



**Auditor of State  
Betty Montgomery**





Mary Taylor, CPA  
Auditor of State

February 9, 2007

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 8, 2007. Thus, I am certifying this audit report for release under the signature of my predecessor.

*Mary Taylor*

MARY TAYLOR, CPA  
Auditor of State

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**CITY OF NEWTON FALLS  
TRUMBULL COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Statement of Net Assets – Modified Cash Basis – December 31, 2004 .....	11
Statement of Activities – Modified Cash Basis – For the Year Ended December 31, 2004 .....	12
Statement of Modified Cash Basis Assets and Fund Balances – Governmental Funds - December 31, 2004.....	14
Reconciliation of Modified Cash Basis Assets and Fund Balances to Net Assets of Governmental Activities – December 31, 2004 .....	15
Statement of Cash Receipts, Disbursements and Changes in Modified Cash Basis Fund Balances – Governmental Funds – For the Year Ended December 31, 2004 .....	16
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Modified Cash Basis Fund Balances of Governmental Funds to the Statement of Activities – For the Year Ended December 31, 2004.....	17
Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual (Budget Basis) – General Fund – For the Year Ended December 31, 2004 .....	18
Statement of Fund Net Assets – Modified Cash Basis – Proprietary Funds - December 31, 2004.....	20
Statement of Cash Receipts, Disbursements and Changes in Fund Net Assets - Modified Cash Basis – Proprietary Funds – For the Year Ended December 31, 2004 .....	22
Statement of Fiduciary Net Assets – Modified Cash Basis – Fiduciary Funds – December 31, 2004.....	24
Statement of Changes in Fiduciary Net Assets – Private Purpose Trust Fund – For the Year Ended December 31, 2004 .....	25
Notes to the Basic Financial Statements .....	27
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	43
Schedule of Findings.....	45
Schedule of Prior Audit Findings.....	46

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

City of Newton Falls  
Trumbull County  
19 North Canal Street  
Newton Falls, Ohio 44444

To the City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the major fund, and the aggregate remaining fund information of the City of Newton Falls, Trumbull County, Ohio, (the City) as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

Ohio Administrative Code § 117-2-03 (B) requires the City to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 1, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, the business-type activities, the major fund, and the aggregate remaining fund information of the City of Newton Falls, Trumbull County, Ohio, as of December 31, 2004, and the respective changes in cash financial position and the respective budgetary comparison for the General fund, thereof for the year ended in conformity with the basis of accounting Note 1 describes.

For the year ended December 31, 2004, the City revised its financial statement presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2006 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

**Betty Montgomery**  
Auditor of State

December 22, 2006



## **City of Newton Falls, Trumbull County, Ohio**

*Management's Discussion and Analysis*

*For the Year Ended December 31, 2004*

*Unaudited*

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This discussion and analysis of the City of Newton Falls financial performance provides an overall review of the City's financial activities for the year ended December 31, 2004, within the limitations of the City's cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the City's financial performance.

### **Highlights**

Key highlights for 2004 are as follows:

Net assets of governmental activities decreased \$288,429, or 18 percent, a significant change from the prior year. The fund most affected by the decrease in cash and cash equivalents was the General Fund, which realized the greatest burden of increased costs in 2004; however, cost increases affected most funds.

The City's general receipts are primarily income tax and fines, licenses and permits. These receipts represent respectively 28 and 24 percent of the total cash received for governmental activities during the year.

### **Using the Basic Financial Statements**

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the City's cash basis of accounting.

### **Report Components**

The statement of net assets and the statement of activities provide information about the cash activities of the City as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the City as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

### **Basis of Accounting**

The basis of accounting is a set of guidelines that determine when financial events are recorded. The City has elected to present its financial statements on a cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the City's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

**City of Newton Falls, Trumbull County, Ohio**

*Management's Discussion and Analysis*

*For the Year Ended December 31, 2004*

*Unaudited*

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As a result of using the cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the cash basis of accounting.

**Reporting the City of Newton Falls as a Whole**

A reporting entity is comprised 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 City consists of all funds, agencies, departments and offices that are not legally separated from the City.

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

The statement of net assets and the statement of activities reflect how the City did financially during 2004, within the limitations of cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental and business-type activities of the City at year end. The statement of activities compares cash disbursements with program receipts for each governmental program and business-type activity. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function or business-type activity draws from the City's general receipts.

These statements report the City's cash position and the changes in cash position. Keeping in mind the limitations of the cash basis of accounting, you can think of these changes as one way to measure the City's financial health. Over time, increases or decreases in the City's cash position is one indicator of whether the City's financial health is improving or deteriorating. When evaluating the City's financial condition, you should also consider other non-financial factors as well such as the City's property tax base, the condition of the City's capital assets and infrastructure, the extent of the City's debt obligations, the reliance on non-local financial resources for operations and the need for continued growth in the major local revenue sources such as property and income taxes.

**City of Newton Falls, Trumbull County, Ohio**

*Management's Discussion and Analysis*

*For the Year Ended December 31, 2004*

*Unaudited*

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In the statement of net assets and the statement of activities, we divide the City into two types of activities:

*Governmental activities* Most of the City's basic services are reported here, including police, fire, streets and parks. State and federal grants and income and property taxes finance most of these activities. Benefits provided through governmental activities are not necessarily paid for by the people receiving them.

*Business-type activities* The City has four business-type activities for the provision of water, sewer, electric and refuse. Business-type activities are financed by a fee charged to the customers receiving the service.

**Reporting the City of Newton Falls Most Significant Funds**

Fund financial statements provide detailed information about the City's major funds – not the City as a whole. The City establishes separate funds to better manage its many activities and to help demonstrate that money that is restricted as to how it may be used is being spent for the intended purpose. The funds of the City are split into three categories: governmental, proprietary and fiduciary.

*Governmental Funds* - Most of the City's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the City's governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the City's programs. The City's significant governmental funds are presented on the financial statements in separate columns. The information for non-major funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. The City's only major governmental fund is the General Fund. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements. We describe this relationship in reconciliations presented with the governmental fund financial statements.

*Proprietary Funds* – When the City charges customers for the services it provides, these services are generally reported in proprietary funds. When the services are provided to the general public, the activity is reported as an enterprise fund. The City has four enterprise funds: the water fund, the sewer fund, the electric fund and the refuse fund. When the services are provided to other departments of the City, the service is reported as an internal service fund. The City has one internal service fund to account for employee health-care claims.

*Fiduciary Funds* - Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected on the government-wide financial statements because the resources of these funds are not available to support the City's programs.

**City of Newton Falls, Trumbull County, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2004*  
*Unaudited*

**The City of Newton Falls as a Whole**

Table 1 provides a summary of the City's net assets for 2004 compared to 2003 on a cash basis.

