>	<u>125,822</u>	<u>(117,605)</u>	<u>5,238,559</u>
Less: accumulated depreciation:				
Land improvements	(38,919)	(1,566)		(40,485)
Buildings and improvements	(1,096,325)	(44,962)		(1,141,287)
Furniture and equipment	(837,784)	(84,584)	100,271	(822,097)
Vehicles	(294,861)	(23,575)		(318,436)
Total accumulated depreciation	<u>(2,267,889)</u>	<u>(154,687)</u>	<u>100,271</u>	<u>(2,322,305)</u>
Governmental activities capital assets, net	<u><u>\$3,165,826</u></u>	<u><u>(\$28,865)</u></u>	<u><u>(\$17,334)</u></u>	<u><u>\$3,119,627</u></u>

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

9. CAPITAL ASSETS (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>		
Regular	\$81,999	
Special	3,118	
Vocational	990	
<u>Support Services:</u>		
Pupil	1,928	
Instructional staff	7,121	
Administration	5,717	
Fiscal	919	
Operations and maintenance	7,112	
Pupil transportation	22,408	
Extracurricular activities	17,821	
Food service operations	5,554	
	<u>5,554</u>	
Total depreciation expense		<u><u>\$154,687</u></u>

10. CAPITAL LEASES – LESSEE DISCLOSURE

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

Capital assets consisting of equipment have been capitalized in the amount of \$6,650. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2007 was \$1,330, leaving a current book value of \$5,320. A corresponding liability was recorded in the government-wide financial statements. Principal payments in the 2007 fiscal year totaled \$3,361 paid by the general fund.

11. LONG-TERM OBLIGATIONS

A. During the fiscal year 2007, the following activity occurred in governmental activities long-term obligations:

	Balance Outstanding June 30, 2006	Additions	Reductions	Balance Outstanding June 30, 2007	Amounts Due in One Year
Governmental Activities:					
School improvement bonds	\$1,530,000		(\$100,000)	\$1,430,000	\$110,000
Capital lease obligation	3,361		(3,361)		
Compensated absences	391,869	\$33,536	(69,522)	355,883	32,331
				<u>355,883</u>	<u>32,331</u>
Total long-term obligations, Governmental activities	<u>\$1,925,230</u>	<u>\$33,536</u>	<u>(\$172,883)</u>	<u>\$1,785,883</u>	<u>\$142,331</u>

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

11. LONG-TERM OBLIGATIONS (Continued)

Compensated Absences – Compensated absences will be paid from the fund from which the employee’s salaries are paid, which for the District is primarily the general fund.

Capital Lease Obligation – The capital lease obligation is paid from the general fund. See Note 10 for details.

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

Principal and interest requirements to retire general obligation debt at June 30, 2007, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$110,000	\$72,188	\$182,188
2009	115,000	66,281	181,281
2010	120,000	60,112	180,112
2011	130,000	53,550	183,550
2012	140,000	46,462	186,462
2013 - 2017	<u>815,000</u>	<u>111,432</u>	<u>926,432</u>
Total	<u>\$ 1,430,000</u>	<u>\$ 410,025</u>	<u>\$ 1,840,025</u>

B. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation use in determining the District’s legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District’s legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2007, are a voted debt margin of \$3,506,585 (including available funds of \$145,848) and an unvoted debt margin of \$53,230.

12. RISK MANAGEMENT

A. Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During fiscal year 2006, the District contracted with Nationwide Insurance Company for fleet insurance, and with Indiana Insurance for crime, electronic data processing, equipment floater, and property insurance. Insurance coverage provided includes the following:

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

12. RISK MANAGEMENT (Continued)

<u>Description</u>	<u>Amount</u>
Building and Contents-replacement cost (\$1,000 deductible)	\$16,579,715
Equipment Floater Coverage (\$500 deductible)	
Electronic Data Processing Coverage (\$500 deductible)	1,250,000
Crime Insurance	50,000
Automobile Liability	1,000,000
Uninsured Motorists	1,000,000

During fiscal year 2007, the District joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The District pays this annual premium to the OSP (See Note 2.A.). The District contracts for education general liability, employee benefits liability, employer's liability and stop gap, errors and omissions liability, and employment practices with OSP.

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

Education General Liability	
Each Occurrence	\$1,000,000
Personal and Advertising Injury Limit – each offense	1,000,000
Fire Damage Limit – any one event	500,000
Medical Expense – any one person/each accident	5,000/25,000
General Aggregate Limit	3,000,000
Products – completed operations limit	1,000,000
Aggregate Limit	3,000,000
Employer's Liability and Stop Gap	
Each Occurrence	1,000,000
Disease – each employee	1,000,000
Errors and Omissions Liability (\$5,000 deductible)	
Per Occurrence	1,000,000
Aggregate limit	1,000,000
Excess Liability	
Each Occurrence	1,000,000
Aggregate limit	1,000,000

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

B. Workers' Compensation

For fiscal year 2007, the District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (see Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP.

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

12. RISK MANAGEMENT (Continued)

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

C. Medical Benefits

For fiscal year 2007, the District participated in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP), an insurance purchasing pool (see Note 2.A). The intent of the MBP is to achieve the benefit of reduced health insurance premiums for the District by virtue of its grouping and representation with other participants in the MBP. The health insurance experience of the participating school districts is calculated and a premium rate is applied to all school districts in the MBP. Each participant pays its health insurance premiums to the Southwestern Ohio Educational Purchasing Council (SOEPC). Participation in the MBP is limited to school districts that can meet the MBP's selection criteria.

13. PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, or by calling (800) 878-5853, or by visiting the SERS website at www.ohsers.org under Forms and Publications.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's required contribution for pension obligations to SERS for fiscal years ended 2007, 2006, and 2005 were \$56,577, \$53,966, and \$49,859; 45.34 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. \$30,923 represents the unpaid pension contribution for fiscal year 2007 and is recorded as a liability within the respective funds.

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

13. PENSION PLANS (Continued)

B. State Teachers Retirement System

The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090, or by visiting the STRS Ohio website at www.strsoh.org.

