



Dave Yost • Auditor of State



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

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Newton Falls Exempted Village School District, Trumbull County, Ohio (the District), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

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

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

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Newton Falls Exempted Village School District, Trumbull County, Ohio, as of June 30, 2015, and the respective changes in financial position thereof and the budgetary comparison for the General fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 23 to the basic financial statements, during the year ended June 30, 2015, the District implemented the Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions" and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68". We did not modify our opinion regarding these matters.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, the Schedules of the School District's Proportionate Share of the Net Pension Liability for School Employees Retirement System of Ohio and State Teachers Retirement System of Ohio, and the Schedules of School District Contributions for School Employees Retirement System of Ohio and State Teachers Retirement System of Ohio, listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

*Supplementary Information*

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

The Schedule of Federal Award Receipts and Expenditures presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is also not a required part of the financial statements.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2015, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

**Dave Yost**  
Auditor of State  
Columbus, Ohio

December 17, 2015

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## Newton Falls Exempted Village School District

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2015*

*Unaudited*

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As management of the Newton Falls Exempted Village School District (the School District), we offer readers of the School District's financial statements this narrative and analysis of the financial activities of the School District for the fiscal year ended June 30, 2015. We encourage readers to consider the information presented here in conjunction with financial statements and notes to the basic financial statements to enhance their understanding of the School District's financial performance.

### **Financial Highlights**

- The School District's enrollment decreased by 117 students from fiscal year 2014.
- Capital asset additions included copiers, a 2015 Blue Bird bus and a Ricoh duplicator.
- Outstanding long-term obligations decreased from fiscal year 2014 due to annual general obligation debt payments and a reduction in the net pension liability.
- The School District implemented GASB 68 and GASB 71, which establish standards for measuring and recognizing pension liabilities, deferred outflows/inflows of resources and expense/expenditure. The implementation of these GASB statements resulted in a significant change to the financial statements for the School District.
- The School District provided 1.5 percent raises for certified staff while the classified staff received a \$0.30 raise on their base. There was no change in the healthcare as provided by the School District.
- The School District actively pursues grants and controls expenses while still maintaining the high academic standards the residents expect of the School District.

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

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

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

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

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

## Newton Falls Exempted Village School District

*Management's Discussion and Analysis  
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Unaudited*

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

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

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

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

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

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

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. Table 1 provides a comparison of the School District's Net Position for 2015 compared to 2014.

**Newton Falls Exempted Village School District**

*Management's Discussion and Analysis  
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Unaudited*

**Table 1**  
Net Position  
Governmental Activities

	<u>2015</u>	<u>2014</u>	<u>Change</u>
<b>Assets</b>			
Current and Other Assets	\$4,968,620	\$5,437,767	(\$469,147)
Capital Assets, Net	<u>14,567,014</u>	<u>15,486,863</u>	<u>(919,849)</u>
<i>Total Assets</i>	<u>19,535,634</u>	<u>20,924,630</u>	<u>(1,388,996)</u>
<b>Deferred Outflows of Resources</b>			
Deferred Charge on Refunding Pension	33,814	37,831	(4,017)
	<u>1,016,140</u>	<u>815,631</u>	<u>200,509</u>
<i>Total Deferred Outflows of Resources</i>	<u>1,049,954</u>	<u>853,462</u>	<u>196,492</u>
<b>Liabilities</b>			
Current Liabilities	1,707,933	1,326,590	(381,343)
Long-Term Liabilities			
Due Within One Year	257,498	261,683	4,185
Due In More Than One Year			
Net Pension Liability	13,819,388	16,419,849	2,600,461
Other Amounts	<u>2,710,207</u>	<u>2,807,702</u>	<u>97,495</u>
<i>Total Liabilities</i>	<u>18,495,026</u>	<u>20,815,824</u>	<u>2,320,798</u>
<b>Deferred Inflows of Resources</b>			
Property Taxes	2,975,020	2,983,693	8,673
Pension	<u>2,498,109</u>	<u>0</u>	<u>(2,498,109)</u>
<i>Total Deferred Inflows of Resources</i>	<u>5,473,129</u>	<u>2,983,693</u>	<u>(2,489,436)</u>
<b>Net Position</b>			
Net Investment in Capital Assets	12,219,753	13,030,962	(811,209)
Restricted for:			
Capital Projects	98,919	98,919	0
Debt Service	258,953	285,356	(26,403)
Other Purposes	320,330	466,708	(146,378)
Unrestricted (Deficit)	<u>(16,280,522)</u>	<u>(15,903,370)</u>	<u>(377,152)</u>
<i>Total Net Position (Deficit)</i>	<u>(\$3,382,567)</u>	<u>(\$2,021,425)</u>	<u>(\$1,361,142)</u>

During 2015, the School District adopted GASB Statement 68, “Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27,” which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the School District’s actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions

**Newton Falls Exempted Village School District**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2015  
Unaudited*

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annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB 68, the net pension liability equals the School District's proportionate share of each plan's collective:

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

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the School District is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

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

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

As a result of implementing GASB 68, the School District is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2014, from \$13,582,793 to (\$2,021,425).

Cash and cash equivalents decreased due to the School District having more expenses than revenues during the year. The decrease in intergovernmental receivables is due to the School District having a smaller grant carryover when compared to the prior fiscal year. The decrease in capital assets was due to an additional year of depreciation exceeding current year additions.

**Newton Falls Exempted Village School District**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2015  
Unaudited*

Total liabilities decreased during fiscal year 2015 which can be attributed to the change in net pension liability along with the annual payments on the School District's general obligation bonds and decreases in accrued wages and benefits. The School District had fewer outstanding obligations to be carried forward to the following fiscal year than in the past.

Table 2 shows the changes in net position for fiscal year 2015 compared to 2014.

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

	2015	2014	Change
<b>Program Revenues</b>			
Charges for Services and Sales	\$600,200	\$580,606	\$19,594
Operating Grants, Contributions and Interest	1,659,512	1,870,863	(211,351)
<i>Total Program Revenues</i>	<u>2,259,712</u>	<u>2,451,469</u>	<u>(191,757)</u>
<b>General Revenues</b>			
Property Taxes	2,727,791	2,946,862	(219,071)
Grants and Entitlements	7,174,172	7,402,038	(227,866)
Investment Earnings	1,360	4,599	(3,239)
Miscellaneous	289,863	327,171	(37,308)
<i>Total General Revenues</i>	<u>10,193,186</u>	<u>10,680,670</u>	<u>(487,484)</u>
<i>Total Revenues</i>	<u>12,452,898</u>	<u>13,132,139</u>	<u>(679,241)</u>
<b>Program Expenses</b>			
Instruction:			
Regular	6,446,554	6,448,274	1,720
Special	1,965,369	2,209,437	244,068
Vocational	85,520	103,776	18,256
Adult/Continuing	1,000	1,000	0
Support Services:			
Pupils	719,137	665,197	(53,940)
Instructional Staff	156,332	132,816	(23,516)
Board of Education	57,647	95,639	37,992
Administration	1,053,748	1,110,155	56,407
Fiscal	305,685	327,504	21,819
Operation and Maintenance of Plant	1,233,986	1,193,894	(40,092)
Pupil Transportation	578,581	620,632	42,051
Central	189,480	134,251	(55,229)
Operation of Food Service	523,056	515,848	(7,208)
Extracurricular Activities	438,407	435,297	(3,110)
Interest and Fiscal Charges	59,538	63,169	3,631
<i>Total Program Expenses</i>	<u>13,814,040</u>	<u>14,056,889</u>	<u>242,849</u>
<i>Change in Net Position</i>	<u>(1,361,142)</u>	<u>(924,750)</u>	<u>(436,392)</u>
Net Position (Deficit) Beginning of Year	<u>(2,021,425)</u>	N/A	
Net Position (Deficit) End of Year	<u>(\$3,382,567)</u>	<u>(\$2,021,425)</u>	<u>(\$436,392)</u>

