



**VILLAGE OF NEWTON FALLS
TRUMBULL COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 1998-1997



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

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REPORT OF INDEPENDENT ACCOUNTANTS

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

To the Village Council:

We have audited the accompanying financial statements of the Village of Newton Falls, Trumbull County, Ohio, (the Village) as of and for the years ended December 31, 1998 and 1997. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 1, the Village prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Village as of December 31, 1998 and 1997, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 9, 2000 on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts.

This report is intended solely for the information and use of management, Village Council and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro".

Jim Petro
Auditor of State

May 9, 2000

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 1998**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property Tax and Other Local Taxes	\$87,740	\$773,687		\$861,427
Intergovernmental Receipts	219,017	189,044		408,061
Charges for Services		22,564		22,564
Fines, Licenses, and Permits	485,039	78,596		563,635
Earnings on Investments	338,878	5,734		344,612
Miscellaneous	8,784	72,256		81,040
	<u>1,139,458</u>	<u>1,141,881</u>		<u>2,281,339</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	629,398	10,690		640,088
Leisure Time Activities		57,871		57,871
Community Environment	27,765			27,765
Transportation		228,855		228,855
General Government	712,620	115,230		827,850
Capital Outlay		138,722	\$189,835	328,557
	<u>1,369,783</u>	<u>551,368</u>	<u>189,835</u>	<u>2,110,986</u>
Total Receipts Over/(Under) Disbursements	<u>(230,325)</u>	<u>590,513</u>	<u>(189,835)</u>	<u>170,353</u>
Other Financing Receipts/(Disbursements):				
Transfers-In	345,303	141,565	218,555	705,423
Other Financing Receipts	417,155			417,155
Transfers-Out	(77,600)	(627,824)		(705,424)
Other Financing (Disbursements)	(2,316)	(321)		(2,637)
	<u>682,542</u>	<u>(486,580)</u>	<u>218,555</u>	<u>414,517</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	452,217	103,933	28,720	584,870
Fund Cash Balances January 1	<u>453,391</u>	<u>368,795</u>	<u>258,036</u>	<u>1,080,222</u>
Fund Cash Balances, December 31	<u>\$905,608</u>	<u>\$472,728</u>	<u>\$286,756</u>	<u>\$1,665,092</u>
Reserves for Encumbrances, December 31	<u>\$32,383</u>	<u>\$38,328</u>	<u>\$2,207</u>	<u>\$72,918</u>

The notes to the financial statements are an integral part of this statement.

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 1998**

	Proprietary Fund Types		Fiduciary Fund Type	Totals (Memorandum Only)
	Enterprise	Internal Service	Agency	
Operating Cash Receipts:				
Charges for Services	\$4,792,674	\$206,911		\$4,999,585
Miscellaneous	12,480			12,480
Total Operating Cash Receipts	4,805,154	206,911		5,012,065
Operating Cash Disbursements:				
Personal Services	869,873	187,243		1,057,116
Travel Transportation	1,999			1,999
Contractual Services	2,521,783			2,521,783
Supplies and Materials	129,096			129,096
Capital Outlay	728,363			728,363
Total Operating Cash Disbursements	4,251,114	187,243		4,438,357
Operating Income/(Loss)	554,040	19,668		573,708
Non-Operating Cash Receipts:				
Other Non-Operating Receipts	366,429		\$956,834	1,323,263
Total Non-Operating Cash Receipts	366,429		956,834	1,323,263
Non-Operating Cash Disbursements:				
Debt Service	405,132			405,132
Other Non-Operating Cash Disbursements	442,062		953,249	1,395,311
Total Non-Operating Cash Disbursements	847,194		953,249	1,800,443
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	73,275	19,668	3,585	96,528
Transfers-In	549,601			549,601
Transfers-Out	(549,600)			(549,600)
Net Receipts Over/(Under) Disbursements	73,276	19,668	3,585	96,529
Fund Cash Balances, January 1	4,141,302	413,383	21,647	4,576,332
Fund Cash Balances, December 31	\$4,214,578	\$433,051	\$25,232	\$4,672,861
Reserve for Encumbrances, December 31	\$166,923			\$166,923

The notes to the financial statements are an integral part of this statement.