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

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

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal years 2006 and 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for fund pension obligations to STRS Ohio for the fiscal years ended June 30, 2007, 2006, and 2005 were \$282,834, \$274,022 and \$264,302; 82.57 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. \$49,307 represents the unpaid pension contribution for fiscal year 2007 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal year 2007 were \$4,771 made by the District and \$8,582 made by plan members.

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

13. PENSION PLANS (Continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2007, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

14. POSTEMPLOYMENT BENEFITS

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

All STRS Ohio retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$21,756 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2007, the balance in the Health Care Stabilization Fund was \$4.1 billion. For the fiscal year ended June 30, 2007, net health care costs paid by STRS Ohio were \$265.558 million and STRS Ohio had 122,934 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, a decrease of .10 percent from fiscal year 2006. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at \$35,800. Total surcharge is capped at 2 percent of each employer's SERS salaries. For the 2007 fiscal year, the District paid \$27,867 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next year. Expenses for health care for the fiscal year ended June 30, 2006 (the latest information available) were \$158.751 million. At June 30, 2006 (the latest information available), SERS had net assets available for payment of health care benefits of \$295.6 million. At June 30, 2006 (the latest information available), SERS had 59,492 participants currently receiving health care benefits.

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

15. BUDGETARY BASIS OF ACCOUNTING

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

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

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

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

Net Change in Fund Balance	General Fund
Budget basis	\$199,873
Net adjustment for revenue accruals	(73,832)
Net adjustment for expenditure accruals	4,263
Net adjustment for other sources/uses	(2,567)
Adjustment for encumbrances	14,660
GAAP basis	\$142,397

16. CONTINGENCIES

A. Grants

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

B. Litigation

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

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

17. STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2007, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>
Set-aside balance as of June 30, 2006	(\$77,327)	
Current year set-aside requirement	74,408	\$74,408
Current year offsets		(181,715)
Qualifying disbursements	(121,193)	(54,509)
Total	<u>(124,112)</u>	<u>(161,816)</u>
Balance carried forward to FY 2008	<u>(\$124,112)</u>	<u>\$0</u>

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

18. SUBSEQUENT EVENT

The District approved the issuance of a School Facilities Construction and Improvement Bond Anticipation Note not to exceed \$6,445,000 on November 15, 2007. A note in the amount of \$6,445,000 was issued on December 19, 2007 with a maturity date of June 11, 2008 and an interest rate of 4.25%.

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**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(UNAUDITED)**

The management's discussion and analysis of the Newton Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2006 are as follows:

- In total, net assets of governmental activities increased \$247,316 which represents a 14.34% increase from 2005.
- General revenues accounted for 4,810,969 in revenue or 85.61% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$808,731 or 14.39% of total revenues of \$5,619,700.
- The District had \$5,372,384 in expenses related to governmental activities; \$808,731 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$4,810,969 were adequate to provide for these programs.
- The District's major governmental funds are the general fund and debt service fund. The general fund had \$4,825,449 in revenues and other financing sources and \$4,704,659 in expenditures and other financing uses. During fiscal year 2006, the general fund's fund balance increased \$120,790 from \$339,104 to \$459,894.
- The District's debt service fund had \$203,740 in revenues and \$180,845 in expenditures. During fiscal year 2006, the debt service fund's fund balance increased \$22,895 from \$98,987 to \$121,882.

Using these Basic Financial Statements

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

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

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(UNAUDITED)
(Continued)**

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2006?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 61-65 of this report.

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(UNAUDITED)
(Continued)**

Reporting the District's Fiduciary Responsibilities

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 69-93 of this report.

The District as a Whole

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

The table below provides a summary of the District's net assets for 2006 and 2005.

	Net Assets	
	Governmental Activities 2006	Governmental Activities 2005
Assets		
Current and other assets	\$2,268,615	\$2,030,186
Capital assets	3,165,826	3,158,996
Total assets	5,434,441	5,189,182
Liabilities		
Current liabilities	1,537,174	1,525,352
Long-term liabilities	1,925,230	1,939,109
Total liabilities	3,462,404	3,464,461
<u>Net Assets</u>		
Invested in capital assets, net of related debt	1,632,465	1,533,996
Restricted	179,338	127,691
Unrestricted (deficit)	160,234	63,034
Total net assets	\$1,972,037	\$1,724,721

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the District's assets exceeded liabilities by \$1,972,037. Of this total, \$179,338 is restricted in use.

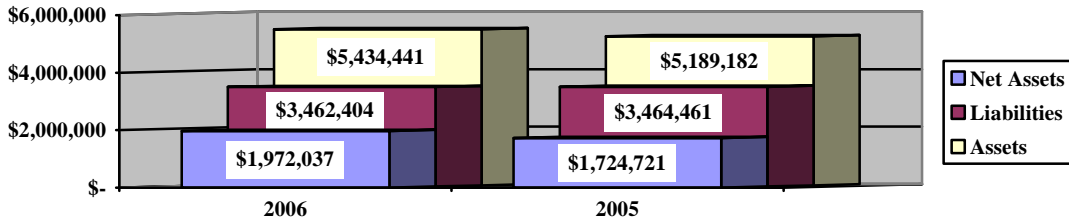
**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(UNAUDITED)
(Continued)**

At year-end, capital assets represented 58.25% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2006, were \$1,632,465. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$179,338 represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets is \$160,234.

Governmental Activities



The table below shows the change in net assets for fiscal year 2006 and 2005.

Change in Net Assets

	Governmental Activities 2006	Governmental Activities 2005
Revenues		
Program revenues:		
Charges for services and sales	\$464,080	\$518,330
Operating grants and contributions	339,659	303,099
Capital grants and contributions	4,992	
General revenues:		
Property taxes	1,132,418	1,150,739
School district income taxes	1,167,182	847,245
Grants and entitlements	2,432,780	2,424,838
Investment earnings	39,647	15,115
Other	38,942	31,848
Total revenues	5,619,700	5,291,214