**Newton Falls Exempted Village School District**

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2015*

*Unaudited*

The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 functional expenses still include pension expense of \$815,631 computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2015 statements report pension expense of \$583,114. Consequently, in order to compare 2015 total program expenses to 2014, the following adjustments are needed:

Total 2015 program expenses under GASB 68	\$13,814,040
2015 Pension expense under GASB 68	(583,114)
2015 contractually required contribution	885,975
Adjusted 2015 program expenses	<u>14,116,901</u>
Total 2014 program expenses under GASB 27	<u>14,056,889</u>
Increase in program expenses not related to pension	<u><u>\$60,012</u></u>

The School District relies heavily upon property taxes and the State School Foundation Program to support its operations. The School District also actively solicits and receives additional grant and entitlement funds to help offset operating costs. Program expenses decreased mainly due to decreases in the student enrollment by 117 students, which was slightly offset mainly by wage increases. Instruction expenses comprise the largest portion of all program expenses for the School District. The decrease in instructional expenses can be attributed to the School District implementing changes in the coding for expenditure classification taking effect. The School District continues to show vigilance in monitoring all facets of spending.

The *statement of activities* shows the cost of program services and charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services for 2015 compared to 2014.

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

	2015		2014	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction Expenses	\$8,498,443	\$7,122,565	\$8,762,487	\$7,141,358
Support Services:				
Pupils and Instructional Staff	875,469	801,395	798,013	741,789
Board of Education and Administration	1,111,395	961,093	1,205,794	1,133,446
Fiscal and Operation and Maintenance of Plant	1,539,671	1,492,522	1,521,398	1,474,284
Pupil Transportation and Central	768,061	760,861	754,883	747,683
Operation of Food Service	523,056	40,781	515,848	10,093
Extracurricular Activities	438,407	315,573	435,297	293,598
Interest and Fiscal Charges	59,538	59,538	63,169	63,169
Total	<u><u>\$13,814,040</u></u>	<u><u>\$11,554,328</u></u>	<u><u>\$14,056,889</u></u>	<u><u>\$11,605,420</u></u>

**Newton Falls Exempted Village School District**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2015  
Unaudited*

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

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

**Governmental Funds** Information about the School District's major funds begins with the balance sheet. These funds are accounted for using the modified accrual basis of accounting. The general fund had a decrease in fund balance due to expenditures exceeding revenues in the current year. Expenditures increased in the current fiscal year due to the School District negotiating raises for the certificated and classified staff. Revenues decreased due to declining enrollment. The bond retirement debt service fund had a slight decrease in fund balance resulting from the principal and interest payments made on the bonds.

**General Fund Budgeting Highlights**

The School District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant fund to be budgeted is the main operating fund of the School District, the general fund. During the course of fiscal year 2015, the School District amended its general fund budget numerous times. The School District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the general fund, the final budget basis revenue estimate was lower than the original budget estimate. The change was mainly attributed to a decrease in intergovernmental revenues as a better picture of actual receipts and awards became apparent. The final budget appropriations were higher than the original budget appropriations of the general fund. The change was attributed to increases in regular and special instruction and pupils support service expenditures due to higher estimated expenditures expected.

**Capital Assets and Long-term Liabilities**

*Capital Assets*

Table 4 shows fiscal 2015 values compared to fiscal 2014.

**Table 4**  
Capital Assets at June 30  
Governmental Activities

	2015	2014
Land	\$58,300	\$58,300
Land Improvements	138,335	151,813
Buildings and Improvements	13,543,521	14,524,235
Furniture and Fixtures	454,106	399,044
Vehicles	153,563	106,545
Textbooks	219,189	246,926
Total Capital Assets	<u>\$14,567,014</u>	<u>\$15,486,863</u>

The decrease in capital assets was due to an additional year of depreciation offset by current year additions of copiers, a 2015 Blue Bird bus and a Ricoh duplicator. For more information about the School District's capital assets, see Note 9 to the basic financial statements.

**Newton Falls Exempted Village School District**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2015  
Unaudited*

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*Long-term Liabilities*

Table 5 below summarizes the School District's long-term obligations.

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

	2015	2014
General Obligation Bonds	\$2,300,717	\$2,520,605
Net Pension Liability	13,819,388	16,419,849
Capital Lease	119,952	0
Compensated Absences	547,036	548,780
Total	\$16,787,093	\$19,489,234

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

The School District has a five-year capital lease outstanding for new copiers.

The School District's overall legal debt margin was \$9,149,007 with an unvoted debt margin of \$123,307. For more information about the School District's long-term obligations, see Note 12 to the basic financial statements.

**School District Outlook**

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

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

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

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

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

**Newton Falls Exempted Village School District**

*Statement of Net Position*

*June 30, 2015*

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$1,124,787
Accounts Receivable	1,996
Intergovernmental Receivable	97,623
Inventory Held for Resale	10,991
Materials and Supplies Inventory	1,490
Property Taxes Receivable	3,731,733
Nondepreciable Capital Assets	58,300
Depreciable Capital Assets, Net	<u>14,508,714</u>
<i>Total Assets</i>	<u>19,535,634</u>
<b>Deferred Outflows of Resources</b>	
Deferred Charge on Refunding Pension	33,814
	<u>1,016,140</u>
<i>Total Deferred Outflows of Resources</i>	<u>1,049,954</u>
<b>Liabilities</b>	
Accounts Payable	783
Contracts Payable	7,120
Accrued Wages and Benefits	1,057,230
Intergovernmental Payable	239,782
Matured Compensated Absences Payable	43,553
Accrued Interest Payable	4,465
Notes Payable	355,000
Long-Term Liabilities:	
Due Within One Year	257,498
Due In More Than One Year	
Net Pension Liability	13,819,388
Other Amounts	<u>2,710,207</u>
<i>Total Liabilities</i>	<u>18,495,026</u>
<b>Deferred Inflows of Resources</b>	
Property Taxes	2,975,020
Pension	<u>2,498,109</u>
<i>Total Deferred Inflows of Resources</i>	<u>5,473,129</u>
<b>Net Position</b>	
Net Investment in Capital Assets	12,219,753
Restricted for:	
Capital Projects	98,919
Debt Service	258,953
Other Purposes	320,330
Unrestricted (Deficit)	<u>(16,280,522)</u>
<i>Total Net Position (Deficit)</i>	<u><u>(\$3,382,567)</u></u>

