



**VILLAGE OF NEWTON FALLS
TRUMBULL COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2000-1999



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

VILLAGE OF NEWTON FALLS
TRUMBULL COUNTY

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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, 2000 and 1999. 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2000 and 1999, 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 February 12, 2002 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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.

Jim Petro
Auditor of State

February 12, 2002

VILLAGE OF NEWTON FALLS
TRUMBULL COUNTY

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2000**

	<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	\$100,716	\$814,076		\$914,792
Intergovernmental Receipts	163,797	164,129		327,926
Charges for Services	12,043	23,575		35,618
Fines, Licenses, and Permits	512,376	135,181		647,557
Earnings on Investments	282,065	8,006		290,071
Miscellaneous	5,948	1,791		7,739
	<u>1,076,945</u>	<u>1,146,758</u>		<u>2,223,703</u>
Total Cash Receipts				
Cash Disbursements:				
Current:				
Security of Persons and Property	709,322	11,755		721,077
Leisure Time Activities		91,848		91,848
Community Environment	29,063			29,063
Transportation		237,836		237,836
General Government	836,747	166,495		1,003,242
Debt Service:				
Principal Payments		6,250		6,250
Interest Payments		9,547		9,547
Capital Outlay		551,035	\$222,635	773,670
	<u>1,575,132</u>	<u>1,074,766</u>	<u>222,635</u>	<u>2,872,533</u>
Total Disbursements				
Total Receipts Over/(Under) Disbursements	<u>(498,187)</u>	<u>71,992</u>	<u>(222,635)</u>	<u>(648,830)</u>
Other Financing Receipts/(Disbursements):				
Transfers-In	358,267	185,479	234,711	778,457
Other Financing Receipts	395,197	585,073		980,270
Transfers-Out	(127,063)	(651,394)		(778,457)
Other Financing (Disbursements)	(3,352)			(3,352)
	<u>623,049</u>	<u>119,158</u>	<u>234,711</u>	<u>976,918</u>
Total Other Financing Receipts/(Disbursements)				
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	124,862	191,150	12,076	328,088
Fund Cash Balances January 1	895,195	529,192	313,839	1,738,226
Fund Cash Balances, December 31	<u>\$1,020,057</u>	<u>\$720,342</u>	<u>\$325,915</u>	<u>\$2,066,314</u>
Reserves for Encumbrances, December 31	<u>\$3,813</u>	<u>\$149,253</u>	<u>\$80,109</u>	<u>\$233,175</u>

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

VILLAGE OF NEWTON FALLS
TRUMBULL COUNTY

**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, 2000**

	Proprietary Fund Types		Fiduciary Fund Type	Totals (Memorandum Only)
	Enterprise	Internal Service	Agency	
Operating Cash Receipts:				
Charges for Services	\$5,110,078	\$323,575		\$5,433,653
Miscellaneous	33,413			33,413
Total Operating Cash Receipts	<u>5,143,491</u>	<u>323,575</u>		<u>5,467,066</u>
Operating Cash Disbursements:				
Personal Services	917,529	312,369		1,229,898
Travel and Transportation	11,610			11,610
Contractual Services	2,640,084			2,640,084
Supplies and Materials	280,447			280,447
Capital Outlay	715,739			715,739
Total Operating Cash Disbursements	<u>4,565,409</u>	<u>312,369</u>		<u>4,877,778</u>
Operating Income/(Loss)	<u>578,082</u>	<u>11,206</u>		<u>589,288</u>
Non-Operating Cash Receipts:				
Intergovernmental Receipts	339,243			339,243
Proceeds from Notes and Bonds	69,080			69,080
Other Non-Operating Receipts	194,251		\$1,376,414	1,570,665
Total Non-Operating Cash Receipts	<u>602,574</u>		<u>1,376,414</u>	<u>1,978,988</u>
Non-Operating Cash Disbursements:				
Debt Service	415,680			415,680
Other Non-Operating Cash Disbursements	583,139		1,279,490	1,862,629
Total Non-Operating Cash Disbursements	<u>998,819</u>		<u>1,279,490</u>	<u>2,278,309</u>
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers	181,837	11,206	96,924	289,967
Transfers-In	569,896			569,896
Transfers-Out	(569,896)			(569,896)
Net Receipts Over/(Under) Disbursements	181,837	11,206	96,924	289,967
Fund Cash Balances, January 1	<u>4,055,016</u>	<u>412,853</u>	<u>23,554</u>	<u>4,491,423</u>
Fund Cash Balances, December 31	<u>\$4,236,853</u>	<u>\$424,059</u>	<u>\$120,478</u>	<u>\$4,781,390</u>
Reserve for Encumbrances, December 31	<u>\$301,553</u>			<u>\$301,553</u>