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(UNAUDITED)
(Continued)**

**Change in Net Assets
(Continued)**

	Governmental Activities 2006	Governmental Activities 2005
Expenses		
Program expenses:		
Instruction:		
Regular	2,600,294	2,485,572
Special	476,213	454,419
Vocational	1,326	2,410
Other	8,302	
Support services:		
Pupil	184,479	179,893
Instructional staff	195,930	162,056
Board of education	5,175	11,632
Administration	556,560	576,227
Fiscal	209,972	175,873
Business		150
Operations and maintenance	357,086	317,237
Pupil transportation	331,315	216,231
Central	2,088	4,414
Operations of non-instructional services	2,500	6,000
Food service operations	144,439	146,533
Extracurricular activities	214,073	175,046
Interest and fiscal charges	82,632	87,385
Total expenses	<u>5,372,384</u>	<u>5,001,078</u>
Change in net assets	247,316	290,136
Net assets at beginning of year	<u>1,724,721</u>	<u>1,434,585</u>
Net assets at end of year	<u>\$1,972,037</u>	<u>\$1,724,721</u>

Governmental Activities

Net assets of the District's governmental activities increased \$247,316. Total governmental expenses of \$5,372,384 were offset by program revenues of \$808,731 and general revenues of \$4,810,969. Program revenues supported 15.06% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, income taxes and grants and entitlements. These revenue sources represent 84.21% of total governmental revenue.

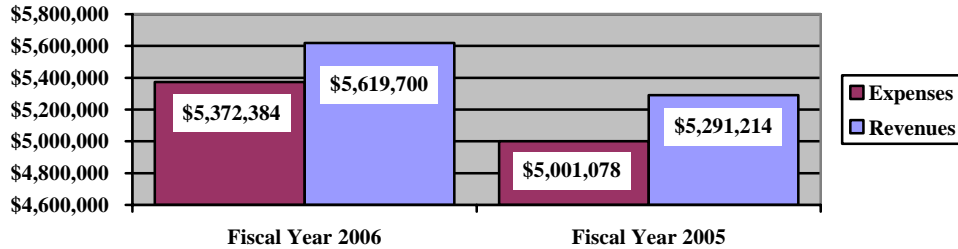
The largest expense of the District is for instructional programs. Instruction expenses totaled \$3,086,135 or 57.44% of total governmental expenses for fiscal 2006.

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(UNAUDITED)
(Continued)**

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2006 and 2005.

Governmental Activities - Revenues and Expenses



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

	Governmental Activities			
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2006	2006	2005	2005
Program expenses				
Instruction:				
Regular	\$2,600,294	\$2,250,023	\$2,485,572	\$2,084,317
Special	476,213	310,813	454,419	302,458
Vocational	1,326	1,326	2,410	2,410
Other	8,302	8,302		
Support services:				
Pupil	184,479	183,295	179,893	178,540
Instructional staff	195,930	178,802	162,056	143,682
Board of education	5,175	5,175	11,632	11,632
Administration	556,560	523,692	576,227	564,083
Fiscal	209,972	207,092	175,873	172,843
Business			150	150
Operations and maintenance	357,086	320,309	317,237	297,022
Pupil transportation	331,315	331,315	216,231	216,231
Central	2,088	2,088	4,414	4,414
Operations of non-instructional services	2,500	2,500	6,000	6,000
Food service operations	144,439	11,485	146,533	12,965
Extracurricular activities	214,073	144,804	175,046	95,517
Interest and fiscal charges	82,632	82,632	87,385	87,385
Total expenses	\$5,372,384	\$4,563,653	\$5,001,078	\$4,179,649

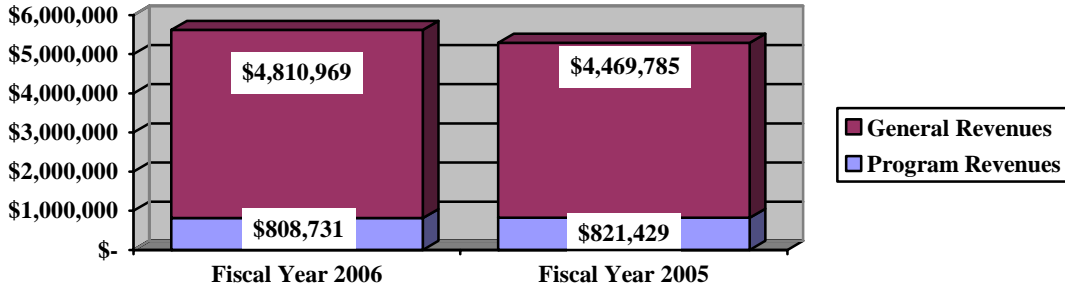
The dependence upon tax and other general revenues for governmental activities is apparent, 83.29% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 84.95%. The District's taxpayers, as a whole, are by far the primary support for District's students.

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(UNAUDITED)
(Continued)**

The graph below presents the District's governmental activities revenue for fiscal year 2006 and 2005.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund balance of \$680,486 which is higher than last year's total of \$492,283. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2006 and 2005.

	<u>Fund Balance June 30, 2006</u>	<u>Fund Balance June 30, 2005</u>	<u>Increase</u>	<u>Percentage Change</u>
General	\$459,894	\$339,104	\$120,790	35.62 %
Debt Service	121,882	98,987	22,895	23.13 %
Other Governmental	98,710	54,192	44,518	82.15 %
Total	<u>\$680,486</u>	<u>\$492,283</u>	<u>\$188,203</u>	38.23 %

General Fund

The District's general fund balance increased \$120,790. The increase in fund balance can be attributed to several items related to increasing revenues and increased expenditures. Revenues exceed expenditures for fiscal year 2006 by \$126,203.

Tuition revenues of \$234,597 are incoming open enrollment students' basic-aid from the state foundation. This is offset by expenses deducted from state foundation for out-going open enrollment students. Earnings on investments were up due to higher interest rates.

The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(UNAUDITED)
(Continued)**

	<u>2006 Amount</u>	<u>2005 Amount</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
Revenues				
Taxes	\$2,121,107	\$1,826,505	\$294,602	16.13 %
Tuition	234,597	297,221	(62,624)	(21.07) %
Earnings on investments	35,144	13,486	21,658	160.60 %
Intergovernmental	2,409,075	2,401,368	7,707	0.32 %
Other revenues	18,876	20,487	(1,611)	(7.86) %
Total	<u>4,818,799</u>	<u>4,559,067</u>	<u>259,732</u>	5.70 %
Expenditures				
Instruction	2,805,993	2,630,870	175,123	6.66 %
Support services	1,735,789	1,543,677	192,112	12.45 %
Extracurricular activities	140,655	107,326	33,329	31.05 %
Capital outlay	6,650		6,650	100.00 %
Debt service	3,509	3,478	31	0.89 %
Total	<u>\$4,692,596</u>	<u>\$4,285,351</u>	<u>\$407,245</u>	9.50 %

Debt Service Fund

The District's debt service fund had \$203,740 in revenues and \$180,845 in expenditures. During fiscal year 2006, the debt service fund's fund balance increased \$22,895 from \$98,987 to \$121,882.

