



Mary Taylor, CPA
Auditor of State

**CITY OF NEWTON FALLS
TRUMBULL COUNTY**

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Mary Taylor, CPA

Auditor of State

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, 2005, 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 that our audit provides a reasonable basis for our opinions.

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, 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, 2005, and the respective changes in cash financial position and the budgetary comparison for the General fund, thereof for the year then ended in conformity with the basis of accounting Note 1 describes.

For the year ended December 31, 2005, the City revised its financial 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 February 18, 2009, 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 Government 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 cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

February 18, 2009

City of Newton Falls, Trumbull County, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2005

Unaudited

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, 2005, 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 2005 are as follows:

Net assets of business-type activities decreased \$1,881,519, or 22.12 percent, a significant change from the prior year. The fund most affected by the decrease in cash and cash equivalents was the electric fund, which realized the burden of increased construction costs in 2005.

The City's governmental receipts are primarily income tax and fines, licenses and permits. These receipts represent respectively 27.81 and 27.92 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, 2005

Unaudited

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 2005, 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, 2005

Unaudited

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, 2005

Unaudited

The City of Newton Falls as a Whole

Table 1 provides a summary of the City's net assets for 2005 compared to 2004 on a cash basis.

(Table 1)

Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Assets						
Cash and Cash						
Equivalents	\$1,547,958	\$1,516,217	\$6,422,215	\$8,291,568	\$7,970,173	\$9,807,785
Internal Balances	<u>(203,473)</u>	<u>(215,639)</u>	<u>203,473</u>	<u>215,639</u>	<u>0</u>	<u>0</u>
<i>Total Assets</i>	<u><u>1,344,485</u></u>	<u><u>1,300,578</u></u>	<u><u>6,625,688</u></u>	<u><u>8,507,207</u></u>	<u><u>7,970,173</u></u>	<u><u>9,807,785</u></u>
Net Assets						
Restricted for:						
Capital Outlay	155,859	123,360	0	0	155,859	123,360
Other Purposes	425,862	438,682	0	0	425,862	438,682
Unrestricted	<u>762,764</u>	<u>738,536</u>	<u>6,625,688</u>	<u>8,507,207</u>	<u>7,388,452</u>	<u>9,245,743</u>
<i>Total Net Assets</i>	<u><u>\$1,344,485</u></u>	<u><u>\$1,300,578</u></u>	<u><u>\$6,625,688</u></u>	<u><u>\$8,507,207</u></u>	<u><u>\$7,970,173</u></u>	<u><u>\$9,807,785</u></u>

- Net assets of governmental activities increased \$43,907 or 3.38 percent during 2005.
- This increase is largely made up of management making an effort to control expenses throughout the City.
- As mentioned previously, net assets of business-type activities decreased \$1,881,519, or 22.12 percent during 2005. This increase is largely made up of construction and improvements to the infrastructure of the City.

Table 2 reflects the changes in net assets for 2005 compared to 2004 on a cash basis.

City of Newton Falls, Trumbull County, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2005

Unaudited

(Table 2)