(Table 1)  
**Net Assets**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
<b>Assets</b>						
Cash and Cash Equivalents	\$1,516,217	\$1,757,620	\$8,291,568	\$5,631,203	\$9,807,785	\$7,388,823
Internal Balances	(215,639)	(168,613)	215,639	168,613	0	0
<i>Total Assets</i>	<u>1,300,578</u>	<u>1,589,007</u>	<u>8,507,207</u>	<u>5,799,816</u>	<u>9,807,785</u>	<u>7,388,823</u>
<b>Net Assets</b>						
Restricted for:						
Capital Outlay	123,360	196,567	0	0	123,360	196,567
Other Purposes	438,682	439,350	0	0	438,682	439,350
Unrestricted	738,536	953,090	8,507,207	5,799,816	9,245,743	6,752,906
<i>Total Net Assets</i>	<u>\$1,300,578</u>	<u>\$1,589,007</u>	<u>\$8,507,207</u>	<u>\$5,799,816</u>	<u>\$9,807,785</u>	<u>\$7,388,823</u>

- As mentioned previously, net assets of governmental activities decreased \$288,429 or 18 percent during 2004.
- This decrease is largely made up of investment earnings decreasing \$49,731 and capital outlay expenditures increasing \$316,539.
- Net assets of business-type activities increased \$2,707,391 or 46.68 percent during 2004. This increase is largely made up of an increase in charges for services of \$289,501 and from proceeds of notes of \$3,350,000, offset by an increase in contractual services of \$506,617.

Table 2 reflects the changes in net assets in 2004. Since the City did not prepare financial statements in this format for 2003, a comparative analysis of government-wide data has not been presented. In future years, when prior year information is available, a comparative analysis will be presented.

**City of Newton Falls, Trumbull County, Ohio**

*Management's Discussion and Analysis*

*For the Year Ended December 31, 2004*

*Unaudited*

(Table 2)

**Changes in Net Assets**

	Governmental Activities 2004	Business Type Activities 2004	Total
<b>Receipts:</b>			
<i>Program Receipts</i>			
Charges for Services	\$748,591	\$5,770,303	\$6,518,894
Operating Grants and Contributions	222,755	0	222,755
Capital Grants and Contributions	108,559	5,854,076	5,962,635
<i>Total Program Receipts</i>	<u>1,079,905</u>	<u>11,624,379</u>	<u>12,704,284</u>
<i>General Receipts:</i>			
Property and Other Local Taxes	133,718	0	133,718
Income Taxes	826,302	0	826,302
Intergovernmental	141,207	0	141,207
Investment Earnings	271,203	0	271,203
Miscellaneous	515,481	190,611	706,092
<i>Total General Receipts</i>	<u>1,887,911</u>	<u>190,611</u>	<u>2,078,522</u>
<i>Total Receipts</i>	<u>2,967,816</u>	<u>11,814,990</u>	<u>14,782,806</u>
<b>Disbursements:</b>			
General Government	1,253,833	0	1,253,833
Security of Persons and Property:	977,353	0	977,353
Leisure Time Activities	84,652	0	84,652
Community Environment	23,053	0	23,053
Transportation	335,941	0	335,941
Capital Outlay	521,346	0	521,346
Principal Retirement	30,164	0	30,164
Interest and Fiscal Charges	29,903	0	29,903
Water	0	3,204,278	3,204,278
Sewer	0	1,812,934	1,812,934
Electric	0	3,929,069	3,929,069
Refuse	0	161,318	161,318
<i>Total Disbursements</i>	<u>3,256,245</u>	<u>9,107,599</u>	<u>12,363,844</u>
Increase (Decrease) in Net Assets	(288,429)	2,707,391	2,418,962
<i>Net Assets, January 1, 2004</i>	<u>1,589,007</u>	<u>5,799,816</u>	<u>7,388,823</u>
<i>Net Assets, December 31, 2004</i>	<u>\$1,300,578</u>	<u>\$8,507,207</u>	<u>\$9,807,785</u>

Program receipts represent 86 percent of total receipts and are primarily comprised of restricted intergovernmental receipts such as motor vehicle license and gas tax money, building permits and inspection fees and charges to nearby cities for police services provided under contract.

General receipts represent 14 percent of the City's total receipts, and of this amount, over 46 percent are property and income taxes. State and federal grants and entitlements make up 7 percent of the City's general receipts. Other receipts and interest make up the balance of the general receipts (47 percent).

**City of Newton Falls, Trumbull County, Ohio**

*Management's Discussion and Analysis*

*For the Year Ended December 31, 2004*

*Unaudited*

Disbursements for General Government represent the overhead costs of running the City and the support services provided for the other City activities. These include the costs of council, and the city manager, the finance office, law department, and the municipal court.

Security of Persons and Property are the costs of police and fire protection; Leisure Time Activities are the costs of maintaining the parks and playing fields; Transportation is the cost of maintaining the streets and Community Environment is the code enforcement officer.

**Governmental and Business-Type Activities**

If you look at the Statement of Activities on pages 12 and 13, you will see that the first column lists the major services provided by the City. The next column identifies the costs of providing these services. The major program disbursements for governmental activities are for general government and security of persons and property, which account for 39 and 30 percent of all governmental disbursements, respectively. Capital Outlay also represents a significant cost, about 16 percent. The next three columns of the Statement entitled Program Receipts identify amounts paid by people who are directly charged for the service and grants received by the City that must be used to provide a specific service. The net Receipt (Disbursement) columns compare the program receipts for governmental and business-type activities to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local taxpayers. A comparison between the total cost of services and the net cost for governmental and business-type activities is presented in Table 3.

(Table 3)

	Governmental Activities		Business-Type Activities	
	Total Cost Of Services 2004	Net Cost of Services 2004	Total Cost Of Services 2004	Net Cost of Services 2004
General Government	\$1,253,833	(\$925,528)	\$0	\$0
Security of Persons and Property	977,353	(692,904)	0	0
Leisure Time Activities	84,652	(67,103)	0	0
Community Environment	23,053	(16,591)	0	0
Transportation	335,941	(140,592)	0	0
Capital Outlay	521,346	(273,555)	0	0
Principal Retirement	30,164	(30,164)	0	0
Interest and Fiscal Charges	29,903	(29,903)	0	0
Water	0	0	3,204,278	(111,890)
Sewer	0	0	1,812,934	(217,472)
Electric	0	0	3,929,069	2,848,148
Refuse	0	0	161,318	(2,006)
<b>Total Expenses</b>	<b>\$3,256,245</b>	<b>(\$2,176,340)</b>	<b>\$9,107,599</b>	<b>\$2,516,780</b>

**City of Newton Falls, Trumbull County, Ohio**

*Management's Discussion and Analysis*

*For the Year Ended December 31, 2004*

*Unaudited*

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The dependence upon income tax and other tax receipts is apparent as over 44 percent of governmental activities are supported through these general receipts.

**The City of Newton Falls Funds**

Total governmental funds had receipts of \$2,967,816 and disbursements of \$3,342,893. The greatest change within governmental funds occurred within the General Fund. The fund balance of the General Fund decreased \$301,202 as the result of increased costs for salaries and benefits and not achieving anticipated growth in income and property tax receipts.