General Fund Budgeting Highlights

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

During the course of fiscal 2006, the District did not amend its general fund budget. For the general fund, original and final budgeted revenues and other financing sources were \$4,728,747. Actual revenues and other financing sources for fiscal 2006 was \$4,752,919. This was \$24,172 higher than the final budgeted revenues.

General fund original and final appropriations (appropriated expenditures including other financing uses) were \$5,028,533. The actual budget basis expenditures for fiscal year 2006 totaled \$4,677,835, which was \$350,698 less than the final budget appropriations.

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(UNAUDITED)
(Continued)**

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2006, the District had \$3,165,826 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2006 balances compared to 2005:

Capital Assets at June 30 (Net of Depreciation)		
	2006	2005
Land	\$203,373	\$203,373
Land improvements	16,134	17,699
Building and improvements	2,503,745	2,548,564
Furniture and equipment	284,417	262,767
Vehicles	158,157	126,593
Total	\$ 3,165,826	\$ 3,158,996

The overall increase in capital assets of \$6,830 is due to capital outlays of \$167,443 exceeding depreciation expense of \$156,910 and disposals of \$3,703 (net of accumulated depreciation) in the fiscal year.

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

Debt Administration

At June 30, 2006, the District had \$1,533,361 in general obligation bonds and capital lease obligations outstanding. Of this total, \$103,361 is due within one year and \$1,430,000 is due within greater than one year. The following table summarizes the bonds outstanding.

Outstanding Debt, at Year End		
	Governmental Activities 2006	Governmental Activities 2005
General obligation bonds	\$1,530,000	\$1,625,000
Capital lease obligation	3,361	
Total	\$1,533,361	\$1,625,000

At June 30, 2006, the District's overall legal debt margin was \$3,336,683, and an unvoted debt margin of \$52,720.

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

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(UNAUDITED)
(Continued)**

Current Financial Related Activities

The District continues to be challenged by flat growth in revenues. A positive is recent growth in new housing in the District. Approximately twenty new homes will be on the real estate tax duplicate within the next one to three years. There are building lots available, which could lead to a continuing growth of new housing. Newton's student enrollment is up by a count of nine as of the October count for ADM purposes. Any growth in this area is significant, as ADM has decreased for the last eight years. Out-going open enrollment has decreased by eleven and in-coming open enrollment has increased by six as of the most recent complication. These student counts translate into basic aid funding from the state of \$5,477 per student. The District will ask voter approval to renew the current three-year income tax of 0.75% on the November 7, 2006 election. This percentage will generate approximately \$450,000. Even so, with flat revenue and stair-stepping increase in expenses the District will have excess expenses over revenue for each year of the five-year financial forecast with a negative cash balance for fiscal year 2011. The Newton Teachers Association (NTA) negotiated agreement will end 6/30/07. Because of this, the forecast for fiscal years 2008 thru 2011 salaries and benefits have only an approximate 2% increase projected, which is the amount for step increase on the salary index for degree and years of experience. Contracted and purchased services are a major expense for special education services from the Miami County Educational Service Center. Other expenses include plant, building and grounds, utilities and maintenance, bus fuel and maintenance, and open enrollment. The Board continues to use budgetary controls to monitor finances while maintaining an excellent academic program for its students. It is a top priority of the Board to set and meet goals and objectives to keep the District financially sound and to provide instructional elements in order for students to excel educationally.

Contacting the District's Financial Management

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

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2006**

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents	\$616,602
Cash with fiscal agent	123
Receivables:	
Taxes	1,633,094
Accounts	5,449
Intergovernmental	3,188
Materials and supplies inventory	10,159
Capital assets:	
Land	203,373
Depreciable capital assets, net	2,962,453
Capital assets, net	<u>3,165,826</u>
Total assets	<u>5,434,441</u>
Liabilities:	
Accounts payable	462
Accrued wages and benefits	355,853
Pension obligation payable	104,551
Intergovernmental payable	13,331
Unearned revenue	1,056,804
Accrued interest payable	6,173
Long-term liabilities:	
Due within one year	172,883
Due within more than one year	1,752,347
Total liabilities	<u>3,462,404</u>
Net Assets:	
Invested in capital assets, net of related debt	1,632,465
Restricted for:	
Capital projects	1,268
Debt service	118,079
State funded programs	25,000
Federally funded programs	15,953
Student activities	19,038
Unrestricted	<u>160,234</u>
Total net assets	<u><u>\$1,972,037</u></u>

See accompanying notes to the basic financial statements.

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006**

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents	\$405,314	\$109,744	\$101,544	\$616,602
Cash with fiscal agent			123	123
Receivables:				
Taxes	1,454,057	179,037		1,633,094
Accounts	3,366		2,083	5,449
Intergovernmental			3,188	3,188
Materials and supplies inventory	6,151		4,008	10,159
Total assets	<u>1,868,888</u>	<u>288,781</u>	<u>110,946</u>	<u>2,268,615</u>
Liabilities:				
Accounts payable	80		382	462
Accrued wages and benefits	349,667		6,186	355,853
Compensated absences payable	42,017			42,017
Pension obligation payable	99,584		4,967	104,551
Intergovernmental payable	12,630		701	13,331
Deferred revenue	905,016	166,899		1,071,915
Total liabilities	<u>1,408,994</u>	<u>166,899</u>	<u>12,236</u>	<u>1,588,129</u>
Fund Balances:				
Reserved for encumbrances	30,364		1,199	31,563
Reserved for materials and supplies inventory	6,151		4,008	10,159
Reserved for property tax unavailable for appropriation	64,083	12,138		76,221
Reserved for debt service		109,744		109,744
Unreserved, undesignated, reported in:				
General fund	359,296			359,296
Special revenue funds			92,235	92,235
Capital projects funds			1,268	1,268
Total fund balances	<u>459,894</u>	<u>121,882</u>	<u>98,710</u>	<u>680,486</u>
Total liabilities and fund balances	<u>\$1,868,888</u>	<u>\$288,781</u>	<u>\$110,946</u>	<u>\$2,268,615</u>

See accompanying notes to the basic financial statements.