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

VILLAGE OF NEWTON FALLS
TRUMBULL COUNTY

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 1999**

	Governmental Fund Types			Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	
Cash Receipts:				
Property Tax and Other Local Taxes	\$90,811	\$804,875		\$895,686
Intergovernmental Receipts	146,129	180,056		326,185
Charges for Services	9,518	20,276		29,794
Fines, Licenses, and Permits	525,680	140,622		666,302
Earnings on Investments	314,030	8,649		322,679
Miscellaneous	5,943	3,544		9,487
Total Cash Receipts	<u>1,092,111</u>	<u>1,158,022</u>		<u>2,250,133</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	694,315	25,573		719,888
Leisure Time Activities		88,021		88,021
Community Environment	43,058			43,058
Transportation		247,228		247,228
General Government	846,114	135,210		981,324
Debt Service:				
Principal Payments		227		227
Interest Payments		813		813
Capital Outlay		135,521	\$195,432	330,953
Total Disbursements	<u>1,583,487</u>	<u>632,593</u>	<u>195,432</u>	<u>2,411,512</u>
Total Receipts Over/(Under) Disbursements	<u>(491,376)</u>	<u>525,429</u>	<u>(195,432)</u>	<u>(161,379)</u>
Other Financing Receipts/(Disbursements):				
Transfers-In	353,979	172,320	222,515	748,814
Other Financing Receipts	338,430	3,000		341,430
Transfers-Out	(212,134)	(643,598)		(855,732)
Total Other Financing Receipts/(Disbursements)	<u>480,275</u>	<u>(468,278)</u>	<u>222,515</u>	<u>234,512</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(11,101)	57,151	27,083	73,133
Fund Cash Balances January 1 (Restated)	906,296	472,041	286,756	1,665,093
Fund Cash Balances, December 31	<u><u>\$895,195</u></u>	<u><u>\$529,192</u></u>	<u><u>\$313,839</u></u>	<u><u>\$1,738,226</u></u>
Reserves for Encumbrances, December 31	<u><u>\$6,026</u></u>	<u><u>\$18,319</u></u>	<u><u>\$13,279</u></u>	<u><u>\$37,624</u></u>