Changes in Net Assets

	Governmental Activities		Business Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Receipts:						
<i>Program Receipts</i>						
Charges for Services	\$886,172	\$748,591	\$5,874,926	\$5,770,303	\$6,761,098	\$6,518,894
Operating Grants and Contributions	242,624	222,755	0	0	242,624	222,755
Capital Grants and Contributions	0	108,559	0	5,854,076	0	5,962,635
<i>Total Program Receipts</i>	<u>1,128,796</u>	<u>1,079,905</u>	<u>5,874,926</u>	<u>11,624,379</u>	<u>7,003,722</u>	<u>12,704,284</u>
<i>General Receipts:</i>						
Property Taxes	139,461	133,718	0	0	139,461	133,718
Income Taxes	853,459	826,302	0	0	853,459	826,302
Intergovernmental	157,508	141,207	0	0	157,508	141,207
Proceeds of Notes	0	0	3,350,000	0	3,350,000	0
Proceeds of OWDA Loans	0	0	75,555	0	75,555	0
Proceeds of OPWC Loans	0	0	43,187	0	43,187	0
Investment Earnings	281,600	271,203	0	0	281,600	271,203
Miscellaneous	507,764	515,481	204,350	190,611	712,114	706,092
<i>Total General Receipts</i>	<u>1,939,792</u>	<u>1,887,911</u>	<u>3,673,092</u>	<u>190,611</u>	<u>5,612,884</u>	<u>2,078,522</u>
<i>Total Receipts</i>	<u>3,068,588</u>	<u>2,967,816</u>	<u>9,548,018</u>	<u>11,814,990</u>	<u>12,616,606</u>	<u>14,782,806</u>
Disbursements:						
General Government	1,335,840	1,253,833	0	0	1,335,840	1,253,833
Security of Persons and Property	948,051	977,353	0	0	948,051	977,353
Leisure Time Activities	82,314	84,652	0	0	82,314	84,652
Community Environment	18,953	23,053	0	0	18,953	23,053
Transportation	412,518	335,941	0	0	412,518	335,941
Capital Outlay	135,607	521,346	0	0	135,607	521,346
Principal Retirement	64,021	30,164	0	0	64,021	30,164
Interest and Fiscal Charges	27,377	29,903	0	0	27,377	29,903
Water	0	0	1,340,935	3,204,278	1,340,935	3,204,278
Sewer	0	0	1,097,209	1,812,934	1,097,209	1,812,934
Electric	0	0	8,833,492	3,929,069	8,833,492	3,929,069
Refuse	0	0	157,901	161,318	157,901	161,318
<i>Total Disbursements</i>	<u>3,024,681</u>	<u>3,256,245</u>	<u>11,429,537</u>	<u>9,107,599</u>	<u>14,454,218</u>	<u>12,363,844</u>
Increase (Decrease) in Net Assets	43,907	(288,429)	(1,881,519)	2,707,391	(1,837,612)	2,418,962
<i>Net Assets, January 1, 2005</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>
<i>Net Assets, December 31, 2005</i>	<u>\$1,344,485</u>	<u>\$1,300,578</u>	<u>\$6,625,688</u>	<u>\$8,507,207</u>	<u>\$7,970,173</u>	<u>\$9,807,785</u>

Program receipts represent 55.51 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 44.49 percent of the City's total receipts, and of this amount, over 17.69 percent are property and income taxes. Proceeds of debt issuances make up 61.80 percent of the City's general receipts. State and federal grants and entitlements, miscellaneous receipts and interest make up the balance of the general receipts (20.51 percent).

City of Newton Falls, Trumbull County, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2005

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 44.16 and 31.34 percent of all governmental disbursements, respectively. Transportation also represents a significant cost, about 13.64 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 2005	Net Cost of Services 2005	Total Cost Of Services 2005	Net Cost of Services 2005
General Government	\$1,335,840	\$924,619	\$0	\$0
Security of Persons and Property	948,051	620,917	0	0
Leisure Time Activities	82,314	66,340	0	0
Community Environment	18,953	12,500	0	0
Transportation	412,518	172,113	0	0
Capital Outlay	135,607	7,998	0	0
Principal Retirement	64,021	64,021	0	0
Interest and Fiscal Charges	27,377	27,377	0	0
Water	0	0	1,340,935	283,932
Sewer	0	0	1,097,209	18,239
Electric	0	0	8,833,492	5,253,201
Refuse	0	0	157,901	(761)
<i>Total Expenses</i>	<u>\$3,024,681</u>	<u>\$1,895,885</u>	<u>\$11,429,537</u>	<u>\$5,554,611</u>

City of Newton Falls, Trumbull County, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2005

Unaudited

The dependence upon income tax and other tax receipts is apparent as over 62.68 percent of governmental activities are supported through these general receipts.

The City of Newton Falls Funds

Total governmental funds had receipts of \$3,068,588 and disbursements of \$3,002,265. The greatest change within governmental funds occurred within the general fund. The fund balance of the general fund increased \$46,644 as the result of increased collections in both income and property tax receipts.