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 1997**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property Tax and Other Local Taxes	\$81,296	\$707,198		\$788,494
Intergovernmental Receipts	181,001	144,042		325,043
Charges for Services	18,827	16,759		35,586
Fines, Licenses, and Permits	358,140	60,405		418,545
Earnings on Investments	271,380	8,720		280,100
Miscellaneous	7,063	42,212		49,275
	<u>917,707</u>	<u>979,336</u>		<u>1,897,043</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	619,173	10,177		629,350
Leisure Time Activities		54,438		54,438
Community Environment	10,216	2,695		12,911
Transportation		219,140		219,140
General Government	709,883	126,435		836,318
Debt Service:				
Principal Payments		7,400		7,400
Capital Outlay		43,927	\$197,657	241,584
	<u>1,339,272</u>	<u>464,212</u>	<u>197,657</u>	<u>2,001,141</u>
Total Receipts Over/(Under) Disbursements	<u>(421,565)</u>	<u>515,124</u>	<u>(197,657)</u>	<u>(104,098)</u>
Other Financing Receipts/(Disbursements):				
Transfers-In	317,776	127,555	198,296	643,627
Other Financing Receipts	296,955		20,000	316,955
Transfers-Out	(65,852)	(577,775)		(643,627)
Other Financing (Disbursements)		(50)		(50)
	<u>548,879</u>	<u>(450,270)</u>	<u>218,296</u>	<u>316,905</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	127,314	64,854	20,639	212,807
Fund Cash Balances January 1	<u>326,077</u>	<u>303,941</u>	<u>237,397</u>	<u>867,415</u>
Fund Cash Balances, December 31	<u>\$453,391</u>	<u>\$368,795</u>	<u>\$258,036</u>	<u>\$1,080,222</u>
Reserves for Encumbrances, December 31	<u>\$11,944</u>	<u>\$3,290</u>	<u>\$20,688</u>	<u>\$35,922</u>

The notes to the financial statements are an integral part of this statement.

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 1997**

	Proprietary Fund Types		Fiduciary Fund Type	Totals (Memorandum Only)
	Enterprise	Internal Service	Agency	
Operating Cash Receipts:				
Charges for Services	\$4,566,524	\$196,243		\$4,762,767
Miscellaneous	113,243			113,243
Total Operating Cash Receipts	<u>4,679,767</u>	<u>196,243</u>		<u>4,876,010</u>
Operating Cash Disbursements:				
Personal Services	776,452	199,257		975,709
Travel Transportation	6,721			6,721
Contractual Services	2,388,911	150		2,389,061
Supplies and Materials	145,683			145,683
Capital Outlay	786,712			786,712
Total Operating Cash Disbursements	<u>4,104,479</u>	<u>199,407</u>		<u>4,303,886</u>
Operating Income/(Loss)	<u>575,288</u>	<u>(3,164)</u>		<u>572,124</u>
Non-Operating Cash Receipts:				
Other Non-Operating Receipts	<u>561,277</u>		<u>\$905,297</u>	<u>1,466,574</u>
Total Non-Operating Cash Receipts	<u>561,277</u>		<u>905,297</u>	<u>1,466,574</u>
Non-Operating Cash Disbursements:				
Debt Service	327,245			327,245
Other Non-Operating Cash Disbursements	<u>424,725</u>		<u>911,292</u>	<u>1,336,017</u>
Total Non-Operating Cash Disbursements	<u>751,970</u>		<u>911,292</u>	<u>1,663,262</u>
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	384,595	(3,164)	(5,995)	375,436
Transfers-In	678,837			678,837
Transfers-Out	<u>(678,837)</u>			<u>(678,837)</u>
Net Receipts Over/(Under) Disbursements	384,595	(3,164)	(5,995)	375,436
Fund Cash Balances, January 1	<u>3,756,707</u>	<u>416,547</u>	<u>27,642</u>	<u>4,200,896</u>
Fund Cash Balances, December 31	<u>\$4,141,302</u>	<u>\$413,383</u>	<u>\$21,647</u>	<u>\$4,576,332</u>
Reserve for Encumbrances, December 31	<u>\$349,680</u>			<u>\$349,680</u>

The notes to the financial statements are an integral part of this statement.