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2006**

Total governmental fund balances		\$680,486
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		3,165,826
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes		15,111
In the statement of activities interest is accrued on outstanding bonds, whereas in governmental funds, interest expenditures are reported when due.		(6,173)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	\$349,852	
Capital lease obligation	3,361	
General obligation bonds payable	1,530,000	
Total	(1,883,213)	(1,883,213)
Net assets of governmental activities		\$1,972,037

See accompanying notes to the basic financial statements.

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes	\$2,121,107	\$175,636		\$2,296,743
Tuition	234,597			234,597
Charges for services			\$95,397	95,397
Earnings on investments	35,144	4,399	104	39,647
Extracurricular	3,509		86,870	90,379
Classroom materials and fees			28,340	28,340
Other local revenues	15,367		38,942	54,309
Intergovernmental - State	2,404,041	23,705	68,358	2,496,104
Intergovernmental - Federal	5,034		283,170	288,204
Total revenue	<u>4,818,799</u>	<u>203,740</u>	<u>601,181</u>	<u>5,623,720</u>
Expenditures:				
Current:				
Instruction:				
Regular	2,473,181		144,035	2,617,216
Special	324,172		166,081	490,253
Vocational	338			338
Other	8,302			8,302
Support services:				
Pupil	181,963		1,184	183,147
Instructional staff	168,836		17,336	186,172
Board of education	4,677			4,677
Administration	531,946		36,894	568,840
Fiscal	199,290	3,026	2,880	205,196
Operations and maintenance	344,661			344,661
Pupil transportation	304,416			304,416
Central			2,088	2,088
Food service operations			138,218	138,218
Other non-instructional services			2,500	2,500
Extracurricular activities	140,655		57,510	198,165
Capital outlay	6,650			6,650
Debt service:				
Principal retirement	3,289	95,000		98,289
Interest and fiscal charges	220	82,819		83,039
Total expenditures	<u>4,692,596</u>	<u>180,845</u>	<u>568,726</u>	<u>5,442,167</u>
Excess of revenues over expenditures	<u>126,203</u>	<u>22,895</u>	<u>32,455</u>	<u>181,553</u>
Other financing sources (uses):				
Capital lease transaction	6,650			6,650
Transfers in			12,063	12,063
Transfers (out)	(12,063)			(12,063)
Total other financing sources (uses)	<u>(5,413)</u>		<u>12,063</u>	<u>6,650</u>
Net change in fund balances	120,790	22,895	44,518	188,203
Fund balances at beginning of year	<u>339,104</u>	<u>98,987</u>	<u>54,192</u>	<u>492,283</u>
Fund balances at end of year	<u>\$459,894</u>	<u>\$121,882</u>	<u>\$98,710</u>	<u>\$680,486</u>

See accompanying notes to the basic financial statements.

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Net change in fund balances - total governmental funds \$188,203

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

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

Capital asset additions	\$167,443	
Current year depreciation	(156,910)	
Total		10,533

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.		(3,703)
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Proceeds of capital lease transactions are recorded as revenue in the funds, however, on the statement of activities, they are not reported as revenues as they increase liabilities on the statement of net assets.		(6,650)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Taxes	2,857	
Intergovernmental	(6,877)	
Total		(4,020)

Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		98,289
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Governmental funds report expenditures for interest when it is due. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due.		407
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Some expenses reported in the statement of activities, such as compensated absences do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		(35,743)

Change in net assets of governmental activities \$247,316

See accompanying notes to the basic financial statements.

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$2,032,380	\$2,032,380	\$2,042,769	\$10,389
Tuition	233,404	233,404	234,597	1,193
Earnings on investments	33,035	33,035	33,204	169
Other local revenues	14,294	14,294	14,367	73
Intergovernmental - State	2,391,815	2,391,815	2,404,041	12,226
Intergovernmental - Federal	5,008	5,008	5,034	26
Total revenue	<u>4,709,936</u>	<u>4,709,936</u>	<u>4,734,012</u>	<u>24,076</u>
Expenditures:				
Current:				
Instruction:				
Regular	2,652,694	2,652,694	2,467,692	185,002
Special	327,736	327,736	304,879	22,857
Vocational	363	363	338	25
Other	8,869	8,869	8,250	619
Support services:				
Pupil	200,401	200,401	186,425	13,976
Instructional staff	176,074	176,074	163,794	12,280
Board of education	5,028	5,028	4,677	351
Administration	567,480	567,480	527,903	39,577
Fiscal	219,957	219,957	204,617	15,340
Operations and maintenance	377,616	377,616	351,280	26,336
Pupil transportation	330,043	330,043	307,025	23,018
Extracurricular activities	149,305	149,305	138,892	10,413
Total expenditures	<u>5,015,566</u>	<u>5,015,566</u>	<u>4,665,772</u>	<u>349,794</u>
Excess of revenues over (under) expenditures	<u>(305,630)</u>	<u>(305,630)</u>	<u>68,240</u>	<u>373,870</u>
Other financing sources (uses):				
Refund of prior year expenditure	2,457	2,457	2,469	12
Transfers (out)	(12,967)	(12,967)	(12,063)	904
Advances in	15,359	15,359	15,438	79
Sale of capital assets	995	995	1,000	5
Total other financing sources (uses)	<u>5,844</u>	<u>5,844</u>	<u>6,844</u>	<u>1,000</u>
Net change in fund balance	(299,786)	(299,786)	75,084	374,870
Fund balance at beginning of year	287,522	287,522	287,522	
Prior year encumbrances appropriated	12,264	12,264	12,264	
Fund balance at end of year	<u>\$0</u>	<u>\$0</u>	<u>\$374,870</u>	<u>\$374,870</u>

See accompanying notes to the basic financial statements.