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

VILLAGE OF NEWTON FALLS
TRUMBULL COUNTY

**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, 1999**

	Proprietary Fund Types		Fiduciary Fund Type	Totals (Memorandum Only)
	Enterprise	Internal Service	Agency	
Operating Cash Receipts:				
Charges for Services	\$5,206,353	\$249,146		\$5,455,499
Miscellaneous	15,365			15,365
Total Operating Cash Receipts	<u>5,221,718</u>	<u>249,146</u>		<u>5,470,864</u>
Operating Cash Disbursements:				
Personal Services	898,403	269,344		1,167,747
Travel and Transportation	1,203			1,203
Contractual Services	2,791,375			2,791,375
Supplies and Materials	126,422			126,422
Capital Outlay	935,297			935,297
Total Operating Cash Disbursements	<u>4,752,700</u>	<u>269,344</u>		<u>5,022,044</u>
Operating Income/(Loss)	<u>469,018</u>	<u>(20,198)</u>		<u>448,820</u>
Non-Operating Cash Receipts:				
Intergovernmental Receipts	2,522			2,522
Other Non-Operating Receipts	141,897		\$1,353,783	1,495,680
Total Non-Operating Cash Receipts	<u>144,419</u>		<u>1,353,783</u>	<u>1,498,202</u>
Non-Operating Cash Disbursements:				
Debt Service	414,621			414,621
Other Non-Operating Cash Disbursements	465,297		1,355,461	1,820,758
Total Non-Operating Cash Disbursements	<u>879,918</u>		<u>1,355,461</u>	<u>2,235,379</u>
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers	(266,481)	(20,198)	(1,678)	(288,357)
Transfers-In	705,057			705,057
Transfers-Out	(598,138)			(598,138)
Net Receipts Over/(Under) Disbursements	(159,562)	(20,198)	(1,678)	(181,438)
Fund Cash Balances, January 1	<u>4,214,578</u>	<u>433,051</u>	<u>25,232</u>	<u>4,672,861</u>
Fund Cash Balances, December 31	<u>\$4,055,016</u>	<u>\$412,853</u>	<u>\$23,554</u>	<u>\$4,491,423</u>
Reserve for Encumbrances, December 31	<u>\$244,816</u>			<u>\$244,816</u>

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

**VILLAGE OF NEWTON FALLS
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999**

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 contracts with Newton Falls Fire District to provide fire 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 included in fund cash balances. 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:

**VILLAGE OF NEWTON FALLS
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999
(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 one percent 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.

Court Special General Projects Fund - This fund receives note proceeds and municipal court fines. These moneys are being used for the renovation of the municipal building that houses the municipal court.

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.

**VILLAGE OF NEWTON FALLS
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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. The Village did not encumber all commitments required by Ohio law.

A summary of 2000 and 1999 budgetary activity appears in Note 3.

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.

**VILLAGE OF NEWTON FALLS
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Unpaid Vacation and Sick Leave

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

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>2000</u>	<u>1999</u>
Demand deposits	\$ (165,489)	\$ (194,244)
Total deposits	<u>(165,489)</u>	<u>(194,244)</u>
Second National Bank	1,794,754	1,442,636
McDonald & Company	5,099,548	4,875,006
STAR Ohio	<u>118,891</u>	<u>106,251</u>
Total investments	<u>7,013,193</u>	<u>6,423,893</u>
Total deposits and investments	<u>\$ 6,847,704</u>	<u>\$ 6,229,649</u>

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, 2000 and 1999 follows:

Fund Type	2000 Budgeted vs. Actual Receipts		
	Budgeted Receipts	Actual Receipts	Variance
General	\$ 1,791,519	\$ 1,830,409	\$ 38,890
Special Revenue	1,951,143	1,917,310	(33,833)
Capital Projects	221,351	234,711	13,360
Enterprise	6,335,282	6,315,961	(19,321)
Internal Service	239,057	323,575	84,518
Agency	<u>100,774</u>	<u>100,774</u>	<u>0</u>
Total	<u>\$ 10,639,126</u>	<u>\$ 10,722,740</u>	<u>\$ 83,614</u>

**VILLAGE OF NEWTON FALLS
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

2000 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 1,785,224	\$ 1,709,360	\$ 75,864
Special Revenue	1,954,592	1,875,413	79,179
Capital Projects	361,629	302,744	58,885
Enterprise	6,768,308	6,435,677	332,631
Internal Service	340,000	312,369	27,631
Agency	0	0	0
Total	<u>\$ 11,209,753</u>	<u>\$ 10,635,563</u>	<u>\$ 574,190</u>