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1998 AND 1997**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Newton Falls, Trumbull County, (the Village) 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 Village is directed by a publicly-elected five-member Council. The Village provides general governmental services, street maintenance services, park and recreation services, water, sewer, and electric utilities, and police protection services.

The Village's management believes these financial statements present all activities for which the Village is financially accountable.

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. Cash and Investments

Certificates of deposit, repurchase agreements, and U.S. Treasury Notes are valued at cost. The investment in STAR Ohio (the State Treasurer's investment pool) is valued at amounts reported by the State Treasurer. Mutual funds are recorded at share values reported by the mutual fund.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

D. Fund Accounting

The Village uses fund accounting to segregate cash and investments that are restricted as to use. The Village classifies its funds into the following types:

1. General Fund

The General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

2. Special Revenue Fund

These funds are used to account for proceeds from specific sources (other than from trusts or for capital projects) that are restricted to expenditure for specific purposes. The Village had the following significant Special Revenue Funds:

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1998 AND 1997
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Street Construction, Maintenance, and Repair Fund - This Fund's receipts are received from the State of Ohio and are generated primarily from the collection of license plate fees and gasoline taxes imposed by the State. Also, the Fund receives an allocation of the Village's Municipal Income Tax. These proceeds are only to be utilized for the maintenance of streets within the Village.

Municipal Income Tax Fund - This Fund's receipts are generated from a 1.5% municipal income tax the Village levies on all salaries, wages, commissions and other compensation, and net profits earned within the Village. Per Village Ordinance No. 3512, the Village transfers the proceeds each month to the General Fund, the Street Construction, Maintenance, and Repair Fund, the Parks and Recreation Fund, and the Capital Improvement Fund to provide funds for the purpose of general municipal operations, maintenance, new equipment, extension and enlargement of municipal services and facilities, capital improvements, and the maintenance of parks, playgrounds, and recreational facilities.

3. Capital Project Funds

These funds are used to account for receipts that are restricted for the acquisition or construction of major capital projects (except those financed through enterprise or trust funds). The Village had the following significant capital project funds:

Capital Improvement Fund - This Fund receives an allocation of the Village's Municipal Income Tax. These proceeds are only to be utilized to provide funds for the purpose of purchasing new equipment, providing the extension and enlargement of municipal facilities, and other capital improvements.

Road, Building, and Equipment Fund - The Village transfers moneys from the General Fund into this Fund. These proceeds are only to be utilized to provide funds for the purpose of purchasing new equipment and other capital improvements necessary for the maintenance of streets within the Village.

4. Enterprise Funds

These funds account for operations that are similar to private business enterprises where management intends that the significant costs of providing certain goods or services will be recovered through user charges. The Village had the following significant Enterprise Funds:

Water Fund - This fund receives charges for services from residents to cover the cost of providing this utility.

Sewer Fund - This fund receives charges for services from residents to cover the cost of providing this utility.

Electric Fund - This fund receives charges for services from residents to cover the cost of providing this utility.

5. Internal Service Fund

This fund accounts for the operation of the Village's self-funded health and welfare plan that provides health insurance, dental and vision coverage to its full-time employees.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1998 AND 1997
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6. Fiduciary Funds (Agency Funds)

These funds account for those activities for which the Village is acting in an agency capacity. The Village maintains the following significant Agency Fund:

Municipal Court Fund - This fund accounts for the operation of the Newton Falls Municipal Court solely in an agency capacity.