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006**

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$2,653	\$22,920
Investments	39,613	
Receivables:		
Accounts		169
Interest	1,419	
Notes	18,100	
Total assets	61,785	23,089
Liabilities:		
Due to students		23,089
Total liabilities		\$23,089
Net Assets:		
Held in trust for scholarships	61,785	
Total net assets	\$61,785	

See accompanying notes to the basic financial statements.

NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>Private-Purpose Trust</u>	<u>Scholarship</u>
Additions:		
Interest	\$1,493	
Gifts and contributions	2,350	
Total additions	<u>3,843</u>	
Deductions:		
Scholarships awarded	<u>4,350</u>	
Change in net assets	(507)	
Net assets at beginning of year	<u>62,292</u>	
Net assets at end of year	<u><u>\$61,785</u></u>	

See accompanying notes to the basic financial statements.

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**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

1. DESCRIPTION OF THE SCHOOL DISTRICT

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

The District was established in 1923 through the consolidation of existing land areas and school districts. The District serves an area of approximately 42 square miles. It is located in Miami County, and includes all of the Village of Pleasant Hill and a portion of Darke County. It is staffed by 26 non-certificated employees, 44 certificated full-time teaching personnel and three administrative employees who provide services to 533 students and other community members. The District currently operates one instructional-administrative building and one bus garage.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Jointly Governed Organizations

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

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

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

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

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

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

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Insurance Purchasing Pools

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

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

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

B. Fund Accounting

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

1. Governmental Funds

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

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

2. Fiduciary Funds

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

C. Basis of Presentation and Measurement Focus

1. Government-wide Financial Statements

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

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

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Fund Financial Statements

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

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

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

D. Basis of Accounting

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

1. Revenues - Exchange and Non-exchange Transactions

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

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 6).

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

2. Deferred Revenue

Unearned/Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2006, but which were levied to finance fiscal year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

3. Expenses/Expenditures

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

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

E. Budgets

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

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

1. Tax Budget

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

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Estimated Resources

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

3. Appropriations

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

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

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

4. Encumbrances

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

5. Lapsing of Appropriations

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

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Cash and Investments

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

The District has invested funds in STAR Ohio during fiscal 2006. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2006.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Board of Education, investment earnings are assigned to the general fund and the private-purpose trust funds. Interest revenue credited to the general fund during fiscal year 2006 amounted to \$35,144, which includes \$11,562 assigned from other funds.

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

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

G. Inventory

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

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

H. Capital Assets

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

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

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

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities column on the Statement of Net Assets.

J. Compensated Absences

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2006, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees with at least ten years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2006, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

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

K. Accrued Liabilities and Long-Term Obligations

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

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

L. Fund Balance Reserves

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

M. Net Assets

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

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

N. Estimates

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

O. Interfund Activity

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

P. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2006.

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

3. ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles

For fiscal year 2006, the District has implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries", GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation", and GASB Statement No. 47, "Accounting for Termination Benefits".

GASB Statement No. 42 amends GASB Statement No. 34 and establishes accounting and financial reporting standards for impairment of capital assets and accounting requirements for insurance recoveries.

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

GASB Statement No. 47 establishes accounting standards for termination benefits.

The implementation of GASB Statement No. 42, GASB Statement No. 46 and GASB Statement No. 47 did not have an effect on the fund balances/net assets of the District as previously reported at June 30, 2005.

B. Deficit Fund Balances

Fund balances at June 30, 2006 included the following individual fund deficits:

<u>Non-major Funds</u>	<u>Deficit</u>
Food Service	\$4,209
EMIS	25
Ohio Reads	11
Class Size Reduction	64

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

4. DEPOSITS AND INVESTMENTS

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

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

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

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

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

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

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

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

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

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

A. Cash on Hand

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

B. Cash with Fiscal Agent

At fiscal year-end, the District had \$123 in cash and cash equivalents held by the Miami County Educational Service Center. This amount is included on the balance sheet as "Cash with Fiscal Agent". The Miami County Educational Service Center holds this flow through grant money for the District together with that of other school districts and therefore the District cannot classify this money by risk under GASB Statement No. 40.

C. Deposits with Financial Institutions

At June 30, 2006, the carrying amount of all District deposits was \$390,828. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006, \$370,301 of the District's bank balance of \$470,301 was exposed to custodial risk as discussed below, while \$100,000 was covered by Federal Deposit Insurance Corporation.

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

D. Investments

As of June 30, 2006, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturity 6 months or less</u>
STAR Ohio	<u>\$290,660</u>	<u>\$290,660</u>

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

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

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2006:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	<u>\$290,660</u>	<u>100.00</u>

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

E. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2006:

Cash and Investments per footnote

Carrying amount of deposits	\$390,828
Investments	290,660
Cash with fiscal agent	123
Cash on hand	<u>300</u>
Total	<u><u>\$681,911</u></u>

Cash and investments per Statement of Net Assets

Governmental activities	\$616,725
Private-purpose trust funds	42,266
Agency funds	<u>22,920</u>
Total	<u><u>\$681,911</u></u>

5. INTERFUND TRANSACTIONS

Interfund transfers for the year ended June 30, 2006, consisted of the following, as reported on the fund financial statements:

Transfers from General fund to:

Non-major governmental funds	<u><u>\$12,063</u></u>
------------------------------	------------------------

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

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

6. PROPERTY TAXES

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

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

6. PROPERTY TAXES (Continued)

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005 and are collected in 2006 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2006, on the value as of December 31, 2005. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to the phasing out of the tax. In calendar years 2006-2010, the District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

The District receives property taxes from Miami County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2006 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2006 was \$64,083 in the general fund and \$12,138 in the debt service fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2005 was \$66,235 in the general fund and \$12,428 in the debt service fund.

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

6. PROPERTY TAXES (Continued)

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

The assessed values upon which the fiscal year 2006 taxes were collected are:

	2005 Second Half Collections		2006 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$49,609,290	96.14	\$50,930,300	96.61
Public Utility Personal	1,471,300	2.85	1,446,370	2.74
Tangible Personal Property	520,220	1.01	343,340	0.65
Total	\$51,600,810	100.00	\$52,720,010	100.00
Tax rate per \$1,000 of assessed valuation	\$40		\$40	

7. SCHOOL DISTRICT TAX

The District levies a voted tax of one percent for general operations on the income of residents and of estates. The tax was effective on January 1, 1993, and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The state makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax revenue in the amount of \$1,167,182 was credited to the general fund during fiscal year 2006.