1999 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 1,703,037	\$ 1,784,520	\$ 81,483
Special Revenue	1,303,537	1,333,342	29,805
Capital Projects	218,872	222,515	3,643
Enterprise	6,149,470	6,071,194	(78,276)
Internal Service	240,000	249,146	9,146
Agency	4,150	4,035	(115)
Total	<u>\$ 9,619,066</u>	<u>\$ 9,664,752</u>	<u>\$ 45,686</u>

1999 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 1,848,134	\$ 1,801,647	\$ 46,487
Special Revenue	1,389,804	1,294,510	95,294
Capital Projects	238,507	208,711	29,796
Enterprise	6,874,693	6,475,572	399,121
Internal Service	279,055	269,344	9,711
Agency	2,000	2,000	0
Total	<u>\$ 10,632,193</u>	<u>\$ 10,051,784</u>	<u>\$ 580,409</u>

Contrary to Ohio law, prior certification was not presented for several expenditures for the years ended December 31, 2000 and 1999.

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 rate for inflation.

**VILLAGE OF NEWTON FALLS
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999
(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. LOCAL INCOME TAX

The Village levies a municipal income tax of one percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village.

Employers within the Village withhold income tax on employee compensation and remit the tax to the Village either monthly or quarterly, as required. Corporations and other individual taxpayers pay estimated taxes quarterly and file a declaration annually.

6. DEBT

Debt outstanding at December 31, 2000 was as follows:

	Principal	Interest Rate
Ohio Water Development Authority Loan	\$777,336	2% to 10.84%
Mortgage Revenue Bonds	567,000	6.25%
Electric Metering Promissory Note	485,400	5.64%
Municipal Court Renovation Promissory Note	573,987	6.03%
Police & Firemen's Disability & Pension Fund	18,724	4.25%
Total	\$2,422,447	

Outstanding Ohio Water Development Authority (OWDA) Loans consist of four cooperative agreements between the Village of Newton Falls and the OWDA for improvements to the Village's secondary treatment plant and water treatment plant. The OWDA has approved up to \$1,718,796 in loans to the Village for these projects. The scheduled payment amount below assumes that \$1,718,796 will be borrowed. The scheduled payment will be adjusted to reflect any revisions in amounts actually borrowed. The Village has pledged revenues from the Sewer and Water Funds to repay these debts.

**VILLAGE OF NEWTON FALLS
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999
(Continued)**

6. DEBT (Continued)

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.

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 Village borrowed money in the form of a promissory note for renovation of the Municipal Court. The Village has pledged certain investment securities as collateral.

The Village incurred the Police and Firemen's Disability and Pension (PFDP) Fund obligation in 1968 to pay the State of Ohio's Police and Firemen's Disability and Pension Fund System the difference between the accumulated assets maintained in the Village's pension fund for it's 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.

Amortization of the above debt, including interest, is scheduled as follows:

Year ending December 31:	OWDA Loans	Mortgage Revenue Bonds	Electric Metering Promissory Note	Municipal Court Renovation Promissory Note	PFDP Fund Obligation
2001	\$76,915	\$210,688	\$87,600	\$59,026	\$1,040
2002	153,829	209,406	87,600	59,026	1,040
2003	153,829	210,469	87,600	59,026	1,040
2004	153,829		87,600	59,026	1,040
2005	153,829		87,600	59,026	1,040
Subsequent	334,548		147,155	575,509	30,631
Total	<u>\$1,026,779</u>	<u>\$630,563</u>	<u>\$585,155</u>	<u>\$870,639</u>	<u>\$35,831</u>

7. 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 2000 and 1999, 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 PERS participants' gross salaries through June 30, 2000. Commencing July 1, 2000, PERS temporarily reduced employer contributions to 8.13%. The Village has paid all contributions required through December 31, 2000.

**VILLAGE OF NEWTON FALLS
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999
(Continued)**

8. 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 \$424,059 and \$412,853 toward future medical insurance claims as of December 31, 2000 and 1999, respectively. Also, the Village maintains stop-loss coverage with an insurance company of \$25,000 per claim for medical coverage.