See accompanying notes to the basic financial statements

**Newton Falls Exempted Village School District**

*Statement of Activities*

*For the Fiscal Year Ended June 30, 2015*

	Program Revenues			Net (Expense)
	Expenses	Charges for Services and Sales	Operating Grants, Contributions and Interest	Revenue and Changes in Net Position
<b>Governmental Activities</b>				
Instruction:				
Regular	\$6,446,554	\$261,939	\$64,424	(\$6,120,191)
Special	1,965,369	74,105	960,636	(930,628)
Vocational	85,520	3,638	10,136	(71,746)
Adult/Continuing	1,000	0	1,000	0
Support Services:				
Pupils	719,137	0	68,756	(650,381)
Instructional Staff	156,332	0	5,318	(151,014)
Board of Education	57,647	0	0	(57,647)
Administration	1,053,748	0	150,302	(903,446)
Fiscal	305,685	0	0	(305,685)
Operation and Maintenance of Plant	1,233,986	0	47,149	(1,186,837)
Pupil Transportation	578,581	0	0	(578,581)
Central	189,480	0	7,200	(182,280)
Operation of Food Service	523,056	137,684	344,591	(40,781)
Extracurricular Activities	438,407	122,834	0	(315,573)
Interest and Fiscal Charges	59,538	0	0	(59,538)
<b>Totals</b>	<b>\$13,814,040</b>	<b>\$600,200</b>	<b>\$1,659,512</b>	<b>(11,554,328)</b>
<b>General Revenues</b>				
Property Taxes Levied for:				
				2,472,739
				213,230
				41,822
Grants and Entitlements not Restricted				
				7,174,172
Investment Earnings				
				1,360
Miscellaneous				
				289,863
				<u>10,193,186</u>
				Change in Net Position (1,361,142)
				<i>Net Position (Deficit) Beginning of Year</i>
				<i>(Restated - See Note 23)</i> <u>(2,021,425)</u>
				<u><u>Net Position (Deficit) End of Year (\$3,382,567)</u></u>

See accompanying notes to the basic financial statements

**Newton Falls Exempted Village School District**

*Balance Sheet*

*Governmental Funds*

*June 30, 2015*

	<u>General</u>	<u>Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>				
Equity in Pooled Cash and				
Cash Equivalents	\$412,564	\$225,567	\$486,656	\$1,124,787
Accounts Receivable	1,996	0	0	1,996
Intergovernmental Receivable	9,185	0	88,438	97,623
Inventory Held for Resale	0	0	10,991	10,991
Materials and Supplies Inventory	0	0	1,490	1,490
Property Taxes Receivable	3,376,768	297,243	57,722	3,731,733
<i>Total Assets</i>	<u>\$3,800,513</u>	<u>\$522,810</u>	<u>\$645,297</u>	<u>\$4,968,620</u>
<b>Liabilities</b>				
Accounts Payable	\$783	\$0	\$0	\$783
Contracts Payable	0	0	7,120	7,120
Accrued Wages and Benefits	935,768	0	121,462	1,057,230
Intergovernmental Payable	197,949	0	41,833	239,782
Matured Compensated Absences Payable	32,217	0	11,336	43,553
Notes Payable	333,779	21,221	0	355,000
<i>Total Liabilities</i>	<u>1,500,496</u>	<u>21,221</u>	<u>181,751</u>	<u>1,703,468</u>
<b>Deferred Inflows of Resources</b>				
Property Taxes	2,690,421	238,171	46,428	2,975,020
Unavailable Revenue	662,868	57,051	99,346	819,265
<i>Total Deferred Inflows of Resources</i>	<u>3,353,289</u>	<u>295,222</u>	<u>145,774</u>	<u>3,794,285</u>
<b>Fund Balances</b>				
Nonspendable	0	0	1,490	1,490
Restricted	938	206,367	374,564	581,869
Unassigned (Deficit)	(1,054,210)	0	(58,282)	(1,112,492)
<i>Total Fund Balances (Deficit)</i>	<u>(1,053,272)</u>	<u>206,367</u>	<u>317,772</u>	<u>(529,133)</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$3,800,513</u>	<u>\$522,810</u>	<u>\$645,297</u>	<u>\$4,968,620</u>

See accompanying notes to the basic financial statements

**Newton Falls Exempted Village School District**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Position of Governmental Activities  
 June 30, 2015*

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**Total Governmental Fund Balances** (\$529,133)

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 14,567,014

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

Delinquent Property Taxes	730,827
Intergovernmental	88,438
	88,438

Total 819,265

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. (4,465)

The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:

Deferred Outflows - Pension	1,016,140
Deferred Inflows - Pension	(2,498,109)
Net Pension Liability	(13,819,388)
	(13,819,388)

Total (15,301,357)

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

General Obligation Bonds	(2,300,717)
Capital Leases	(119,952)
Compensated Absences	(547,036)
Deferred Charge on Refunding	33,814
	33,814

Total (2,933,891)

*Net Position (Deficit) of Governmental Activities* (\$3,382,567)

See accompanying notes to the basic financial statements

**Newton Falls Exempted Village School District**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2015*

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Property Taxes	\$2,686,958	\$233,239	\$45,280	\$2,965,477
Intergovernmental	7,741,522	40,717	1,102,412	8,884,651
Interest	1,360	0	15	1,375
Tuition and Fees	339,412	0	0	339,412
Extracurricular Activities	59,659	0	63,175	122,834
Contributions and Donations	0	0	1,000	1,000
Charges for Services	0	0	137,684	137,684
Rentals	270	0	0	270
Miscellaneous	289,621	0	242	289,863
<i>Total Revenues</i>	<u>11,118,802</u>	<u>273,956</u>	<u>1,349,808</u>	<u>12,742,566</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	5,657,692	0	46,830	5,704,522
Special	1,567,338	0	428,959	1,996,297
Vocational	88,315	0	0	88,315
Adult/Continuing	0	0	1,000	1,000
Support Services:				
Pupils	646,695	0	83,792	730,487
Instructional Staff	140,425	0	5,069	145,494
Board of Education	58,089	0	0	58,089
Administration	974,240	0	120,200	1,094,440
Fiscal	300,489	4,941	961	306,391
Operation and Maintenance of Plant	1,080,498	0	150,974	1,231,472
Pupil Transportation	636,186	0	0	636,186
Central	179,442	0	9,319	188,761
Operation of Food Service	0	0	515,032	515,032
Extracurricular Activities	354,762	0	77,360	432,122
Debt Service:				
Principal Retirement	29,988	220,000	0	249,988
Interest and Fiscal Charges	0	55,775	0	55,775
Bond Issuance Costs	10,650	0	0	10,650
<i>Total Expenditures</i>	<u>11,724,809</u>	<u>280,716</u>	<u>1,439,496</u>	<u>13,445,021</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(606,007)</u>	<u>(6,760)</u>	<u>(89,688)</u>	<u>(702,455)</u>
<b>Other Financing Sources (Uses)</b>				
Inception of Capital Lease	149,940	0	0	149,940
Transfers In	0	0	14,085	14,085
Transfers Out	(14,085)	0	0	(14,085)
<i>Total Other Financing Sources (Uses)</i>	<u>135,855</u>	<u>0</u>	<u>14,085</u>	<u>149,940</u>
<i>Net Change in Fund Balances</i>	(470,152)	(6,760)	(75,603)	(552,515)
<i>Fund Balances (Deficit) Beginning of Year</i>	(583,120)	213,127	393,375	23,382
<i>Fund Balances (Deficit) End of Year</i>	<u>(\$1,053,272)</u>	<u>\$206,367</u>	<u>\$317,772</u>	<u>(\$529,133)</u>

See accompanying notes to the basic financial statements

**Newton Falls Exempted Village School District**  
*Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Fiscal Year Ended June 30, 2015*

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**Net Change in Fund Balances - Total Governmental Funds** (\$552,515)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

This is the amount by which depreciation exceeded capital outlay in the current period:

Capital Asset Additions	232,527	
Current Year Depreciation	<u>(1,152,376)</u>	
 Total		 (919,849)

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

Delinquent Property Taxes	(237,686)	
Intergovernmental	<u>(51,982)</u>	
 Total		 (289,668)

Other financing sources in the governmental funds, such as inception of capital lease, increase long-term liabilities in the statement of net position. (149,940)

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 249,988

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

Accrued Interest on Bonds	366	
Bond Accretion	(12,721)	
Amortization of Premium on Bonds	12,609	
Amortization of Deferred Charge on Refunding	<u>(4,017)</u>	
 Total		 (3,763)

Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows. 885,975

Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities. (583,114)

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. 1,744

*Change in Net Position of Governmental Activities* (\$1,361,142)

See accompanying notes to the basic financial statements

**Newton Falls Exempted Village School District**  
*Statement of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*General Fund*  
*For the Fiscal Year Ended June 30, 2015*

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Revenues</b>				
Property Taxes	\$3,292,125	\$3,325,066	\$2,674,858	(\$650,208)
Intergovernmental	7,820,637	7,481,716	7,744,325	262,609
Interest	6,993	6,993	1,360	(5,633)
Tuition and Fees	246,615	246,615	336,840	90,225
Rentals	1,382	1,382	270	(1,112)
Miscellaneous	226,989	236,946	284,101	47,155
<i>Total Revenues</i>	<u>11,594,741</u>	<u>11,298,718</u>	<u>11,041,754</u>	<u>(256,964)</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	5,096,493	5,451,758	5,451,758	0
Special	1,416,080	1,525,077	1,518,207	6,870
Vocational	117,414	117,414	88,283	29,131
Support Services:				
Pupils	499,625	638,284	638,284	0
Instructional Staff	184,825	184,825	137,206	47,619
Board of Education	169,711	57,740	57,740	0
Administration	1,067,273	958,442	958,442	0
Fiscal	234,220	297,323	297,323	0
Operation and Maintenance of Plant	1,296,798	1,076,297	1,076,297	0
Pupil Transportation	860,654	636,247	636,247	0
Central	77,326	171,652	171,652	0
Extracurricular Activities	316,074	375,369	293,778	81,591
Debt Service	10,650	10,650	10,650	0
<i>Total Expenditures</i>	<u>11,347,143</u>	<u>11,501,078</u>	<u>11,335,867</u>	<u>165,211</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>247,598</u>	<u>(202,360)</u>	<u>(294,113)</u>	<u>(91,753)</u>
<b>Other Financing Sources (Uses)</b>				
Tax Anticipation Notes Issued	10,650	377,768	333,779	(43,989)
Advances In	37,317	37,317	0	(37,317)
Advances Out	(37,317)	(37,317)	0	37,317
Transfers Out	(31,338)	(31,338)	(14,085)	17,253
<i>Total Other Financing Sources (Uses)</i>	<u>(20,688)</u>	<u>346,430</u>	<u>319,694</u>	<u>(26,736)</u>
<i>Net Change in Fund Balance</i>	226,910	144,070	25,581	(118,489)
<i>Fund Balance Beginning of Year</i>	485,620	485,620	485,620	0
Prior Year Encumbrances Appropriated	22,912	22,912	22,912	0
<i>Fund Balance End of Year</i>	<u>\$735,442</u>	<u>\$652,602</u>	<u>\$534,113</u>	<u>(\$118,489)</u>

See accompanying notes to the basic financial statements

**Newton Falls Exempted Village School District**

*Statement of Fiduciary Assets and Liabilities*

*Agency Fund*

*June 30, 2015*

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	<u>Agency</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$24,074</u>
<b>Liabilities</b>	
Due to Students	<u>\$24,074</u>

See accompanying notes to the basic financial statements

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

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

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

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

The School District operates under a locally-elected five-member Board form of government and provides educational services as mandated by State and federal agencies. The Board of Education controls the School District's four instructional/support facilities staffed by 51 classified employees, 79 certificated full and part-time teaching, 6 administrators and 3 supervisors who provide services to 1,213 students and other community members.

#### *Reporting Entity*

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

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

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

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

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

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

## Newton Falls Exempted Village School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

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

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

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

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

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

### ***Fund Accounting***

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

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

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

***Bond Retirement Fund*** To account for and report tax levies that are restricted for the repayment of general obligation bonds of the School District.

## Newton Falls Exempted Village School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

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

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

### ***Measurement Focus***

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

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

### ***Basis of Accounting***

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

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

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year in which the taxes are levied (See Note 7). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the

## Newton Falls Exempted Village School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

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School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

***Deferred Outflows/Inflows of Resources*** In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School District, deferred outflows of resources are reported on the government-wide statement of net position for deferred charges on refunding and for pension. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred outflows of resources related to pension are explained in Note 17.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the School District, deferred inflows of resources include property taxes, pension and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2015, but which were levied to finance fiscal year 2016 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the School District, unavailable revenue includes delinquent property taxes and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide statement of net position. (See Note 17)

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

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

### ***Pensions***

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

**Newton Falls Exempted Village School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

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***Cash and Cash Equivalents***

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

During fiscal year 2015, investments were limited to STAR Ohio. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with 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 net asset value per share which is the price the investment could be sold for on June 30, 2015.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2015 amounted to \$1,360, which includes \$856 assigned from other School District funds.

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

***Capital Assets***

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

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

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

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

**Newton Falls Exempted Village School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

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***Inventory***

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

***Compensated Absences***

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

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

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

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

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

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

In general, governmental fund payables and accrued liabilities that once incurred, are paid in a timely manner and in full from current financial resources, and 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 fiscal year. Bonds are recognized as a liability on the fund financial statements when due.

***Internal Activity***

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

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

## Newton Falls Exempted Village School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

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### ***Fund Balance***

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

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

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

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

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

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

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

### ***Net Position***

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

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

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

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

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

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

### ***Bond Premiums***

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

### ***Estimates***

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

### ***Budgetary Data***

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

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

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

**Newton Falls Exempted Village School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

**Note 3 – Fund Balances**

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

Fund Balances	General	Bond Retirement	Other Governmental Funds	Total
<b><i>Nonspendable</i></b>				
Materials and Supplies Inventory	\$0	\$0	\$1,490	\$1,490
<b><i>Restricted for</i></b>				
Food Service Operations	0	0	125,931	125,931
Scholarships	0		1,324	1,324
Classroom Facilities Maintenance	0	0	139,091	139,091
Athletics	0	0	8,319	8,319
Auxiliary Services	0	0	980	980
Student Programs	938	0	0	938
Debt Service Payments	0	206,367	0	206,367
Capital Improvements	0	0	98,919	98,919
<b><i>Total Restricted</i></b>	<b>938</b>	<b>206,367</b>	<b>374,564</b>	<b>581,869</b>
<b><i>Unassigned (Deficit)</i></b>	<b>(1,054,210)</b>	<b>0</b>	<b>(58,282)</b>	<b>(1,112,492)</b>
<b><i>Total Fund Balances (Deficit)</i></b>	<b>(\$1,053,272)</b>	<b>\$206,367</b>	<b>\$317,772</b>	<b>(\$529,133)</b>

**Note 4 – Accountability**

Fund balances at June 30, 2015, included the following individual fund deficits:

General Fund	\$1,053,272
<i>Special Revenue Funds</i>	
Title VI-B	3,490
Title I	49,256
Class Size Reduction	5,536

Management is currently analyzing the general fund’s operations to determine appropriate steps to alleviate the deficit.