General Fund disbursements were less than receipts by \$128,750 indicating that the general fund is in a surplus 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 \$2,312,095 while actual receipts were \$2,367,379. The positive difference of \$55,284 was due to higher than expected collections of municipal income and property taxes and fines, licenses and permits.

Final disbursements were budgeted at \$2,257,535 while actual disbursements were \$2,238,629. The positive difference of \$18,906 was due to greater spending controls for general government and security of persons and property in the amounts of \$10,998 and \$7,748, 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, 2005, the City's outstanding debt for governmental activities included \$400,740 in promissory notes issued for improvements to the municipal court, and \$17,380 in Ohio Police Pension debt. The City's outstanding debt for business-type activities included a \$139,914 promissory note for electric metering, \$3,472,548 in OWDA Loans, \$460,066 in OPWC Loans and \$3,350,000 in bond anticipation notes for the City's electrical system.

City of Newton Falls, Trumbull County, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2005

Unaudited

Current Issues

The challenge for all governments is to provide quality services to the public while staying within the restrictions imposed by limited, and in some cases shrinking, funding. We rely heavily on local taxes and have very little industry to support the tax base.

The City continues to seek out alternative funding in the way of grants to help our financial baseline. The City is also seeking to continue the improvements to both the electrical and the water/sewer infrastructure to offer our citizens the services they have come to expect.

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 Tracy Reibold, 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, 2005

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$1,547,958	\$6,422,215	\$7,970,173
Internal Balances	(203,473)	203,473	0
<i>Total Assets</i>	<u>1,344,485</u>	<u>6,625,688</u>	<u>7,970,173</u>
Net Assets			
Restricted for:			
Capital Projects	155,859	0	155,859
Other Purposes	425,862	0	425,862
Unrestricted	<u>762,764</u>	<u>6,625,688</u>	<u>7,388,452</u>
<i>Total Net Assets</i>	<u>\$1,344,485</u>	<u>\$6,625,688</u>	<u>\$7,970,173</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, 2005

	<u>Program Cash Receipts</u>		
	<u>Cash</u> <u>Disbursements</u>	<u>Charges for</u> <u>Services</u>	<u>Operating</u> <u>Grants and</u> <u>Contributions</u>
Governmental Activities			
General Government	\$1,335,840	\$411,221	\$0
Security of Persons and Property	948,051	320,417	6,717
Leisure Time Activities	82,314	15,974	0
Community Environment	18,953	6,453	0
Transportation	412,518	4,498	235,907
Capital Outlay	135,607	127,609	0
Principal Retirement	64,021	0	0
Interest and Fiscal Charges	27,377	0	0
<i>Total Governmental Activities</i>	<u>3,024,681</u>	<u>886,172</u>	<u>242,624</u>
Business-Type Activities			
Water	1,340,935	1,057,003	0
Sewer	1,097,209	1,078,970	0
Electric	8,833,492	3,580,291	0
Refuse	157,901	158,662	0
<i>Total Business-Type Activities</i>	<u>11,429,537</u>	<u>5,874,926</u>	<u>0</u>
<i>Total</i>	<u>\$14,454,218</u>	<u>\$6,761,098</u>	<u>\$242,624</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