General Fund disbursements were more than receipts by \$121,995 indicating that the General Fund is in a deficit spending situation. It was the recommendation of the finance committee and the administration that a reduction in disbursements was preferable to requesting additional funds from the taxpayers. Some of these reductions have already been implemented for 2005 including reductions in personnel. These cuts will not eliminate the need for additional funds (or additional cuts) in the future if the growth in property and income taxes remains stagnant.

**General Fund Budgeting Highlights**

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

The City's final budgeted receipts were \$3,482,101 while actual receipts were \$2,144,371. The negative difference of \$1,337,730 was due to lower than expected collections of municipal income taxes of (\$331,117), fines, licenses and permits of (\$359,244), and miscellaneous revenue of (\$311,565).

Final disbursements were budgeted at \$3,544,234 while actual disbursements were \$2,266,366. The positive difference of \$1,277,868 was due to greater spending controls for general government and security of persons and property in the amounts of \$723,224 and \$541,646, respectively.

**Capital Assets and Debt Administration**

**Capital Assets**

The City does not currently keep track of its capital assets and infrastructure.

**Debt**

At December 31, 2004, the City's outstanding debt for governmental activities included \$464,469 in promissory notes issued for improvements to the municipal court, and \$17,672 in Ohio Police Pension debt. The City's outstanding debt for business-type activities included a \$217,180 promissory note for electric metering, \$3,350,000 in bond anticipation notes for the City's electrical system, \$3,770,879 in OWDA Loans, and \$439,956 in OPWC Loans.

**City of Newton Falls, Trumbull County, Ohio**

*Management's Discussion and Analysis*

*For the Year Ended December 31, 2004*

*Unaudited*

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**Current Issues**

In addition to the Water Treatment Plant upgrade and the Electrical System Upgrade, the City is in the final stages of the upgrade of the Wastewater Treatment Plant. The City has been awarded a grant/loan combination from the U.S.D.A Rural Development in the following amounts: \$3,300,000 in grant and the balance of \$4,900,000 in a loan.

**Contacting the City's Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the City's finances and to reflect the City's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Marcia Cunningham, Finance Director, City of Newton Falls, 419 North Center Street, Newton Falls, Ohio, 44444.



**City of Newton Falls, Ohio**  
*Statement of Net Assets - Cash Basis*  
*December 31, 2004*

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$1,516,217	\$8,291,568	\$9,807,785
Internal Balances	(215,639)	215,639	0
<i>Total Assets</i>	<u>1,300,578</u>	<u>8,507,207</u>	<u>9,807,785</u>
<b>Net Assets</b>			
Restricted for:			
Capital Projects	123,360	0	123,360
Other Purposes	438,682	0	438,682
Unrestricted	<u>738,536</u>	<u>8,507,207</u>	<u>9,245,743</u>
<i>Total Net Assets</i>	<u>\$1,300,578</u>	<u>\$8,507,207</u>	<u>\$9,807,785</u>

See accompanying notes to the basic financial statements

**City of Newton Falls, Ohio**  
*Statement of Activities - Cash Basis*  
For the Year Ended December 31, 2004

	Program Cash Receipts			
	Cash Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental Activities</b>				
General Government	\$1,253,833	\$328,305	\$0	\$0
Security of Persons and Property	977,353	277,973	6,476	0
Leisure Time Activities	84,652	17,549	0	0
Community Environment	23,053	6,462	0	0
Transportation	335,941	4,262	191,087	0
Capital Outlay	521,346	114,040	25,192	108,559
Principal Retirement	30,164	0	0	0
Interest and Fiscal Charges	29,903	0	0	0
<i>Total Governmental Activities</i>	<u>3,256,245</u>	<u>748,591</u>	<u>222,755</u>	<u>108,559</u>
<b>Business-Type Activities</b>				
Water	3,204,278	1,066,405	0	2,025,983
Sewer	1,812,934	1,117,369	0	478,093
Electric	3,929,069	3,427,217	0	3,350,000
Refuse	161,318	159,312	0	0
<i>Total Business-Type Activities</i>	<u>9,107,599</u>	<u>5,770,303</u>	<u>0</u>	<u>5,854,076</u>
<i>Total</i>	<u>\$12,363,844</u>	<u>\$6,518,894</u>	<u>\$222,755</u>	<u>\$5,962,635</u>

**General Receipts**

Property Taxes Levied for:

    General Purposes

    Police Pension

Municipal Income Taxes Levied for:

    General Purposes

    Street, Construction, Maintenance and Repair

    Parks and Recreation

    Capital Improvements

Grants and Entitlements not Restricted to Specific Programs

Investment Earnings

Miscellaneous

*Total General Receipts*

*Change in Net Assets*

*Net Assets Beginning of Year*

*Net Assets End of Year*

See accompanying notes to the financial statements

Net (Disbursements) Receipts and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(\$925,528)	\$0	(\$925,528)
(692,904)	0	(692,904)
(67,103)	0	(67,103)
(16,591)	0	(16,591)
(140,592)	0	(140,592)
(273,555)	0	(273,555)
(30,164)	0	(30,164)
(29,903)	0	(29,903)
<u>(2,176,340)</u>	<u>0</u>	<u>(2,176,340)</u>
0	(111,890)	(111,890)
0	(217,472)	(217,472)
0	2,848,148	2,848,148
0	(2,006)	(2,006)
<u>0</u>	<u>2,516,780</u>	<u>2,516,780</u>
<u>(2,176,340)</u>	<u>2,516,780</u>	<u>340,440</u>
117,672	0	117,672
16,046	0	16,046
530,778	0	530,778
150,672	0	150,672
65,672	0	65,672
79,180	0	79,180
141,207	0	141,207
271,203	0	271,203
515,481	190,611	706,092
<u>1,887,911</u>	<u>190,611</u>	<u>2,078,522</u>
(288,429)	2,707,391	2,418,962
<u>1,589,007</u>	<u>5,799,816</u>	<u>7,388,823</u>
<u>\$1,300,578</u>	<u>\$8,507,207</u>	<u>\$9,807,785</u>

**City of Newton Falls, Ohio**  
*Statement of Cash Basis Assets and Fund Balances*  
*Governmental Funds*  
*December 31, 2004*

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$341,216	\$562,042	\$903,258
<b>Fund Balances</b>			
Reserved for Encumbrances	\$22,399	\$76,729	\$99,128
Unreserved, Undesignated, Reported in:			
General Fund	318,817	0	318,817
Special Revenue Funds	0	398,046	398,046
Capital Projects Funds	0	87,267	87,267
<i>Total Fund Balances</i>	<u>\$341,216</u>	<u>\$562,042</u>	<u>\$903,258</u>

See accompanying notes to the basic financial statements

**City of Newton Falls, Ohio**  
*Reconciliation of Cash Basis Assets and Fund Balances to  
 Net Assets of Governmental Activities  
 December 31, 2004*

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<b>Total Governmental Funds Balances</b>	<b>\$903,258</b>
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*Amounts reported for governmental activities in the  
 statement of net assets are different because*

The internal service fund is used by management to charge the costs of insurance to individual funds. The assets of the internal service fund are included in the statement of net assets.