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

**Newton Falls Exempted Village School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

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**Note 5 - Budgetary Basis of Accounting**

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

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than restricted, committed or assigned fund balance (GAAP).
4. Budgetary revenues and expenditures of the uniform school supplies, public school support, school net professional development and poverty based assistance funds are classified to general fund for GAAP Reporting.
5. Unrecorded cash represents amounts received but not reported by the School District on the statements (budget), but which is reported on the GAAP basis operating statements.

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

	<u>General</u>
GAAP Basis	(\$470,152)
Net Adjustment for Revenue Accruals	329,799
Ending Unrecorded Cash	169,423
Perspective Difference:	
Uniform School Supplies	(10)
Public School Support	(1,487)
School Net Professional Development	2
Poverty Based Assistance	5,980
Net Adjustment for Expenditure Accruals	(6,261)
Encumbrances	(1,713)
Budget Basis	<u><u>\$25,581</u></u>

**Note 6 - Deposits and Investments**

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

## Newton Falls Exempted Village School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in securities listed above;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAR Ohio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

### ***Deposits***

***Custodial Credit Risk*** Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$283,511 of the School District's bank balance of \$1,087,534 was uninsured and

## Newton Falls Exempted Village School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

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uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the School District to a successful claim by the FDIC.

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

### ***Investments***

As of June 30, 2015, the School District had STAR Ohio as the only investment with an amount of \$80,163 and a maturity of 53.4 days. The investment is an internal investment pool.

***Interest Rate Risk.*** As a means of limiting its exposure to fair value losses caused by rising interest rates, the School District's investment policy requires that operating funds be invested primarily in short-term investments maturing within five years from the date of purchase and that the School District's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments. The stated intent of the policy is to avoid the need to sell securities prior to maturity.

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

### **Note 7 – Property Taxes**

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

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenues received in calendar year 2015 represent the collection of calendar year 2014 taxes. Real property taxes received in calendar year 2015 were levied after April 1, 2014, on the assessed values as of January 1, 2014, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in calendar year 2015 represent the collection of calendar year 2014 taxes. Public utility real and tangible personal property taxes received in calendar year 2015 became a lien on December 31, 2013, were levied after April 1, 2014, and are collected with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

The School District receives property taxes from Trumbull County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments

**Newton Falls Exempted Village School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

collected by the County by June 30, 2015, are available to finance fiscal year 2016 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property and public utility property taxes which are measurable as of June 30, 2015 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 were levied to finance current fiscal year operations are reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows of resources – property taxes. On the accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on the modified accrual basis the revenue has been reported as deferred inflows of resources – unavailable revenue.

The amount available as an advance at June 30, 2015, was \$23,479 in the general fund, \$386 in the classroom facilities maintenance special revenue fund and \$2,021 in the bond retirement fund. The amount available as an advance at June 30, 2014, was \$11,379 in the general fund, \$186 in the classroom facilities maintenance special revenue fund and \$1,000 in the bond retirement fund.

The assessed values upon which the fiscal year 2015 taxes were collected are:

	2014 Second Half Collections		2015 First Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$121,316,200	98.22%	\$120,572,180	97.78%
Public Utility Personal	2,200,320	1.78	2,734,930	2.22
Total	<u>\$123,516,520</u>	<u>100.00%</u>	<u>\$123,307,110</u>	<u>100.00%</u>
Full Tax Rate per \$1,000 of assessed valuation	\$37.45		\$37.35	

**Note 8 - Receivables**

Receivables at June 30, 2015, consisted of taxes and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables except property taxes are expected to be received within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

Intergovernmental Receivables	Amounts
Class Size Reduction Grant	\$47,124
Title I Grant	35,996
Medicaid	8,153
Title VI-B Grant	5,318
Trumbull County	1,032
Total	<u>\$97,623</u>

**Newton Falls Exempted Village School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

**Note 9 – Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2015, was as follows:

	<u>Balance</u> <u>June 30, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2015</u>
<b>Nondepreciable Capital Assets</b>				
Land	\$58,300	\$0	\$0	\$58,300
<b>Depreciable Capital Assets</b>				
Land Improvements	269,562	0	0	269,562
Buildings and Improvements	28,201,981	0	0	28,201,981
Furniture and Fixtures	1,425,341	153,540	0	1,578,881
Vehicles	877,663	78,987	0	956,650
Textbooks	946,977	0	0	946,977
<i>Total at Historical Cost</i>	<u>31,721,524</u>	<u>232,527</u>	<u>0</u>	<u>31,954,051</u>
<b>Less: Accumulated Depreciation</b>				
Land Improvements	(117,749)	(13,478)	0	(131,227)
Buildings and Improvements	(13,677,746)	(980,714)	0	(14,658,460)
Furniture and Fixtures	(1,026,297)	(98,478)	0	(1,124,775)
Vehicles	(771,118)	(31,969)	0	(803,087)
Textbooks	(700,051)	(27,737)	0	(727,788)
<i>Total Accumulated Depreciation</i>	<u>(16,292,961)</u>	<u>(1,152,376) *</u>	<u>0</u>	<u>(17,445,337)</u>
<i>Depreciable Capital Assets, Net of Accumulated Depreciation</i>	<u>15,428,563</u>	<u>(919,849)</u>	<u>0</u>	<u>14,508,714</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$15,486,863</u>	<u>(\$919,849)</u>	<u>\$0</u>	<u>\$14,567,014</u>

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

Instruction	
Regular	\$1,050,698
Special	13,853
Vocational	31
Support Services	
Pupils	665
Instructional Staff	13,846
Operation and Maintenance of Plant	13,713
Pupil Transportation	32,425
Central	1,566
Operation of Food Service	19,283
Extracurricular Activities	6,296
Total Depreciation Expense	<u>\$1,152,376</u>

**Newton Falls Exempted Village School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

**Note 10 - Capital Leases**

The School District entered into a \$149,940 five year lease purchase agreement with General Electric Capital Corporation for the acquisition of copiers. The School District's lease obligations meet the criteria of a capital lease. Capital lease payments for the copier's leases are reflected as debt service expenditures in the general fund on the basic financial statements.

Capital assets acquired by lease have been capitalized as follows:

<b>Assets:</b>	
Equipment	\$149,940
Less: Accumulated Depreciation	<u>(29,988)</u>
<i>Current Book Value</i>	<u><u>\$119,952</u></u>

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2015.