Proceeds of Notes

Proceeds of OWDA Loans

Proceeds of OPWC Loans

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 basic financial statements

Net (Disbursements) Receipts and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(\$924,619)	\$0	(\$924,619)
(620,917)	0	(620,917)
(66,340)	0	(66,340)
(12,500)	0	(12,500)
(172,113)	0	(172,113)
(7,998)	0	(7,998)
(64,021)	0	(64,021)
(27,377)	0	(27,377)
<u>(1,895,885)</u>	<u>0</u>	<u>(1,895,885)</u>
0	(283,932)	(283,932)
0	(18,239)	(18,239)
0	(5,253,201)	(5,253,201)
0	761	761
<u>0</u>	<u>(5,554,611)</u>	<u>(5,554,611)</u>
<u>(1,895,885)</u>	<u>(5,554,611)</u>	<u>(7,450,496)</u>
122,726	0	122,726
16,735	0	16,735
604,150	0	604,150
71,231	0	71,231
71,231	0	71,231
106,847	0	106,847
157,508	0	157,508
0	3,350,000	3,350,000
0	75,555	75,555
0	43,187	43,187
281,600	0	281,600
507,764	204,350	712,114
<u>1,939,792</u>	<u>3,673,092</u>	<u>5,612,884</u>
43,907	(1,881,519)	(1,837,612)
<u>1,300,578</u>	<u>8,507,207</u>	<u>9,807,785</u>
<u>\$1,344,485</u>	<u>\$6,625,688</u>	<u>\$7,970,173</u>

City of Newton Falls, Ohio
Statement of Cash Basis Assets and Fund Balances
Governmental Funds
December 31, 2005

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Equity in Pooled Cash and Cash Equivalents	\$387,860	\$581,721	\$969,581
Fund Balances			
Reserved for Encumbrances	\$64,359	\$547,557	\$611,916
Unreserved, Undesignated, Reported in:			
General Fund	323,501	0	323,501
Special Revenue Funds (Deficit)	0	(80,823)	(80,823)
Capital Projects Funds	0	114,987	114,987
<i>Total Fund Balances</i>	<u>\$387,860</u>	<u>\$581,721</u>	<u>\$969,581</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, 2005*

Total Governmental Funds Balances	\$969,581
------------------------------------------	------------------

*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	578,377	
Internal Balances	(203,473)	
 Total		374,904

<i>Net Assets of Governmental Activities</i>	<u><u>\$1,344,485</u></u>
----------------------------------------------	---------------------------

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, 2005

	General	Other Governmental Funds	Total Governmental Funds
Receipts			
Property Taxes	\$122,726	\$16,735	\$139,461
Municipal Income Taxes	604,150	249,309	853,459
Intergovernmental	157,508	242,624	400,132
Charges for Services	8,951	20,472	29,423
Fines, Licenses and Permits	700,230	156,519	856,749
Investment Earnings	281,506	94	281,600
Miscellaneous	492,308	15,456	507,764
<i>Total Receipts</i>	<u>2,367,379</u>	<u>701,209</u>	<u>3,068,588</u>
Disbursements			
Current:			
General Government	1,302,226	22,115	1,324,341
Security of Persons and Property	917,450	22,893	940,343
Leisure Time Activities	0	82,314	82,314
Community Environment	18,953	0	18,953
Transportation	0	409,309	409,309
Capital Outlay	0	135,607	135,607
Debt Service:			
Principal Retirement	0	64,021	64,021
Interest and Fiscal Charges	0	27,377	27,377
<i>Total Disbursements</i>	<u>2,238,629</u>	<u>763,636</u>	<u>3,002,265</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>128,750</u>	<u>(62,427)</u>	<u>66,323</u>
Other Financing Sources (Uses)			
Transfers In	0	82,106	82,106
Transfers Out	(82,106)	0	(82,106)
<i>Total Other Financing Sources (Uses)</i>	<u>(82,106)</u>	<u>82,106</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	46,644	19,679	66,323
<i>Fund Balances Beginning of Year</i>	<u>341,216</u>	<u>562,042</u>	<u>903,258</u>
<i>Fund Balances End of Year</i>	<u><u>\$387,860</u></u>	<u><u>\$581,721</u></u>	<u><u>\$969,581</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, 2005*

Net Change in Fund Balance - Total Governmental Funds	\$66,323
--------------------------------------------------------------	-----------------

*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	(34,582)	
Internal Balances	<u>12,166</u>	
Total		<u>(22,416)</u>