Net Assets	612,959	
Internal Balances	(215,639)	
 Total		397,320

<i>Net Assets of Governmental Activities</i>	<u><u>\$1,300,578</u></u>
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See accompanying notes to the basic financial statements

**City of Newton Falls, Ohio**  
*Statement of Cash Receipts, Disbursements and Changes in Cash Basis Fund Balances*  
*Governmental Funds*  
*For the Year Ended December 31, 2004*

	General	Other Governmental Funds	Total Governmental Funds
<b>Receipts</b>			
Property Taxes	\$117,672	\$16,046	\$133,718
Municipal Income Taxes	530,778	295,524	826,302
Intergovernmental	139,308	333,213	472,521
Charges for Services	11,605	21,811	33,416
Fines, Licenses and Permits	575,866	139,309	715,175
Investment Earnings	269,705	1,498	271,203
Miscellaneous	499,437	16,044	515,481
<i>Total Receipts</i>	<u>2,144,371</u>	<u>823,445</u>	<u>2,967,816</u>
<b>Disbursements</b>			
Current:			
General Government	1,282,675	15,605	1,298,280
Security of Persons and Property	960,638	46,511	1,007,149
Leisure Time Activities	0	84,652	84,652
Community Environment	23,053	0	23,053
Transportation	0	348,346	348,346
Capital Outlay	0	521,346	521,346
Debt Service:			
Principal Retirement	0	30,164	30,164
Interest and Fiscal Charges	0	29,903	29,903
<i>Total Disbursements</i>	<u>2,266,366</u>	<u>1,076,527</u>	<u>3,342,893</u>
<i>Excess of Receipts Under Disbursements</i>	<u>(121,995)</u>	<u>(253,082)</u>	<u>(375,077)</u>
<b>Other Financing Sources (Uses)</b>			
Transfer In	0	179,207	179,207
Transfer Out	(179,207)	0	(179,207)
<i>Total Other Financing Sources (Uses)</i>	<u>(179,207)</u>	<u>179,207</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	(301,202)	(73,875)	(375,077)
<i>Fund Balances Beginning of Year</i>	<u>642,418</u>	<u>635,917</u>	<u>1,278,335</u>
<i>Fund Balances End of Year</i>	<u><u>\$341,216</u></u>	<u><u>\$562,042</u></u>	<u><u>\$903,258</u></u>

See accompanying notes to the financial statements

**City of Newton Falls, Ohio**

*Reconciliation of the Statement of Cash Receipts, Disbursements and Changes  
in Cash Basis Fund Balances of Governmental Funds to the Statement of Activities  
For the Year Ended December 31, 2004*

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**Net Change in Fund Balance - Total Governmental Funds** (\$375,077)

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

The internal service fund used by management is not reported in the City-wide statement of activities. Governmental fund disbursements and related internal service fund receipts are eliminated. The net receipts (disbursements) of the internal service fund is allocated among the different governmental activities.

Change in Net Assets	133,674	
Internal Balances	(47,026)	
		<u>86,648</u>

*Change in Net Assets of Governmental Activities* (\$288,429)

See accompanying notes to the basic financial statements

**City of Newton Falls, Ohio**  
*Statement of Receipts, Disbursements and Changes*  
*In Fund Balance - Budget and Actual (Budget Basis)*  
*General Fund*  
*For the Year Ended December 31, 2004*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Receipts</b>				
Property Taxes	\$135,276	\$191,080	\$117,672	(\$73,408)
Municipal Income Taxes	610,185	861,895	530,778	(331,117)
Intergovernmental	160,149	226,213	139,308	(86,905)
Charges for Services	13,341	18,845	11,605	(7,240)
Fines, Licenses and Permits	662,018	935,110	575,866	(359,244)
Investment Earnings	310,054	437,956	269,705	(168,251)
Miscellaneous	574,155	811,002	499,437	(311,565)
<i>Total Receipts</i>	2,465,178	3,482,101	2,144,371	(1,337,730)
<b>Disbursements</b>				
Current:				
General Government	1,472,534	2,005,899	1,282,675	723,224
Security of Persons and Property	1,102,830	1,502,284	960,638	541,646
Community Environment	26,465	36,051	23,053	12,998
<i>Total Disbursements</i>	2,601,829	3,544,234	2,266,366	1,277,868
<i>Excess of Receipts Under Disbursements</i>	(136,651)	(62,133)	(121,995)	(59,862)
<b>Other Financing Uses</b>				
Transfers Out	(205,733)	(280,251)	(179,207)	101,044
<i>Net Change in Fund Balance</i>	(342,384)	(342,384)	(301,202)	41,182
<i>Fund Balance Beginning of Year</i>	611,058	611,058	611,058	0
Prior Year Encumbrances Appropriated	31,360	31,360	31,360	0
<i>Fund Balance End of Year</i>	\$300,034	\$300,034	\$341,216	\$41,182

See accompanying notes to the basic financial statements



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**City of Newton Falls, Ohio**  
*Statement of Fund Net Assets - Cash Basis*  
*Proprietary Funds*  
*December 31, 2004*

	<u>Enterprise</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	<u>\$1,509,228</u>	<u>\$889,161</u>	<u>\$5,878,744</u>
<b>Net Assets</b>			
Unrestricted	<u><u>\$1,509,228</u></u>	<u><u>\$889,161</u></u>	<u><u>\$5,878,744</u></u>

Net assets reported for business-type activities in the statement of net assets are different because they include accumulated overpayments to the internal service funds:

Net assets of business-type activities:

See accompanying notes to the basic financial statements

<u>Funds</u>		
<u>Refuse</u>	<u>Total</u>	<u>Internal Service</u>
<u>\$14,435</u>	<u>\$8,291,568</u>	<u>\$612,959</u>
<u>\$14,435</u>	<u>8,291,568</u>	<u>\$612,959</u>
	<u>215,639</u>	
	<u>\$8,507,207</u>	

**City of Newton Falls, Ohio**  
*Statement of Cash Receipts,  
Disbursements and Changes in Fund Net Assets - Cash Basis  
Proprietary Funds  
For the Year Ended December 31, 2004*

	Enterprise		
	Water	Sewer	Electric
<b>Operating Receipts</b>			
Charges for Services	\$1,066,405	\$1,117,369	\$3,427,217
Miscellaneous	3,934	3,918	182,759
<i>Total Operating Receipts</i>	<u>1,070,339</u>	<u>1,121,287</u>	<u>3,609,976</u>
<b>Operating Disbursements</b>			
Personal Services	497,072	332,096	345,179
Travel and Transportation	1,632	340	9,778
Contractual Services	161,533	141,804	2,607,526
Materials and Supplies	88,705	57,683	64,273
Claims	0	0	0
Capital Outlay	2,120,603	875,039	404,588
Miscellaneous	159,749	154,482	423,465
<i>Total Operating Disbursements</i>	<u>3,029,294</u>	<u>1,561,444</u>	<u>3,854,809</u>
<i>Operating Income (Loss)</i>	<u>(1,958,955)</u>	<u>(440,157)</u>	<u>(244,833)</u>
<b>Non-Operating Receipts (Disbursements)</b>			
Redemption of Principal	(131,264)	(229,314)	(72,863)
Interest and Fiscal Charges	(63,370)	(36,212)	(14,737)
Intergovernmental	128,011	0	0
Proceeds of Notes	0	0	3,350,000
Proceeds of OWDA Loans	1,644,509	291,600	0
Proceeds of OPWC Loans	253,463	186,493	0
<i>Total Non-Operating Receipts (Disbursements)</i>	<u>1,831,349</u>	<u>212,567</u>	<u>3,262,400</u>
<i>Change in Net Assets</i>	(127,606)	(227,590)	3,017,567
<i>Net Assets Beginning of Year</i>	<u>1,636,834</u>	<u>1,116,751</u>	<u>2,861,177</u>
<i>Net Assets End of Year</i>	<u>\$1,509,228</u>	<u>\$889,161</u>	<u>\$5,878,744</u>