Fiscal Year Ending June 30	<u>Governmental Activities</u>
2016	\$29,988
2017	29,988
2018	29,988
2019	<u>29,988</u>
Present Value of Net Minimum Lease Payments	<u><u>\$119,952</u></u>

**Note 11 – Notes Payable**

The School's note activity, including amounts outstanding and interest rate is as follows:

	<u>Outstanding 6/30/2014</u>	<u>Issued</u>	<u>Retired</u>	<u>Outstanding 6/30/2015</u>
<b>Governmental Activities</b>				
Tax Anticipation Notes 4 to 4.5%	<u>\$0</u>	<u>\$355,000</u>	<u>\$0</u>	<u>\$355,000</u>

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

**Newton Falls Exempted Village School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$0	\$13,746	\$13,746
2017	0	14,950	14,950
2018	65,000	13,650	78,650
2019	70,000	10,950	80,950
2020	70,000	8,150	78,150
2021-2022	150,000	6,750	156,750
<b>Total</b>	<b>\$355,000</b>	<b>\$68,196</b>	<b>\$423,196</b>

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

**Note 12 – Long-Term Obligations**

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

<u>Debt Issue</u>	<u>Interest Rate</u>	<u>Original Issue</u>	<u>Year of Maturity</u>
2012 Various Purpose Refunding Bonds:			
Serial Bonds	2.90% to 3.70%	\$2,665,000	2013 to 2024
Capital Appreciation Bonds	6.70	160,000	2019

Changes in long-term obligations of the School District during fiscal year 2015 were as follows:

	<u>Principal Outstanding June 30, 2014</u>	<u>Additions</u>	<u>Deductions</u>	<u>Principal Outstanding June 30, 2015</u>	<u>Amount Due in One Year</u>
<b>Governmental Activities</b>					
<b>General Obligation Bonds</b>					
2012 Various Purpose Refunding Bonds					
Serial Bonds	\$2,215,000	\$0	(\$220,000)	\$1,995,000	\$220,000
Capital Appreciation Bonds	160,000	0	0	160,000	0
Accretion on Bonds	26,873	12,721	0	39,594	0
Premium	118,732	0	(12,609)	106,123	0
<i>Total General Obligation Bonds</i>	<u>2,520,605</u>	<u>12,721</u>	<u>(232,609)</u>	<u>2,300,717</u>	<u>220,000</u>
<b>Other Long-term Obligations</b>					
Net Pension Liability:					
STRS	13,390,313	0	(2,149,223)	11,241,090	0
SERS	3,029,536	0	(451,238)	2,578,298	0
<i>Total Net Pension Liability</i>	<u>16,419,849</u>	<u>0</u>	<u>(2,600,461)</u>	<u>13,819,388</u>	<u>0</u>
Capital Lease	0	149,940	(29,988)	119,952	29,988
Compensated Absences	548,780	39,939	(41,683)	547,036	7,510
<i>Total Other Long-term Obligations</i>	<u>16,968,629</u>	<u>189,879</u>	<u>(2,672,132)</u>	<u>14,486,376</u>	<u>37,498</u>
<i>Total Governmental Activities Long-Term Liabilities</i>	<u>\$19,489,234</u>	<u>\$202,600</u>	<u>(\$2,904,741)</u>	<u>\$16,787,093</u>	<u>\$257,498</u>

**Newton Falls Exempted Village School District**

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

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

The maturity amount of outstanding capital appreciation bonds at June 30, 2015 is \$250,000. The accretion recorded for 2015 was \$12,721, for a total outstanding bond liability of \$199,594 at June 30, 2015.

In fiscal year 2013, the School District defeased a 2002 various purpose general obligation bond issue in order to take advantage of lower interest rates. The proceeds of the new bonds were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the School District's financial statements. On June 30, 2015, \$2,325,000 of the defeased bonds are still outstanding.

Compensated absences will be paid from the general fund and the food service, title VI-B, title I and class size reduction grants special revenue funds. The School District pays obligations related to employee compensation from the fund benefitting from their service.

The overall debt margin of the School District as of June 30, 2015, was \$9,149,007 with an unvoted debt margin of \$123,307. Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2015, are as follows:

Fiscal Year Ending June 30	General Obligation Bonds			
	Serial		Capital Appreciation	
	Principal	Interest	Principal	Accretion
2016	\$220,000	\$50,275	\$0	\$0
2017	230,000	43,525	0	0
2018	250,000	37,575	0	0
2019	0	35,075	160,000	90,000
2020	250,000	32,575	0	0
2021 - 2024	1,045,000	62,738	0	0
Total	<u>\$1,995,000</u>	<u>\$261,763</u>	<u>\$160,000</u>	<u>\$90,000</u>

**Note 13 - Interfund Transfers**

The general fund made a transfer of \$14,085 to the athletics special revenue fund to help provide funding for fiscal year 2015.

**Newton Falls Exempted Village School District**

*Notes to the Basic Financial Statements  
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**Note 14 - Risk Management**

***Property and Liability***

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2015, the School District contracted for the following insurance coverage:

<u>Company</u>	<u>Type of Coverage</u>	<u>Coverage Amount</u>
Schools of Ohio Risk Sharing Authority (SORSA)	General Liability	
	Bodily Injury and Property Damage	\$5,000,000
	Personal Injury/Advertising Liability	5,000,000
	Products/Completed Operations	7,000,000
	Employers Stop Gap Liability	
	Bodily Injury by Accident, each accident	5,000,000
	Bodily Injury by Disease, Limit	5,000,000
	Bodily Injury by Disease, each employee	5,000,000
	Aggregate Limit	5,000,000
	General Annual Aggregate	14,000,000
	Fire Legal Liability	500,000
	Medical Payments - Occurrence/Aggregate	10,000/25,000
	Educators' Legal Liability	
	Wrongful Acts, per occurrence	5,000,000
	Wrongful Acts, in aggregate with \$1,000 deductible	5,000,000
	Employee Benefits Liability	5,000,000
	Automobile Liability	
	Bodily Injury and Property Damage, per occurrence	5,000,000
	Medical Payments - Occurrence/Aggregate	10,000/25,000
	Uninsured/Underinsured Motorist, per person	100,000
	Uninsured/Underinsured Motorist, per occurrence	1,000,000

The School District has contracted with the Trumbull County Schools Employee Insurance Benefit Consortium to provide employee medical/surgical, dental, and prescription drug benefits. The Trumbull County Schools Employee Insurance Benefit Consortium is a shared risk pool comprised of sixteen Trumbull County school districts. Rates are set through an annual calculation process. The Newton Falls Exempted Village School District pays a monthly contribution which is placed in a common fund from which claim payments are made for all participating school districts. Claims are paid for all participants regardless of claims flow. The board of directors has the right to return monies to an exiting district subsequent to the settlement of all expenses and claims. The School District pays medical/prescription drug premiums of \$1,382 for family coverage and \$531 for single coverage per employee per month. If the School District were to withdraw from the consortium, there would be no liability because premium levels fund a reserve for subsequent claim payments. The School District provides dental coverage through Coresource which is not paid through the Trumbull County School Employee Insurance Benefit Consortium.

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

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

*Notes to the Basic Financial Statements  
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### ***Worker's Compensation***

For fiscal year 2015, the School District participated in the Ohio Schools Council Workers' Compensation Group Retrospective Rating Program, an insurance purchasing pool (Note 16). The intent of the program is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the program. The participating school districts pay experience or rate based premiums to the Bureau of Workers' Compensation (BWC). The total premium for the entire group is the standard premium of the group. The BWC recalculates the group retrospective premium 12 months after the end of the policy year, based on developed incurred claim losses. If the new calculated premium is lower than the standard premium, the BWC will distribute a refund to the school districts in the group. Participation in the program is limited to school districts that can meet the Ohio Schools Council's selection criteria. The firm of Sheakley provides administrative, cost control, and actuarial services for the program.

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

***Northeast Ohio Management Information Network (NEOMIN)*** NEOMIN is a jointly governed organization among twenty-nine school districts and two educational service centers in Trumbull and Ashtabula Counties. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the districts supports NEOMIN based upon a per pupil charge. Newton Falls Exempted Village School District paid \$28,586 to NEOMIN during fiscal year 2015.