E. Budgetary Process

The Ohio Revised Code requires that each fund (except certain agency funds including the Village's Municipal Court Agency Fund for which the Village does not budget) be budgeted annually.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund level of control, and appropriations may not exceed estimated resources. The Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of January 1. The County Budget Commission must also approve estimated resources.

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

F. Property, Plant and Equipment

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

G. Unpaid Vacation and Sick Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the Village.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1998 AND 1997
(Continued)

2. EQUITY IN POOLED CASH AND INVESTMENTS

The Village maintains a cash and investments pool used by all funds. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash and investments at December 31 was as follows:

	<u>1998</u>	<u>1997</u>
Demand deposits	\$ 129,437	\$ 128,589
Total deposits	129,437	128,589
Second National Bank	1,963,145	1,556,407
McDonald & Company	4,120,498	1,377,567
Merrill Lynch	0	2,493,897
STAR Ohio	124,873	100,094
Total investments	6,208,516	5,527,965
Total deposits and investments	\$ 6,337,953	\$ 5,656,554

Deposits: Deposits are either (1) insured by the Federal Depository Insurance Corporation, or (2) collateralized by the financial institution's public entity deposit pool.

Investments: The Village's investment portfolio includes uninsured and unregistered investments for which the securities are held by the broker or dealer or by its trust department but not in the Village's name. The financial institutions maintain records identifying the Village as owner of these securities. Investments in STAR Ohio and mutual funds are not evidenced by securities that exist in physical or book-entry form.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 1998 and 1997 follows:

1998 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 1,406,518	\$ 1,901,916	\$ 495,398
Special Revenue	1,139,775	1,283,446	143,671
Capital Projects	203,332	218,555	15,223
Enterprise	5,731,495	5,721,184	(10,311)
Internal Service	200,000	206,911	6,911
Agency**	1,600	2,132	532
Total	\$ 8,682,720	\$ 9,334,144	\$ 651,424

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1998 AND 1997
(Continued)

3. BUDGETARY ACTIVITY (Continued)

1998 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 1,599,605	\$ 1,482,082	\$ 117,523
Special Revenue	1,221,004	1,217,841	3,163
Capital Projects	244,788	192,042	52,746
Enterprise	6,215,204	5,814,831	400,373
Internal Service	200,000	187,243	12,757
Agency**	2,950	2,764	186
Total	<u>\$ 9,483,551</u>	<u>\$ 8,896,803</u>	<u>\$ 586,748</u>

1997 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 1,583,657	\$ 1,532,438	\$ (51,219)
Special Revenue	1,124,246	1,106,891	(17,355)
Capital Projects	203,332	218,296	14,964
Enterprise	6,187,443	5,919,881	(267,562)
Internal Service	200,000	196,243	(3,757)
Agency**	13,000	12,053	(947)
Total	<u>\$ 9,311,678</u>	<u>\$ 8,985,802</u>	<u>\$ (325,876)</u>

1997 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 1,550,540	\$ 1,417,068	\$ 133,472
Special Revenue	1,228,851	1,045,327	183,524
Capital Projects	306,193	218,345	87,848
Enterprise	6,242,354	5,884,966	357,388
Internal Service	250,000	199,407	50,593
Agency**	11,760	11,260	500
Total	<u>\$ 9,589,698</u>	<u>\$ 8,776,373</u>	<u>\$ 813,325</u>

** The Village is not required to and does not adopt a budget for all of the Agency Funds. The amounts reflected in the above schedules for the Agency Funds are only for the funds with adopted budgets.

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by Village Council. The State Board of Tax Equalization adjusts these rates for inflation.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1998 AND 1997
(Continued)

4. PROPERTY TAX (Continued)

Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31.

If the property owner elects to make semiannual payment, the first half is due December 31. The second half payment is due the following June 20.

Public utilities are also taxed on personal and real property located within the Village.

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the Village.