Some amounts reported for business-type activities in the statement of activities are different because a portion of the net disbursements of the internal service funds is reported with business-type activities:

Change in net assets of business-type activities:

See accompanying notes to the basic financial statements

<u>Funds</u>		
<u>Refuse</u>	<u>Total</u>	<u>Internal Service</u>
\$159,312	\$5,770,303	\$586,042
0	190,611	5,206
<u>159,312</u>	<u>5,960,914</u>	<u>591,248</u>
0	1,174,347	50,333
0	11,750	0
161,318	3,072,181	0
0	210,661	0
0	0	407,241
0	3,400,230	0
0	737,696	0
<u>161,318</u>	<u>8,606,865</u>	<u>457,574</u>
<u>(2,006)</u>	<u>(2,645,951)</u>	<u>133,674</u>
0	(433,441)	0
0	(114,319)	0
0	128,011	0
0	3,350,000	0
0	1,936,109	0
0	439,956	0
<u>0</u>	<u>5,306,316</u>	<u>0</u>
(2,006)	2,660,365	133,674
<u>16,441</u>		<u>479,285</u>
<u>\$14,435</u>		<u>\$612,959</u>
	<u>47,026</u>	
	<u>\$2,707,391</u>	

**City of Newton Falls, Ohio**  
*Statement of Fiduciary Net Assets - Cash Basis*  
*Fiduciary Funds*  
*December 31, 2004*

	Private Purpose Trust	
	Unclaimed Monies	Agency
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$6,124	\$1,480
Cash and Cash Equivalents:		
In Segregated Accounts	0	25,211
Total Assets	6,124	<u>\$26,691</u>
<b>Liabilities</b>		
Deposits Held and Due to Others	0	<u>\$26,691</u>
<b>Net Assets</b>		
Held in Trust for Unclaimed Monies	<u>\$6,124</u>	

See accompanying notes to the basic financial statements

**City of Newton Falls, Ohio**  
*Statement of Changes in Fiduciary Net Assets*  
*Private Purpose Trust Fund*  
*For the Year Ended December 31, 2004*

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	<u>Unclaimed Monies</u>
<b>Additions</b>	
Miscellaneous	\$472
<b>Deductions</b>	
Miscellaneous	<u>140</u>
<i>Change in Net Assets</i>	332
<i>Net Assets Beginning of Year</i>	<u>5,792</u>
<i>Net Assets End of Year</i>	<u><u>\$6,124</u></u>

See accompanying notes to the basic financial statements

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**City of Newton Falls, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2004*

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**Note 1 - Reporting Entity**

The City of Newton Falls, Trumbull County, (the City) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The City government is a Mayor – Council – City Manager form of government. There is a five-member, publicly-elected, Council. The City provides general government services, street maintenance services, park and recreation services, water, sewer and electric utilities, and police protection. The City contracts with the Newton Falls Joint Fire District to provide fire protection services.

A reporting entity is comprised 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 City consists of all funds, agencies, department and offices that are not legally separate from the City. For the City of Newton Falls this includes the departments and agencies that provide the following services: police protection, parks, recreation, street maintenance, utilities, and the municipal court. The City has no component units.

The City participates in the Ohio Municipal Electric Generation Agency (JV1) joint venture presented in Note 13 of the basic financial statements.

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

As discussed further in Note 2.C, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The City does not apply FASB statements issued after November 30, 1989, to its business-type activities and to its enterprise funds. Following are the more significant of the City's accounting policies.

**A. Basis of Presentation**

The City's basic financial statements consist of a government-wide statement of net assets and a statement of activities and fund financial statements providing a more detailed level of financial information.

**Government-wide Financial Statements** The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type.

The government-wide statement of net assets presents the cash balance of the governmental and business-type activities of the City at year end. The government-wide statement of activities compares disbursements with program receipts for each function or program of the City's governmental activities and for the business-type activities of the City. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the government is responsible. Program receipts include charges paid by the recipient of the program's goods or services and grants and

**City of Newton Falls, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2004*

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contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each business segment or governmental function is self-financing on a cash basis or draws from the City's general receipts.

**Fund Financial Statements** During the year, the City segregates transactions related to certain City 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 City at this more detailed level. The focus of governmental and enterprise 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.

Proprietary fund statements distinguish operating transactions from nonoperating transactions. Operating receipts generally result from exchange transactions such as charges for services directly relating to the funds' principal services. Operating disbursements include costs of sales and services and administrative costs. The fund statements report all other receipts and disbursements as nonoperating.

**B. Fund Accounting**

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

**Governmental Funds** Governmental funds are those through which most governmental functions of the City are financed. The following are the City's major governmental funds:

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

The other governmental funds of the City account for grants and other resources whose use is restricted to a particular purpose.

**Proprietary Funds** The City classifies funds financed primarily from user charges for goods or services as proprietary. Proprietary funds are classified as either enterprise or internal service.

**Enterprise Funds** – Enterprise funds may be used to account for and activity for which a fee is charged to external users for goods or services. The following are the City's major enterprise funds:

**Water Fund** The water fund accounts for receipts generated from the charges for distribution of water service to the residential and commercial users located within the water district.

**Sewer Fund** The sewer fund accounts for sewer services to the residential and commercial users located within the sewer district. The costs of providing these services are financed primarily through user charges.

**Electric Fund** The electric fund accounts for electric services to the residential and commercial users located within the City and also customers located outside City limits. The costs of providing these services are financed primarily through user charges.

**City of Newton Falls, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2004*

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**Refuse Fund** The refuse fund accounts for refuse collection services to the residential and commercial users located within the City. The costs of providing these services are financed primarily through user charges.

**Internal Service Funds** – The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis. The City's internal service fund reports on City departments' self insurance programs for employee medical benefits.

**Fiduciary Funds** Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City's private-purpose trust fund accounts for unclaimed monies. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency fund accounts for the amounts collected by the municipal court that are paid to other governments.

### ***C. Basis of Accounting***

The City's financial statements are prepared using the cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the City's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the City are described in the appropriate section in the notes.

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

### ***D. Cash and Cash Equivalents***

To improve cash management, cash received by the City is pooled and invested. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through City records. Interest in the pool is presented as "equity in pooled cash and cash equivalents".

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2004 amounted to \$269,705, which includes \$243,158 assigned from other City funds.