8. RECEIVABLES

Receivables at June 30, 2006 consisted of taxes, accounts (billings for user charged services and student fees), and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the Statement of Net Assets follows:

Governmental Activities	
Taxes	\$1,633,094
Accounts	5,449
Intergovernmental	3,188
Total	\$1,641,731

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

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

9. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	<u>Balance June 30, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2006</u>
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$203,373			\$203,373
Total capital assets, not being depreciated	<u>203,373</u>			<u>203,373</u>
Capital assets, being depreciated:				
Land improvements	55,053			55,053
Buildings and improvements	3,600,070			3,600,070
Furniture and equipment	1,083,797	\$107,743	(\$69,339)	1,122,201
Vehicles	393,318	59,700		453,018
Total capital assets, being depreciated	<u>5,132,238</u>	<u>167,443</u>	<u>(69,339)</u>	<u>5,230,342</u>
Less: accumulated depreciation:				
Land improvements	(37,354)	(1,565)		(38,919)
Buildings and improvements	(1,051,506)	(44,819)		(1,096,325)
Furniture and equipment	(821,030)	(82,390)	65,636	(837,784)
Vehicles	(266,725)	(28,136)		(294,861)
Total accumulated depreciation	<u>(2,176,615)</u>	<u>(156,910)</u>	<u>65,636</u>	<u>(2,267,889)</u>
Governmental activities capital assets, net	<u>\$3,158,996</u>	<u>\$10,533</u>	<u>(\$3,703)</u>	<u>\$3,165,826</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$76,392
Special	2,924
Vocational	988
Support Services:	
Pupil	5,722
Instructional staff	7,338
Administration	4,116
Fiscal	1,208
Operations and maintenance	10,086
Pupil transportation	27,172
Extracurricular activities	15,424
Food service operations	<u>5,540</u>
Total depreciation expense	<u>\$156,910</u>

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

10. CAPITAL LEASES - LESSEE DISCLOSURE

In fiscal year 2006, the District entered into a capitalized lease for band instruments. This lease agreement meets the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital assets consisting of equipment have been capitalized in the amount of \$6,650. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2006 was \$665, leaving a current book value of \$5,985. A corresponding liability was recorded in the government-wide financial statements. Principal payments in the 2006 fiscal year totaled \$3,289 paid by the general fund.

The following is a schedule of the future long-term minimum lease payments required under the lease purchase agreement and the present value of the future minimum lease payments as of June 30, 2006:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2007	<u>\$3,509</u>
Total minimum lease payments	3,509
Less amount representing interest	<u>(148)</u>
Total	<u><u>\$3,361</u></u>

11. LONG-TERM OBLIGATIONS

During the fiscal year 2006, the following changes occurred in governmental activities long-term obligations:

	<u>Balance Outstanding June 30, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance Outstanding June 30, 2006</u>	<u>Amounts Due in One Year</u>
Governmental Activities:					
School improvement bonds	\$1,625,000		(\$95,000)	\$1,530,000	\$100,000
Capital lease obligation		\$6,650	(3,289)	3,361	3,361
Compensated absences	<u>314,109</u>	<u>99,533</u>	<u>(21,773)</u>	<u>391,869</u>	<u>69,522</u>
Total long-term obligations, governmental activities	<u><u>\$1,939,109</u></u>	<u><u>\$106,183</u></u>	<u><u>(\$120,062)</u></u>	<u><u>\$1,925,230</u></u>	<u><u>\$172,883</u></u>

Compensated Absences - Compensated absences will be paid from the fund from which the employee's salaries are paid.

Capital Lease Obligation - The capital lease obligation will be paid from the general fund and permanent improvement fund. See Note 10 for details.

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

11. LONG-TERM OBLIGATIONS - (Continued)

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

Principal and interest requirements to retire general obligation debt at June 30, 2006, are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2007	\$100,000	\$77,700	\$177,700
2008	110,000	72,188	182,188
2009	115,000	66,281	181,281
2010	120,000	60,112	180,112
2011	130,000	53,550	183,550
2012 - 2016	775,000	153,169	928,169
2017	180,000	4,725	184,725
Total	<u>\$1,530,000</u>	<u>\$487,725</u>	<u>\$2,017,725</u>

Legal Debt Margin

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

The effects of these debt limitations at June 30, 2006 are a voted debt margin of \$3,336,683 and an unvoted debt margin of \$52,720.

12. RISK MANAGEMENT

A. Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During fiscal year 2006, the District contracted with Nationwide Insurance Company for fleet insurance, and with Indiana Insurance for crime, electronic data processing, equipment floater, and property insurance. Insurance coverage provided includes the following:

Description	Amount
Building and Contents-replacement cost (\$1,000 deductible)	\$14,453,464
Equipment Floater Coverage (\$500 deductible)	
Electronic Data Processing Coverage (\$500 deductible)	1,250,000
Crime Insurance	50,000
Automobile Liability (\$1,000 deductible)	1,000,000
Uninsured Motorists (\$200 deductible)	1,000,000

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

12. RISK MANAGEMENT (Continued)

During fiscal year 2006, the District joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The District pays this annual premium to the OSP (See Note 2.A.). The District contracts for education general liability, employee benefits liability, employer's liability and stop gap, errors and omissions liability, and employment practices with OSP.

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

Education General Liability	
Each Occurrence	\$1,000,000
Personal and Advertising Injury Limit - each offense	1,000,000
Fire Damage Limit - any one event	500,000
Medical Expense - any one person/each accident	5,000/10,000
General Aggregate Limit	3,000,000
Products - completed operations limit	1,000,000
Aggregate Limit	3,000,000
Employer's Liability and Stop Gap	
Each Occurrence	1,000,000
Disease - each employee	1,000,000
Errors and Omissions Liability (\$5,000 deductible)	
Per Occurrence	1,000,000
Aggregate limit	1,000,000
Excess Liability	
Each Occurrence	1,000,000
Aggregate limit	1,000,000

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

B. Workers' Compensation

For fiscal year 2006, the District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (see Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP.