<i>Change in Net Assets of Governmental Activities</i>	<u><u>\$43,907</u></u>
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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, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
Receipts				
Property Taxes	\$103,176	\$119,860	\$122,726	\$2,866
Municipal Income Taxes	507,909	590,042	604,150	14,108
Intergovernmental	132,417	153,830	157,508	3,678
Charges for Services	7,525	8,742	8,951	209
Fines, Licenses and Permits	588,684	683,878	700,230	16,352
Investment Earnings	236,662	274,932	281,506	6,574
Miscellaneous	413,883	480,811	492,308	11,497
<i>Total Receipts</i>	<u>1,990,256</u>	<u>2,312,095</u>	<u>2,367,379</u>	<u>55,284</u>
Disbursements				
Current:				
General Government	1,183,740	1,313,224	1,302,226	10,998
Security of Persons and Property	833,974	925,198	917,450	7,748
Community Environment	17,229	19,113	18,953	160
<i>Total Disbursements</i>	<u>2,034,943</u>	<u>2,257,535</u>	<u>2,238,629</u>	<u>18,906</u>
<i>Excess of Receipts Over Disbursements</i>	(44,687)	54,560	128,750	74,190
Other Financing Uses				
Transfers Out	(74,635)	(82,800)	(82,106)	694
<i>Net Change in Fund Balance</i>	(119,322)	(28,240)	46,644	74,884
<i>Fund Balance Beginning of Year</i>	318,817	318,817	318,817	0
Prior Year Encumbrances Appropriated	22,399	22,399	22,399	0
<i>Fund Balance End of Year</i>	<u>\$221,894</u>	<u>\$312,976</u>	<u>\$387,860</u>	<u>\$74,884</u>

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, 2005

	Enterprise		
	Water	Sewer	Electric
Assets			
Equity in Pooled Cash and Cash Equivalents	\$1,356,455	\$874,650	\$4,175,914
Net Assets			
Unrestricted	<u>\$1,356,455</u>	<u>\$874,650</u>	<u>\$4,175,914</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>\$15,196</u>	<u>\$6,422,215</u>	<u>\$578,377</u>
<u>\$15,196</u>	6,422,215	<u>\$578,377</u>
	<u>203,473</u>	
	<u>\$6,625,688</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, 2005*

	Enterprise		
	Water	Sewer	Electric
Operating Receipts			
Charges for Services	\$1,057,003	\$1,078,970	\$3,580,291
Miscellaneous	7,333	97	196,920
<i>Total Operating Receipts</i>	<u>1,064,336</u>	<u>1,079,067</u>	<u>3,777,211</u>
Operating Disbursements			
Personal Services	519,585	340,277	367,371
Travel and Transportation	705	173	2,304
Contractual Services	147,612	111,197	3,306,336
Materials and Supplies	108,678	48,898	46,050
Claims	0	0	0
Capital Outlay	188,952	159,598	1,220,790
Miscellaneous	162,105	157,144	359,738
<i>Total Operating Disbursements</i>	<u>1,127,637</u>	<u>817,287</u>	<u>5,302,589</u>
<i>Operating Income (Loss)</i>	<u>(63,301)</u>	<u>261,780</u>	<u>(1,525,378)</u>
Non-Operating Receipts (Disbursements)			
Redemption of Principal	(147,655)	(249,308)	(3,427,266)
Interest and Fiscal Charges	(60,559)	(26,983)	(100,186)
Proceeds of Notes	0	0	3,350,000
Proceeds of OWDA Loans	75,555	0	0
Proceeds of OPWC Loans	43,187	0	0
<i>Total Non-Operating Receipts (Disbursements)</i>	<u>(89,472)</u>	<u>(276,291)</u>	<u>(177,452)</u>
<i>Change in Net Assets</i>	(152,773)	(14,511)	(1,702,830)
<i>Net Assets Beginning of Year</i>	<u>1,509,228</u>	<u>889,161</u>	<u>5,878,744</u>
<i>Net Assets End of Year</i>	<u>\$1,356,455</u>	<u>\$874,650</u>	<u>\$4,175,914</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>
\$158,662	\$5,874,926	\$563,700
0	204,350	2,815
<u>158,662</u>	<u>6,079,276</u>	<u>566,515</u>
0	1,227,233	0
0	3,182	0
157,901	3,723,046	0
0	203,626	0
0	0	601,097
0	1,569,340	0
0	678,987	0
<u>157,901</u>	<u>7,405,414</u>	<u>601,097</u>
<u>761</u>	<u>(1,326,138)</u>	<u>(34,582)</u>
0	(3,824,229)	0
0	(187,728)	0
0	3,350,000	0
0	75,555	0
0	43,187	0
<u>0</u>	<u>(543,215)</u>	<u>0</u>
761	(1,869,353)	(34,582)
<u>14,435</u>		<u>612,959</u>
<u>\$15,196</u>		<u>\$578,377</u>
	<u>(12,166)</u>	
	<u>(\$1,881,519)</u>	