The Governing board consists of ten members: The Trumbull and Ashtabula County superintendents (permanent members), three superintendents from Ashtabula County participating school districts, three superintendents from Trumbull County participating school districts, the fiscal agent (or NEOMIN). The Newton Falls Exempted Village School District was not represented on the Governing Board during fiscal year 2015. The Board exercises total control over the operations of NEOMIN including budgeting, appropriating, contracting and designating management. The degree of control exercised by any participating school district is limited to its representation on the Governing Board. To obtain a copy of NEOMIN's financial statements, write to the Trumbull County Educational Service Center, 6000 Youngstown Warren Road, Niles, Ohio 44446.

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

**Newton Falls Exempted Village School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

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**Note 16 – Public Entity Pool**

***Insurance Purchasing Pool***

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

***Shared Risk Pool***

***Schools of Ohio Risk Sharing Authority*** The School District participates in the Schools of Ohio Risk Sharing Authority (SORSA), a risk sharing insurance pool. The pool consists of sixty-two school districts, joint vocational schools, and educational service centers throughout Ohio who pool risk for property, crime, liability, boiler and machinery, and public official liability coverage. SORSA is governed by a board of trustees elected by members. The School District pays an annual premium to SORSA for this coverage. Reinsurance is purchased to cover claims exceeding this amount and for all claims related to equipment breakdown coverage.

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

**Note 17 – Defined Benefit Pension Plans**

***Net Pension Liability***

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

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

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

**Newton Falls Exempted Village School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan’s unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

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

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

Age and service requirements for retirement are as follows:

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

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

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

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

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

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

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

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fiscal year ended June 30, 2015, the allocation to pension, death benefits, and Medicare B was 13.18 percent. The remaining 0.82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The School District's contractually required contribution to SERS was \$205,082 for fiscal year 2015. Of this amount \$6,529 is reported as an intergovernmental payable.

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

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five year of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five year of service on August 1, 2026.

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

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

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

**Newton Falls Exempted Village School District**

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2015, plan members were required to contribute 12 percent of their annual covered salary. The School District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2015 contribution rates were equal to the statutory maximum rates.

The School District's contractually required contribution to STRS was \$680,893 for fiscal year 2015. Of this amount \$113,280 is reported as an intergovernmental payable.

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

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on the School District's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$2,578,298	\$11,241,090	\$13,819,388
Proportion of the Net Pension Liability	0.050945%	0.0462150%	
Pension Expense	\$150,318	\$432,796	\$583,114

At June 30, 2015, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Differences between expected and actual experience	\$21,944	\$108,221	\$130,165
School District contributions subsequent to the measurement date	<u>205,082</u>	<u>680,893</u>	<u>885,975</u>
Total Deferred Outflows of Resources	<u>\$227,026</u>	<u>\$789,114</u>	<u>\$1,016,140</u>
<b>Deferred Inflows of Resources</b>			
Net difference between projected and actual earnings on pension plan investments	<u>\$418,465</u>	<u>\$2,079,644</u>	<u>\$2,498,109</u>

**Newton Falls Exempted Village School District**

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\$885,975 reported as deferred outflows of resources related to pension resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2016	(\$99,075)	(\$492,856)	(\$591,931)
2017	(99,075)	(492,856)	(591,931)
2018	(99,075)	(492,856)	(591,931)
2019	<u>(99,296)</u>	<u>(492,856)</u>	<u>(592,152)</u>
Total	<u>(\$396,521)</u>	<u>(\$1,971,424)</u>	<u>(\$2,367,945)</u>

**Actuarial Assumptions - SERS**

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2014, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

**Newton Falls Exempted Village School District**

*Notes to the Basic Financial Statements  
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The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Cash	1.00 %	0.00 %
US Stocks	22.50	5.00
Non-US Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	15.00	7.50
 Total	 <u>100.00 %</u>	

**Discount Rate** The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

**Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$3,678,464	\$2,578,298	\$1,652,962

**Actuarial Assumptions - STRS**

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

**Newton Falls Exempted Village School District**

*Notes to the Basic Financial Statements  
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Inflation	2.75 percent
Projected salary increases	2.75 percent at age 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date.

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males’ ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2014, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

The 10 year expected real rate of return on pension plan investments was determined by STRS’ investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
Total	100.00 %	

**Discount Rate** The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS’ fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2014. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2014.

**Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** The following table presents the School District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

**Newton Falls Exempted Village School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

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	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$16,092,846	\$11,241,090	\$7,138,137

**Note 18 – Postemployment Benefits**

***School Employees Retirement System***

Health Care Plan Description - The School District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2015, 0.82 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, prorated according to service credit earned. For fiscal year 2015, this amount was \$20,450. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2015, the School District's surcharge obligation was \$66,219.

The School District's contributions for health care for the fiscal years ended June 30, 2015, 2014 and 2013 were \$2,198, \$1,990 and \$2,489, respectively. For fiscal year 2015, 92.75 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2014 and 2013.

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

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

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### ***State Teachers Retirement System***

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2015, STRS did not allocate any employer contributions to post-employment health care. The School District's contributions for health care for the fiscal years ended June 30, 2015, 2014 and 2013 were \$0, \$47,561 and \$50,050 respectively. The full amount has been contributed for fiscal years 2015, 2014 and 2013.

### **Note 19 - Other Employee Benefits**

#### ***Compensated Absences***

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

#### ***Life Insurance Benefits***

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

### **Note 20 - Contingencies**

#### ***Grants***

The School District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2015, if applicable, cannot be determined at this time.

**Newton Falls Exempted Village School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2015*

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***School Foundation***

School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the School District, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2015 Foundation funding for the School District, therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or a liability of the School District.

***Litigation***

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

**Note 21 - Set Asides**

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

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

	<u>Capital Improvements</u>
Set Aside Balance as of June 30, 2014	\$0
Current Year Set-aside Requirement	213,238
Current Year Offsets	<u>(275,775)</u>
Total	<u>(\$62,537)</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>\$0</u>
Set Aside Balance as of June 30, 2015	<u>\$0</u>

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

**Newton Falls Exempted Village School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

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**Note 22 - Encumbrances**

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

<b>Governmental Funds</b>	
General	\$1,713
Other Governmental Funds	7,632
<i>Total Governmental Funds</i>	<u><u>\$9,345</u></u>

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

For fiscal year 2015, the School District implemented the Governmental Accounting Standards Board (GASB) Statement No. 68, “Accounting and Financial Reporting for Pensions” and GASB Statement No. 71, “Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68”. GASB 68 established standards for measuring and recognizing pension liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditure. The implementation of this pronouncement had the following effect on net position as reported at June 30, 2014:

Net Position June 30, 2014	\$13,582,793
Adjustments:	
Net Pension Liability	(16,419,849)
Deferred Outflow - Payments Subsequent to Measurement Date	<u>815,631</u>
Restated Net Position June 30, 2014	<u><u>(\$2,021,425)</u></u>

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

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## Required Supplementary Information

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

	2014	2013
School District's Proportion of the Net Pension Liability	0.050945%	0.050945%
School District's Proportionate Share of the Net Pension Liability	\$2,578,298	\$3,029,536
School District's Covered-Employee Payroll	\$1,479,328	\$1,555,924
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	174.29%	194.71%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	71.70%	65.52%

(1) Information prior to 2013 is not available.

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

	2014	2013
School District's Proportion of the Net Pension Liability	0.04621501%	0.04621501%
School District's Proportionate Share of the Net Pension Liability	\$11,241,090	\$13,390,313
School District's Covered-Employee Payroll	\$4,696,893	\$5,259,169
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	239.33%	254.61%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.70%	69.30%

(1) Information prior to 2013 is not available.