5. DEBT

Debt outstanding at December 31, 1998 was as follows:

	Principal	Interest Rate
Ohio Water Development Authority Loans	\$ 859,377	2.00% to 10.84%
Police & Firemen's Disability & Pension Fund Obligation	19,188	4.25%
Promissory Note	598,222	5.64%
Mortgage Revenue Bonds	890,000	6.25%
Total	\$ 2,366,787	

Outstanding Ohio Water Development Authority (OWDA) Loans consist of various cooperative agreements between the Village of Newton Falls and the OWDA for improvements to the Village's secondary treatment plant. The Village has pledged revenues from the Sewer Fund to repay these debts.

The Village incurred the Police and Firemen's Disability and Pension Fund obligation in 1968 to pay the State of Ohio's Police and Firemen's Disability & Pension Fund System the difference between the accumulated assets maintained in the Village's pension fund for its Police and Firemen and the under provided actuarial pension liability at the time the Village joined the System. This liability is a general obligation of the Village.

The Village borrowed money in the form of a promissory note to purchase property and equipment for construction of a metering station and 64kva transmission line. The Village has pledged revenues from the Electric Fund to repay this debt.

The Electric Fund in 1992 issued the Mortgage Revenue Bonds, the proceeds of which were used to construct a substation for the Village's Electric Department. The Village has pledged revenues from the Electric Fund to repay this debt.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1998 AND 1997
(Continued)

5. DEBT (Continued)

Amortization of the above debt, including total interest payments of \$559,295, is scheduled as follows:

Year ending December 31:	OWDA Loans	PFDP Fund Obligation	Promissory Note	Mortgage Revenue Bonds
1999	\$ 116,839	\$ 1,040	\$ 87,600	\$ 209,219
2000	116,839	1,040	87,600	210,281
2001	116,839	1,040	87,600	210,688
2002	116,839	1,040	87,600	209,406
2003	116,839	1,040	87,600	210,469
Subsequent	<u>491,309</u>	<u>32,711</u>	<u>324,604</u>	<u>0</u>
Total	<u>\$ 1,075,504</u>	<u>\$ 37,911</u>	<u>\$ 762,604</u>	<u>\$ 1,050,063</u>

6. RETIREMENT SYSTEMS

The Village's law enforcement officers belong to the Police and Firemen's Disability and Pension Funds (PFDPF). Other full-time employees belong to the Public Employees Retirement System (PERS) of Ohio. PFDPF and PERS are cost-sharing, multiple-employer plans. These plans provide retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 1998 and 1997, members of PFDPF contributed 10% of their wages to the PFDPF. The Village contributed an amount equal to 19.5% of their wages. PERS members contributed 8.5% of their gross salaries. The Village contributed an amount equal to 13.55% of participants' gross salaries. The Village has paid all contributions required through December 31, 1998.

7. RISK MANAGEMENT

The Village maintains comprehensive insurance coverage with private carriers for real property and building contents. Real property and contents are insured at replacement cost. The Village has also obtained commercial insurance for its general liability risks and its public officials' liability risks.

The Village operates a self-funded health and welfare plan that provides health insurance, dental and vision coverage, and life insurance to full-time employees. The Village has entered into an agreement with a third party administrator that provides the Village with a comprehensive range of administrative services regarding their medical claims submitted by person's covered under the health and welfare plan. The Village had accumulated \$433,051 and \$413,383 toward future medical insurance claims as of December 31, 1998 and 1997, respectively. Also, the Village maintains stop-loss coverage with an insurance company of \$25,000 per claim for medical coverage.

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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON
INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

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

To the Village Council:

We have audited the accompanying financial statements of the Village of Newton Falls, Trumbull County, Ohio (the Village), as of and for the years ended December 31, 1998 and 1997, and have issued our report thereon dated May 9, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated May 9, 2000.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 1998-31178-001 and 1998-31178-002.

A material weakness is a 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 in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Village of Newton Falls in a separate letter dated May 9, 2000.

This report is intended for the information and use of management and Village Council, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro", with a large, stylized flourish at the end.