5. PRIOR PERIOD ADJUSTMENT

The Village had maintained a Police Equipment Fund to account for certain expenditures of the Police Department. However, prior audits disclosed that the Village did not provide documentation supporting that Village Council established this fund pursuant to Revised Code Section 5705.12, nor could they provide any statutory provision requiring the establishment of this fund. Also, the Village accounts for all other financial activity of the Police Department in the General Fund. Therefore, the Village transferred the Police Equipment Fund's December 31, 1998 fund cash balance of \$687 to the General Fund resulting in the following fund cash balances:

Fund Type	12/31/98 Fund Cash Balances	Adjustment	01/01/99 Fund Cash Balances
General	\$905,609	\$687	\$906,296
Special Revenue	472,728	(687)	472,041



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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, 2000 and 1999, and have issued our report thereon dated February 12, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2000-31178-001. We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated February 12, 2002.

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 2000-31178-002 and 2000-31178-003.

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 February 12, 2002.

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.

Jim Petro
Auditor of State

February 12, 2002

VILLAGE OF NEWTON FALLS
TRUMBULL COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2000 AND 1999

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

Noncompliance Citation

FINDING NUMBER 2000-31178-001

Ohio Revised Code § 5705.41(D) provides in part that no subdivision shall make any contract or order any expenditure of money unless the certificate of the fiscal officer is attached. The fiscal officer must certify that the amount required to meet such a commitment has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance. The amount so certified shall be recorded against the applicable appropriation account.

This section also provides two exceptions to the above requirements:

- A. Then and Now Certificate - If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, the Village may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate, if such expenditure is otherwise valid.
- B. If the amount involved is less than one thousand dollars the fiscal officer issues a certificate, but may authorize it to be paid without the affirmation of Council.

The Village could not provide documentation supporting the date of certification for three percent of the expenditures tested, and the obligation date preceded the certification date in eleven percent of the expenditures tested to determine the Village's compliance with this provision. There was no evidence of "then and now" certificates being used for these transactions.

Incurring obligations prior to the fiscal officer's certification of the availability of funds for such obligations, could result in the Village expending more than was appropriated and/or available.

We recommend that the Village comply with the requirements set forth in Ohio Revised Code § 5705.41 (D).

We also reported this matter in our audit of the 1997 and 1998 financial statements as part of the management letter.

Reportable Conditions

FINDING NUMBER 2000-31178-002

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

- The Village's Receipt and Appropriation Ledgers did not agree to its 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;

FINDING NUMBER 2000-31178-002
(Continued)

- Monthly cash reconciliations included various cash fund balances, reconciling items and depository/investment balances that were not supported, and outstanding checks that exceeded one year;
- The Village's Investment Ledger did not always contain accurate cost basis valuations.

As a result of these matters, the Village's Financial Statements required numerous audit adjustments, and year end cash reconciliations required adjustments.

The Finance Director and 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 the Village consider the following recommendations:

- Management and Council 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 and Council 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 and Council 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.

FINDING NUMBER 2000-31178-003

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 Council;
- 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.

FINDING NUMBER 2000-31178-003
(Continued)

Auditing standards generally accepted in the United States of America require that auditors communicate the following information to an audit committee:

- The auditor's professional responsibility under auditing standards generally accepted in the United States of America;
- 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.

**VILLAGE OF NEWTON FALLS
TRUMBULL COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2000 AND 1999**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
1998-31178-001	Discrepancies identified with the Village's financial reporting system	No	Partially Corrected. The Village has taken corrective action to ensure that they properly classify their annual financial report and contains all financial activity, and that they post all financial transactions to the receipts and disbursements ledgers. This was reissued as finding No. 2000-31178-002.
1998-31178-002	Failure to establish an audit committee	No	Not Corrected. This was reissued as finding No. 2000-31178-003.



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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
MARCH 7, 2002**