**Newton Falls Exempted Village School District, Ohio**  
*Schedule of School District Contributions*  
*School Employees Retirement System of Ohio*  
*Last Eight Fiscal Years (1)*

	2015	2014	2013	2012
Contractually Required Contribution	\$205,082	\$205,035	\$215,340	\$200,622
Contributions in Relation to the Contractually Required Contribution	<u>(205,082)</u>	<u>(205,035)</u>	<u>(215,340)</u>	<u>(200,622)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School District Covered-Employee Payroll	\$1,556,007	\$1,479,328	\$1,555,924	\$1,491,614
Contributions as a Percentage of Covered-Employee Payroll	13.18%	13.86%	13.84%	13.45%

(1) Information prior to 2008 is not available.

2011	2010	2009	2008
\$181,427	\$196,121	\$136,571	\$137,180
(181,427)	(196,121)	(136,571)	(137,180)
\$0	\$0	\$0	\$0
\$1,443,336	\$1,448,459	\$1,387,921	\$1,396,943
12.57%	13.54%	9.84%	9.82%

**Newton Falls Exempted Village School District, Ohio**  
*Schedule of School District Contributions*  
*State Teachers Retirement System of Ohio*  
*Last Ten Fiscal Years*

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually Required Contribution	\$680,893	\$610,596	\$683,692	\$664,705
Contributions in Relation to the Contractually Required Contribution	<u>(680,893)</u>	<u>(610,596)</u>	<u>(683,692)</u>	<u>(664,705)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School District Covered-Employee Payroll	\$4,863,521	\$4,696,893	\$5,259,169	\$5,113,115
Contributions as a Percentage of Covered-Employee Payroll	14.00%	13.00%	13.00%	13.00%

2011	2010	2009	2008	2007	2006
\$643,492	\$651,806	\$612,672	\$658,777	\$655,772	\$664,288
(643,492)	(651,806)	(612,672)	(658,777)	(655,772)	(664,288)
\$0	\$0	\$0	\$0	\$0	\$0
\$4,949,938	\$5,013,892	\$4,712,862	\$5,067,515	\$5,044,400	\$5,109,908
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

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

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2015**

<b>FEDERAL GRANTOR Pass Through Grantor Program Title</b>	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<b>U.S. DEPARTMENT OF AGRICULTURE</b>					
<i>Passed Through Ohio Department of Education:</i>					
Child Nutrition Cluster:					
School Breakfast Program	10.553	\$56,190		\$56,190	
National School Lunch Program	10.555	245,449	\$54,395	245,449	\$54,395
<b>Total U.S. Department of Agriculture - Nutrition Cluster</b>		<b>301,639</b>	<b>54,395</b>	<b>301,639</b>	<b>54,395</b>
<b>U.S. DEPARTMENT OF EDUCATION</b>					
<i>Passed Through Ohio Department of Education:</i>					
Title I Grants to Local Educational Agencies - 2014	84.010	43,369		65,159	
Title I Grants to Local Educational Agencies - 2015	84.010	364,717		329,006	
Total Title I Grants to Local Educational Agencies		408,086		394,165	
Special Education Grants to States (IDEA, Part B) - 2014	84.027			2,285	
Special Education Grants to States (IDEA, Part B) - 2015	84.027	244,891		215,935	
		244,891		218,220	
Improving Teacher Quality State Grants (Title II-A) - 2014	84.367	5,156		8,093	
Improving Teacher Quality State Grants (Title II-A) - 2015	84.367	44,655		41,124	
Total Improving Teacher Quality State Grants		49,811		49,217	
Race to the Top - Stimulus	84.395	700		700	
Total Race to the Top - Stimulus		700		700	
<b>Total U.S. Department of Education</b>		<b>703,488</b>		<b>662,302</b>	
<b>Total Federal Awards Receipts and Expenditures</b>		<b>\$ 1,005,127</b>	<b>\$ 54,395</b>	<b>\$ 963,941</b>	<b>\$ 54,395</b>

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

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

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FISCAL YEAR ENDED JUNE 30, 2015**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) reports the Newton Falls Exempted Village School District's (the District's) federal award programs' receipts and expenditures. The schedule has been prepared on the cash basis of accounting.

**NOTE B – CHILD NUTRITION CLUSTER**

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

**NOTE C – FOOD DONATION PROGRAM**

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



# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

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

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Newton Falls Exempted Village School District, Trumbull County, (the District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 17, 2015, in which we noted the District implemented Government Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions" and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68".

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

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a significant deficiency in internal control. We consider finding 2015-001 to be a significant deficiency.

***Compliance and Other Matters***

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2015-001.

***Entity's Response to Findings***

The District's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the District's response and, accordingly, we express no opinion on it.

***Purpose of this Report***

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



**Dave Yost**  
Auditor of State  
Columbus, Ohio

December 17, 2015



# Dave Yost • Auditor of State

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

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

To the Board of Education:

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

We have audited the Newton Falls Exempted Village School District's (the District) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the Newton Falls Exempted Village School District's major federal programs for the year ended June 30, 2015. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the District's major federal programs.

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

The District's Management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

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

Our responsibility is to opine on the District's compliance for each of the District's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the District's major programs. However, our audit does not provide a legal determination of the District's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, the Newton Falls Exempted Village School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2015.

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

The District's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the District's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

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

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

This report only describes the scope of our internal control over compliance tests and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.



**Dave Yost**  
Auditor of State  
Columbus, Ohio

December 17, 2015

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

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2015**

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

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unmodified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unmodified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	IDEA Part B (CFDA # 84.027) Title II-A (CFDA # 84.367)
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

**FINDING NUMBER 2015-001**

**Deficit Fund Balance - Significant Deficiency**

Ohio Rev. Code Section 5705.10 provides that money paid into any fund shall be used only for the purpose for which such fund was established. The existence of a deficit fund balance in any fund indicates that money from another fund or funds has been used to pay the obligations of the fund or funds carrying the deficit balance.

As of June 30, 2015, the General Fund had a negative cash balance of \$93,727. Although the District's FINSUM report showed a positive balance of \$60,030 at June 30, 2015, the District's bank statement identified total withdrawals of \$188,772, for payroll taxes on June 29, 2015 and June 30, 2015. Of this amount, \$153,757 was from the general fund. These withdrawals were not posted by the District until July. If these expenditures were posted to the District's ledgers on the day of withdrawal, the General Fund balance would have been (\$93,727). The financial statements reflect the expenditures in the proper period.

The District should comply with Ohio Rev. Code Section 5705.10 and District officials should monitor fund balances more closely to help avoid deficit balances by controlling expenditures in those funds. In addition, the District should account for withdrawals in the accounting period they occur.

**Official's Response:**

The Newton Falls Exempted Village School District has lost \$8.8 million since 2009 through state funding cuts, open enrollment, community schools, and students moving away from the school district. In FY 2015, the District lost a shocking 115 students. Despite efforts to trim the budget, it just hasn't been enough. Fortunately, in November 2015, the District was able to pass a 6 mill emergency operating levy for the first time since 1991. The levy alone will not solve all the financial issues, but the District is committed to continually reducing expenses in an effort to avoid a deficit balance in the future, and lead the District back to fiscal sustainability.

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b>
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None



# Dave Yost • Auditor of State

**NEWTON FALLS EXEMPTED VILLAGE SCHOOL DISTRICT**

**TRUMBULL COUNTY**

## **CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JANUARY 5, 2016**