Jim Petro
Auditor of State

May 9, 2000

**SCHEDULE OF FINDINGS
DECEMBER 31, 1998 AND 1997**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 1998-31178-001

1. Reportable Conditions

In our examination of the Village's financial reporting system, we noted the following:

- The Village's Annual Financial Report submitted for audit reflected amounts that were improperly classified. Also, certain financial activity of the Village was not reflected in the Annual Financial Report;
- The Village's Receipt and Appropriation Ledgers did not agree to their Annual Financial Report in several accounts;
- The Village's funds, receipt line-items, and disbursement line-items were not always classified according to the coding systems provided in the Ohio Administrative Code Rules promulgated by the Auditor of State nor the Village's Chart of Accounts which the Village established to follow the same;
- Various receipt and disbursement transactions, as supported by source documents, were not posted to the Receipt and Appropriation Ledgers.
- Monthly cash reconciliations included various reconciling items and depository balances that were not supported;
- The Village's Investment Ledger did not contain all investment transactions, nor accurate cost basis valuations.

As a result of these matters, the Village's Financial Statements required numerous audit adjustments, and our services had to be expanded to include various accounting services.

Council should carefully review these matters and create internal control over their financial reporting system which supports the integrity of the Village's financial records. We recommend that Council consider the following recommendations:

- Management should review the Cash Journal and Appropriation and Receipt Ledgers and document said review in the Village's Record of Proceedings of its Council's meetings. The review should ensure that transactions are posted to the appropriate fund and line-item, and that totals of the Cash Journal and Appropriation and Receipt Ledgers are compared for completeness and accuracy;
- Management should review the support for the cash reconciliation and document said review in the Village's Record of Proceedings of its Council's meetings;
- Management should prepare analytics or a comparable mechanism to identify unusual and/or significant fluctuations in the Cash Journal and the Receipt and Appropriation Ledgers, and take corrective action, if necessary.

Also, we recommend that Council assess the needs for a new or updated information technology system that enables the Finance Department to generate the following reports:

- Combined Statement of Cash Receipts, Disbursements and Changes in Fund Cash Balances;
- Combining Statement of Cash Receipts, Disbursements and Changes in Fund Cash Balances;
- Reconciliation of Inter-Fund Transactions;
- Schedule of Outstanding Debt;
- Cash Reconciliation by Fund;
- Comparison of Budget/Actual Receipts; and
- Comparisons of Disbursements and Encumbrances With Expenditure Authority.

The financial reports identified above provide Management with important data necessary to manage the Village, and fundamental information needed for preparing the Village's financial statements.

The Village's information technology system should incorporate its approved chart of accounts. This system should also include an Investment Ledger that is integrated with the Village's primary accounting system, and enables the Finance Department to perform reconciliations between depository and investment balances and fund cash balances.

FINDING NUMBER 1998-31178-002

1. Audit Committee

The Village should establish an audit committee. Audit committees can serve as "informed, vigilant, and effective overseers of the financial reporting process and internal controls." An audit committee should perform the following functions:

- Review the annual unaudited financial report submitted to the Auditor of State;
- Periodically review the process used to prepare interim financial information submitted to the Board;
- Review audit results;
- Assure that audit noncompliance citations and recommendations to management are appropriately addressed;
- Assure auditors' independence from management;
- Serve as a liaison between management and independent auditors.

Generally accepted auditing standards require that auditors communicate the following information to an audit committee:

- The auditor's professional responsibility under generally accepted auditing standards;
- Selections of accounting policies;

- Sensitive accounting estimates;
- Significant audit adjustments;
- Disagreements with management;
- Difficulties encountered in performing the audit.

The audit committee can include officials of the Village. However, it is preferable to include representation that is independent from elected officials and management. The committee could include professionals knowledgeable in the Village's operations and in accounting, such as attorneys or bankers. The audit committee should meet regularly (perhaps quarterly) to monitor the Village's financial reporting and internal control activities, and should meet with its independent auditors before and after each audit.



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VILLAGE 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
JUNE 15, 2000**