The City values investments and cash equivalents at cost. For presentation on the financial statements, the City classifies investments of the cash management pool as cash equivalents.

The City has segregated bank accounts for monies held separate from the City's central bank account. These depository accounts are presented on the balance sheet as "cash and cash equivalents in segregated accounts."

**City of Newton Falls, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2004*

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***E. Inventory and Prepaid Items***

On the cash-basis of accounting, inventories of supplies and food service items are reported as disbursements when purchased. These items are not reflected as assets in the accompanying financial statements.

***F. Capital Assets***

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

***G. Accumulated Leave***

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the City's cash basis of accounting.

***H. Long-term Obligations***

The City's cash basis financial statements do not report liabilities for bonds and other long-term obligations. These statements report proceeds of debt when cash is received and debt service disbursements for debt principal and interest payments are reported when paid.

***I. Fund Balance Reserves***

The City reserves any portion of fund balances legally segregated for a specific future use or which are not available for appropriation or disbursement. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances.

***J. Net Assets***

Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions, enabling legislation (adopted by the City) or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The government-wide statement of net assets reports \$562,042 of restricted net assets, of which \$478,814 is restricted by enabling legislation. Net assets restricted for other purposes include parks and recreation, law library and court computerization.

The City first applies restricted resources when incurring a disbursement for which it may use either restricted or unrestricted resources.

***K. Interfund Activity***

The statements report exchange transactions between funds as receipts in the seller funds and as disbursements in the purchasing funds. Nonexchange flows of cash from one fund to another are reported as interfund transfers. Governmental funds report interfund transfers as other financing sources/uses; proprietary funds report transfers after nonoperating receipts and disbursements. The statements do not report repayments from funds responsible for particular disbursements to the funds initially paying the costs.

**City of Newton Falls, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2004*

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**L. Budgetary Process**

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriations ordinance, all of 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 amount the City Council may appropriate. The appropriations ordinance is the City Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the City Council. The legal level of control has been established by the City Council at the object level for all funds. Any budgetary modifications at this level may only be made by ordinance of the City Council.

The certificate of estimated resources may be amended during the year if the City Finance Director projects increases or decreases in receipts. The amounts reported as the original and final budget in the budgetary statements reflect the amounts in the amended certificate of estimated resources in effect at the time the original and final appropriations ordinance were passed by City Council.

The City Council may amend appropriations throughout the year with the restriction that appropriations may not exceed estimated resources. The amounts reported as the original budget reflect the first appropriation ordinance for a fund covering the entire year, including amounts automatically carried over from prior years. The amounts reported as the final budget represent the final appropriation ordinance the City Council passed during the year.

**Note 3 – Change in Accounting Principles**

For 2004, the City has implemented GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units," GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation" and GASB Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditure/Expense and Liabilities by Cost-Sharing Employers."

GASB Statement No. 39 states that entities for which a primary government is not financially accountable may still be reported as component units based on the nature and significance of their relationship with the primary government.

GASB Statement No. 46 clarifies when net assets should be considered restricted based upon enabling legislation.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The implementation of GASB Statement No. 39, GASB Statement No. 46 and GASB Technical Bulletin No. 2004-2 did not affect the presentation of the financial statements of the City.

**Note 4 – Compliance**

Ohio Administrative Code, section 117-2-03 (B), requires the City to prepare its annual financial report in accordance with generally accepted accounting principles. However, the City prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles

**City of Newton Falls, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2004*

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generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net assets/fund balances, and disclosures that, while material, cannot be determined at this time. The City can be fined and various other administrative remedies may be taken against the City.

**Note 5 – Budgetary Basis of Accounting**

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budget Basis for the general fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the cash basis is that outstanding year end encumbrances are treated as expenditures (budgetary basis) rather than as a reservation of fund balance (cash basis). The general fund encumbrances outstanding at year end (budgetary basis) amounted to \$22,399.

**Note 6 – Deposits and Investments**

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

Active monies are public monies determined to be necessary to meet current demands upon the City treasury. Active monies must be maintained either as cash in the City 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 Council 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 City can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;

**City of Newton Falls, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2004*

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4. Bonds and other obligations of the State of Ohio or Ohio local governments;
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) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio).

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by collateral pledged to the City by the financial institution or by a collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

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

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the City or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian. The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements".

***Deposits***

At year end, the carrying amount of the City's deposits was \$323,511 and the bank balance was \$716,818. Of the bank balance \$279,491 was covered by federal depository insurance and \$437,327 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

***Investments***

The City's investments are categorized to give an indication of the level of risk assumed by the City at year end. Category 1 includes investments that are insured or registered for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the City's name. The STAROhio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

**City of Newton Falls, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2004*

	Category 3	Carrying Value	Fair Value
Sky Bank Sweep Accounts	\$79,491	\$79,491	\$79,491
McDonald Mutual Fund Investments	9,254,616	9,254,616	9,254,616
STAROhio		182,982	182,982
Total Investments	<u>\$9,334,107</u>	<u>\$9,517,089</u>	<u>\$9,517,089</u>

The classification of cash and cash equivalents and investments on the combined balance sheet is based on criteria set forth in GASB Statement No. 9 "Reporting Cash Flows of Proprietary and Nonexendable Trust Funds and Government Entities that Use Proprietary Fund Accounting". Cash and cash equivalents are defined to include investments with original maturities of three months or less and funds included within the City's cash Management pool. A reconciliation between the classification of cash and investments on the basic financial statements and the classifications per GASB Statement No.3 is as follows:

	Cash and Cash Equivalents	Investments
GASB Statement No. 9	\$9,840,600	\$0
Investments:		
Sky Bank Sweep Accounts	(79,491)	79,491
McDonald Mutual Fund Investments	(9,254,616)	9,254,616
STAROhio	<u>(182,982)</u>	<u>182,982</u>
GASB Statement No. 3	<u>\$323,511</u>	<u>\$9,517,089</u>

**Note 7 – Receivables**

**A. Property Taxes**

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2004 for real and public utility property taxes represents collections of the 2003 taxes. Property tax payments received during 2004 for tangible personal property (other than public utility property) are for 2004 taxes.

2004 real property taxes are levied after October 1, 2004 on the assessed value as of January 1, 2004, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2004 real property taxes are collected in and intended to finance 2005.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2004 public utility property taxes became a lien December 31, 2003, are levied after October 1, 2004, and are collected in 2005 with real property taxes.

2004 tangible personal property taxes are levied after October 1, 2003, on the value as of December 31, 2003. Collections are made in 2004. Tangible personal property assessments are 25 percent of true value for capital assets and 23 percent of true value for inventories.



**City of Newton Falls, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2004*

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The full tax rate for all City operations for the year ended December 31, 2004 was \$2.50 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2004 property tax receipts were based are as follows:

Real Property	
Residential/Agricultural	\$39,096,920
Other Real Estate	13,969,420
Public Utility Personal Property	1,416,740
Tangible Personal Property	6,706,198
Total	<u><u>\$61,189,278</u></u>

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

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

The County Treasurer collects property tax on behalf of all taxing districts within the City. The County Auditor periodically remits to the taxing districts their portions of the taxes collected.