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

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

12. RISK MANAGEMENT (Continued)

C. Medical Benefits

For fiscal year 2006, the District participated in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP), an insurance purchasing pool (see Note 2.A). The intent of the MBP is to achieve the benefit of reduced health insurance premiums for the District by virtue of its grouping and representation with other participants in the MBP. The health insurance experience of the participating school districts is calculated and a premium rate is applied to all school districts in the MBP. Each participant pays its health insurance premiums to the Southwestern Ohio Educational Purchasing Council (SOEPC). Participation in the MBP is limited to school districts that can meet the MBP's selection criteria.

13. PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$53,966, \$49,859, and \$40,197, respectively; 41.94% has been contributed for fiscal year 2006 and 100% for the fiscal years 2005 and 2004. \$31,332 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds.

B. State Teachers Retirement System

The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

13. PENSION PLANS (Continued)

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

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$274,022, \$264,302, and \$261,758, respectively; 82.10% has been contributed for fiscal year 2006 and 100% for the fiscal years 2005 and 2004. \$49,040 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal 2006 were \$4,401 made by the District and \$8,226 made by plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS have an option to choose Social Security or the SERS/ STRS. As of June 30, 2006, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

14. POSTEMPLOYMENT BENEFITS

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

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$21,079 for fiscal year 2006.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, the balance in the Health Care Stabilization Fund was \$3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS were \$282.743 million and STRS had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, a decrease of 0.01 percent from fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, District paid \$27,152 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2006, were \$158.751 million. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million, which is about 168 percent of next years projected net health care costs of \$158.776 million. 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 percent of estimated annual net claim costs. SERS has 59,492 participants currently receiving health care benefits.

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

15. BUDGETARY BASIS OF ACCOUNTING

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

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

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

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

Net Change in Fund Balance	General Fund
Budget basis	\$75,084
Net adjustment for revenue accruals	84,787
Net adjustment for expenditure accruals	(57,268)
Net adjustment for other sources/uses	(12,257)
Adjustment for encumbrances	30,444
GAAP basis	\$120,790

16. CONTINGENCIES

A. Grants

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

B. Litigation

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

**NEWTON LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

17. STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2006, the reserve activity was as follows:

	Textbooks	Capital Acquisition
Set-aside cash balance as of June 30, 2005	(\$42,288)	
Current year set-aside requirement	75,882	\$75,882
Current year offsets		(175,917)
Qualifying disbursements	(110,921)	(70,780)
Total	(77,327)	(170,815)
Cash balance carried forward to FY 2007	(\$77,327)	\$0

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

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Mary Taylor, CPA

Auditor of State

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

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

To the Members of the Board:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Newton Local School District, Miami County, (the District) as of and for the years ended June 30, 2007 and June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 31, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2007-001 and 2007-002.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the District's internal control will not prevent or detect a material financial statement misstatement.

**Internal Control Over Financial Reporting
(Continued)**

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, of the significant deficiencies described above, we believe finding numbers 2007-001 and 2007-002 are also material weaknesses.

We also noted certain internal control matters that we reported to the District's management in a separate letter dated January 31, 2008.

Compliance and Other Matters

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

We did note certain noncompliance or other matters that we reported to the District's management in a separate letter dated January 31, 2008.

We intend this report solely for the information and use of the management and the Board. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

January 31, 2008

**NEWTON LOCAL DISTRICT
MIAMI COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2007-001

MATERIAL WEAKNESS

Capital Assets

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

- The District's capital asset policy states "for purposes of this policy 'equipment' shall mean a unit of furniture or furnishings, an instrument, a machine, an apparatus or a set of articles which retains its shape and appearance with use, is nonexpendable, costs at least \$500 to replace as a single unit and does not lose its identity when incorporated into a more complex unit." In fiscal year 2007, there was a grouping of 13 music posture chairs, a grouping of 18 baseball jackets, a grouping of 20 Uno M desks and a grouping of 20 Panto Swing Chairs which were capitalized but should not have been since individually these items were under the \$500 capitalization threshold. The District should only capitalize assets that individually meet the capitalization threshold to be consistent with the District's capital asset policy.
- The District's capital asset policy states "Unless otherwise noted, all depreciation is calculated using the straight-line method." Historically the District has used a full year's depreciation in the year of acquisition. However, in fiscal year 2007 depreciation on current year acquisitions was not calculated in accordance with this historic practice. The Board should review the policy and address how depreciation is to be calculated in year of acquisition.
- There were numerous items that were not recorded. In fiscal year 2007, 68 computer systems were not added as additions. The District should implement procedures that will provide assurance that all items meeting the capitalization threshold are added to the capital asset accounting system.
- The District's Capital Asset listing contains numerous fully depreciated capital assets that are still in use. If assets are determined to outlive their expected lives, the District should review its capital asset policy and determine if the established useful lives of assets in the various classifications should be modified.

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

Client Response:

We did not receive a response from Officials to this finding.

FINDING NUMBER 2007-002

MATERIAL WEAKNESS

Financial Reporting

Material adjustments had to be made to the District's financial statements as of June 30, 2007 and June 30, 2006 for the following reasons:

- Computers purchased in fiscal year 2007 that were not included as part of 2007 additions.
- Incorrect depreciation in the year of acquisition for 2007 additions.
- Understatement in Taxes Receivable as of June 30, 2006 due to error in calculation.
- Errors in Final Budgeted Revenue and Expenditure amounts in the General Fund due to using final budgetary documents which were not approved by the Board until after June 30 for both fiscal year 2007 and 2006.

In addition, there were errors in the calculation of Accrued Wages and Compensated Absences as well as revenue classification errors on the Statement of Activities which were immaterial and did not require adjustment to the financial statements.

The District should implement procedures that will provide for the accurate presentation of its financial statements.

Client Response

We did not receive a response from Officials to this finding.

**NEWTON LOCAL DISTRICT
MIAMI COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2005-01	Failure to complete Purpose and Budget Statement and Sales Project Potential Form for all student managed activities.	No	Reduced to management letter comment due to significant improvements in this area.
2005-02	Inaccurate Capital Asset records.	No	Repeated as Finding 2007-001 in the current audit.



Mary Taylor, CPA
Auditor of State

NEWTON LOCAL SCHOOL DISTRICT

MIAMI COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 6, 2008**