***B. Income Tax***

The City levies and collects an income tax of 1.0 percent on all income earned within the City as well as on income of residents earned outside the City. In the latter case, the City allows a credit of 100 percent of the tax paid to another municipality, not to exceed the amount owed. Employers within the City are required to withhold income tax on employee earnings and remit the tax to the City either monthly or quarterly as required. Corporations and other individual taxpayers are also required to pay their estimated tax at least quarterly and file a final return annually. In 2004, the proceeds were allocated 65 percent to the general fund, 10 percent to the street, construction, repair and maintenance and 10 percent to the park and recreation special revenue funds and 15 percent to the capital improvement capital projects fund.

**Note 8 - Contingencies**

***A. Grants***

The City receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or any other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2004.

**City of Newton Falls, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2004*

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**B. Litigation**

The City of Newton Falls is a party to legal proceedings. The City management is of the opinion that ultimate disposition of these claims and legal proceedings will not have a material effect, if any, on the financial condition of the City.

**Note 9 - Risk Management**

The City of Newton Falls is exposed to various risks of loss to torts; thefts of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disaster. During 2004, the City contracted with Ohio Plan Insurance for various types of insurance coverage as follows:

Type	Coverage	Deductible
Inland Marine	\$780,084	\$1,000
Property	29,720,818	2,500
Electronic Data Processing	75,845	500
Fleet Vehicle		
Physical Damage	100,000	500
Liability	2,000,000	500

The City has elected to provide medical benefits through a self insured program. The maintenance of these benefits is accounted for in the self-funded hospitalization internal service fund. An excess coverage insurance (stop loss) policy covers annual claims in excess of \$35,000 per individual.

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

**Note 10 - Defined Benefit Pension Plans**

**A. Ohio Public Employees Retirement System**

The City of Newton Falls participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised

**City of Newton Falls, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2004*

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Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6705 or (800) 222-7377.

For the year ended December 31, 2004, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries to fund pension obligations. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The City's contribution rate for pension benefits for 2004 was 9.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 12.7 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2004, 2003 and 2002, respectively, were \$179,456, \$152,839, and \$145,197; 90.61 percent has been contributed for 2004 and 100 percent for 2003 and 2002. There were no contributions to the member-directed plan for 2004.

***B. Ohio Police Pension Fund***

The City contributes to the Ohio Police Pension Fund (OP&F), a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations while the City is required to contribute 11.75 percent for police officers. Contributions are authorized by State statute. The City's contributions to the Fund for police was \$37,579 for the year ended December 31, 2004, \$36,206 for the year ended December 31, 2003 and \$34,395 for the year ended December 31, 2002. The full amount has been contributed for 2003 and 2002. 78.94 percent for police has been contributed for 2004.

In addition to current contributions, the City pays installments on the accrued liability incurred when the State of Ohio established the statewide pension system for police and fire fighters in 1967. As of December 31, 2004, the unfunded liability of the City was \$17,672 payable in semi-annual payments through the year 2035. This is an accounting liability of the City which will not vary.

**Note 11 – Postemployment Benefits**

***A. Ohio Public Employees Retirement System***

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or

**City of Newton Falls, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2004*

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combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2004 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 4.00 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2003, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase between 1.00 and 6.00 percent annually for the next eight years and 4.00 percent annually after eight years.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional and combined plans was 369,885. Actual employer contributions for 2004 which were used to fund postemployment benefits were \$75,165. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2004 was \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs.

***B. Ohio Police Pension Fund***

The Ohio Police Pension Fund (OP&F) provides postretirement health care coverage to any person who receives or is eligible to receive a monthly service, disability or survivor benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school full-time or on a 2/3 basis.

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in *GASB Statement No. 12*. The Ohio Revised Code provides the authority allowing the Ohio Police Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2004 and 2003. In addition, since July 1, 1992, most retirees and survivors have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2004 that were used to fund postemployment benefits were \$24,786 for police. The OP&F's total health care expense for the year ended December 31, 2004, was \$102,173,796, which was net of member contributions of \$55,665,341. The number of OP&F participants eligible to receive health care benefits as of December 31, 2004, was 13,812 for police.

**City of Newton Falls, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2004*

**Note 12 - Long-Term Obligations**

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

Debt Issue	Interest Rate	Original Issue	Year of Maturity
<b><i>Governmental-Type Debt:</i></b>			
Municipal Court Renovation Promissory Note	6.03%	\$580,000	2015
Ohio Police Pension	4.25%	N/A	2035
<b><i>Business-Type Debt</i></b>			
Electric Metering Promissory Note	5.64%	642,941	2007
<b><u>OWDA Loans</u></b>			
OWDA #1384	10.84%	455,455	2006
OWDA #1385	7.36%	87,697	2006
Wastewater Treatment Plant and Sewer Improvements	2.00%	1,005,976	2011
Wastewater Treatment Plant Expansion Design	3.20%	697,727	2009
OWDA #3806	2.00%	3,192,533	2024
<b><u>OPWC Loans</u></b>			
Broad Street Water Distribution	0.00%	253,463	2025
Broad Street Storm Water	0.00%	186,493	2025
Electric System Bond Anticipation Note	2.05%	3,350,000	2005

The changes in long-term obligations during the year were as follows:

	Balance 12/31/03	Additions	Reductions	Balance 12/31/04	Amounts Due in One Year
<b>Governmental Activities</b>					
<i>Promissory Note</i>					
Municipal Court Renovation	\$494,353	\$0	(\$29,884)	\$464,469	\$31,728
<i>Other</i>					
Ohio Police Pension	17,952	0	(280)	17,672	292
<b>Total Governmental Activities</b>	<b>\$512,305</b>	<b>\$0</b>	<b>(\$30,164)</b>	<b>\$482,141</b>	<b>\$32,020</b>

**City of Newton Falls, Ohio**  
*Notes to the Basic Financial Statements*  
For the Year Ended December 31, 2004

	Balance 12/31/03	Additions	Reductions	Balance 12/31/04	Amounts Due in One Year
<b>Business-Type Activities</b>					
<i>Promissory Note</i>					
Electric Metering	\$290,043	\$0	(\$72,863)	\$217,180	\$77,142
<i>OWDA Loans</i>					
OWDA #1384	97,132	0	(46,068)	51,064	51,064
OWDA #1385	15,678	0	(7,561)	8,117	8,117
Wastewater Treatment Plant and Sewer Improvements	333,480	0	(44,857)	288,623	45,754
Wastewater Treatment Plant Expansion Design	366,989	291,600	(130,828)	527,761	0
OWDA #3806	1,382,069	1,644,509	(131,264)	2,895,314	0
<i>Total OWDA Loans</i>	<u>2,195,348</u>	<u>1,936,109</u>	<u>(360,578)</u>	<u>3,770,879</u>	<u>104,935</u>
<i>OPWC Loans</i>					
Broad Street Water Distribution	0	253,463	0	253,463	6,337
Broad Street Storm Water	0	186,493	0	186,493	4,662
<i>Total OPWC Loans</i>	<u>0</u>	<u>439,956</u>	<u>0</u>	<u>439,956</u>	<u>10,999</u>
<i>Bond Anticipation Notes</i>					
Electric System	0	3,350,000	0	3,350,000	0
<b>Total Business-Type Activities</b>	<u><u>\$2,485,391</u></u>	<u><u>\$5,726,065</u></u>	<u><u>(\$433,441)</u></u>	<u><u>\$7,778,015</u></u>	<u><u>\$193,076</u></u>

The municipal court renovation promissory note will be paid from the court special projects special revenue fund. The Ohio police and fire pension liability will be paid from the police pension special projects. The electric metering promissory note will be paid with user charges from the electric enterprise fund. The OWDA and OPWC loans will be paid with user charges from the water and sewer enterprise funds.

During 2004, the City of Newton Falls issued \$3,350,000 in bond anticipation notes payable at 2.05 percent for various improvements to the Broad Street Lighting, festival power, South Circuit voltage conversion and upgrade, Warren Road substation addition, Church Street substation addition, and Peak Shaving Generator back-up.

A line of credit has been established with the Ohio Water Development Authority in the amount of \$697,727 and \$3,192,533, respectively, for various replacements and improvements to the Wastewater Treatment Plant; however, since these loans have not been finalized, the repayment schedules are not included in the schedule of debt service payments.

The City's overall legal debt margin was \$6,040,039 with an unvoted debt margin of \$2,980,575 at December 31, 2004. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2004 are as follows:

**City of Newton Falls, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2004*

**Governmental-Type Activities**

	Municipal Court Renovation Promissory Note		Ohio Police and Fire Pension Liability	
	Principal	Interest	Principal	Interest
	2005	\$31,728	\$27,299	\$292
2006	33,684	25,343	303	737
2007	35,762	23,265	315	725
2008	37,967	21,058	327	713
2009	40,309	18,717	339	701
2010 - 2014	242,051	53,081	1,908	3,292
2015 - 2019	42,968	1,302	2,361	2,839
2020 - 2024	0	0	2,960	2,240
2025-2029	0	0	3,649	1,551
2030-2034	0	0	4,294	906
2035	0	0	924	117
<b>Total</b>	<b>\$464,469</b>	<b>\$170,065</b>	<b>\$17,672</b>	<b>\$14,569</b>

**Business-Type Activities**

	Electric Metering Promissory Note		OWDA Loans		OPWC Loans
	Principal	Interest	Principal	Interest	Principal
	2005	\$77,142	\$10,458	\$104,935	\$11,904
2006	81,633	5,967	46,669	4,858	21,998
2007	58,405	2,599	47,603	3,924	21,998
2008	0	0	48,555	2,972	21,998
2009	0	0	49,526	2,000	21,998
2010 - 2014	0	0	50,516	1,010	109,990
2015 - 2019	0	0	0	0	109,990
2020 - 2024	0	0	0	0	109,990
2025	0	0	0	0	10,995
<b>Total</b>	<b>\$217,180</b>	<b>\$19,024</b>	<b>\$347,804</b>	<b>\$26,668</b>	<b>\$439,956</b>

**Note 13 – Joint Ventures**

***Ohio Municipal Electric Generation Agency Joint Venture (JV1)***

The City's Electrical Enterprise Fund participates in a joint venture agreement with 20 other municipal electric systems who have formed the Ohio Municipal Electric Generation Agency Joint Venture 1 (OMEGA JV1) for the purpose of providing electric power and energy to its participants on a cooperative basis. The electric generating facilities of OMEGA JV1, known as the Engle Units, are located in the City of Cuyahoga Falls. Title to these six diesel-powered generating units was transferred to the twenty-one municipal electric systems from American Municipal Power-Ohio, Incorporated (AMP-Ohio), a non-profit trade association and wholesale power supplier for most of Ohio's eighty-five municipal electrical systems. The JV1 is managed by AMP-Ohio who acts as the joint venture's agent. The participants are obligated by the agreement to remit, on a monthly basis, those costs incurred from using electricity generated by the joint venture. In accordance with the joint venture agreement, the City remitted \$3,742 to the joint venture in 2004 for electricity. JV1 does not have any debt outstanding. In the event of a shortfall, the JV participants

**City of Newton Falls, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2004*

would be billed for the respective shares of the estimated shortfall. The City's net investment in JV1 was \$50,248 at December 31, 2004. Financial information for JV1 may be obtained from AMP-Ohio, 2600 Airport Drive, Columbus, Ohio 43219.

**Note 14 – Interfund Transfers**

During 2004, the following transfers were made:

Transfers In	Transfers Out
	General
<i>Other Governmental Activities:</i>	
<b>Special Revenue Fund:</b>	
Senior Van	\$20,000
<b>Capital Projects Funds:</b>	
Capital Improvements	85,000
Roads, Buildings and Equipment	74,207
<i>Total Transfers</i>	\$179,207

The general fund transfers to the senior van special revenue fund and to the capital improvements capital projects fund are to provide additional operating costs per the budget. The general fund transfer to the roads, buildings and equipment capital projects fund was per City ordinance.





**Auditor of State  
Betty Montgomery**

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

City of Newton Falls  
Trumbull County  
19 North Canal Street  
Newton Falls, Ohio 44444

To the City Council:

We have audited the financial statements of the governmental activities, the business-type activities, the major fund, and the aggregate remaining fund information of the City of Newton Falls, Trumbull County, Ohio (the City) as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 22, 2006, which noted the City prepares its financial statements on a basis of accounting other than that prescribed by Ohio Administrative Code Section 117-2-03 (B). We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weakness. In a separate letter to the City's management dated December 22, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

**Compliance and Other Matters**

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2004-001. In a separate letter to the City's management dated December 22, 2006, we reported other matters related to noncompliance we deemed immaterial.

City of Newton Falls  
Trumbull County  
Independent Accountants' Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Required by *Government Auditing Standards*  
Page 2

We intend this report solely for the information and use of the audit committee, management and City Council. It is not intended for anyone other than these specified parties.

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

**Betty Montgomery**  
Auditor of State

December 22, 2006

**CITY OF NEWTON FALLS  
TRUMBULL COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2004**

**FINDING RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

**FINDING NUMBER 2004-001**

**Noncompliance Citation**

Ohio Administrative Code Section 117-2-03 (B) requires the City to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, the City prepares its financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with accounting principles generally accepted in the United States of America. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. The City can be fined and various other legal administrative remedies may be taken against the City.

We recommend that the City prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America.

**Officials' Response**

We will evaluate the cost effectiveness of preparing our annual financial report in accordance with accounting principles generally accepted in the United States of America in the future.

**CITY OF NEWTON FALLS  
TRUMBULL COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain:</i></b>
2003-001	Failure to prepare annual financial report in accordance with generally accepted accounting principles.	No	Not Corrected. This was reissued as Finding Number 2004-001.



**Mary Taylor, CPA**  
Auditor of State

**CITY OF NEWTON FALLS**

**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  
FEBRUARY 22, 2007**