City of Newton Falls, Ohio
Statement of Fiduciary Net Assets - Cash Basis
Fiduciary Funds
December 31, 2005

	Private Purpose Trust	
	Unclaimed Monies	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$6,591	\$1,480
Cash and Cash Equivalents:		
In Segregated Accounts	0	31,633
Total Assets	6,591	\$33,113
Liabilities		
Deposits Held and Due to Others	0	\$33,113
Net Assets		
Held in Trust for Unclaimed Monies	\$6,591	

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, 2005

	Unclaimed Monies
Additions	
Miscellaneous	\$467
Deductions	
	0
<i>Change in Net Assets</i>	467
<i>Net Assets Beginning of Year</i>	6,124
<i>Net Assets End of Year</i>	\$6,591

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, 2005

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, 2005

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, 2005

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".

During 2005, investments were limited to STAROhio, repurchase agreements, taxable bonds and fixed income securities.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost.

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on December 31, 2005.

City of Newton Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2005 amounted to \$281,506, which includes \$267,816 assigned from other City funds.

Investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the City are presented on the financial statements 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."

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 \$581,721 of restricted net assets, none of which 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.

City of Newton Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

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.

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 – Changes in Accounting Principles

For 2005, the City has implemented GASB Statement No. 40, "Deposits and Investment Risk Disclosures" and GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries."

GASB Statement No. 40 establishes new disclosure requirements for risks associated with deposits and investments.

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

The implementation of GASB Statement No. 42 did not affect the presentation of the financial statements of the City.

City of Newton Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

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 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 \$61,871.

Note 6 – Deposits and Investments

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

Active deposits are public deposits 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 Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to payment of principal and interest by the United States;

City of Newton Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in securities listed above;
4. Bonds and other obligations of the State of Ohio 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;
7. The State Treasurer's investment pool (STAROhio);
8. Commercial paper and bankers acceptances if training requirements have been met.

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

Deposits

Custodial Credit Risk Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$962,401 of the City's bank balance of \$1,388,185 was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the investment of money had been followed, noncompliance with Federal requirements could potentially subject the City to a successful claim by the FDIC.

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

City of Newton Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Investments

Investments are reported at fair value. As of December 31, 2005, the City had the following investments:

	Maturity			Total
	Less Than One Year	More Than One Year But Less Than Three Years	More Than Three Years But Less Than Five Years	
Repurchase Agreements	\$172,952	\$0	\$0	\$172,952
Taxable Bonds	2,294,043	1,557,995	1,952,434	5,804,472
Fixed Income Securities	1,232,545	0	0	1,232,545
STAROhio	105,271	0	0	105,271
Total Portfolio	<u>\$3,804,811</u>	<u>\$1,557,995</u>	<u>\$1,952,434</u>	<u>\$7,315,240</u>

Interest Rate Risk As a means of limiting its exposure to fair value losses caused by rising interest rates, the City's investment policy requires that operating funds be invested primarily in short-term investments maturing within five years from the date of purchase and that the City's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments. The stated intent of the policy is to avoid the need to sell securities prior to maturity. Repurchase agreements are limited to 30 days and the market value of the securities must exceed the principal value of the agreement by at least 2 percent and be marked to market daily.

Credit Risk The taxable bonds and the fixed income securities carry a rating of AAA by Standard & Poor's and STAROhio also carries a rating of AAAM by Standard & Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The City has no investment policy that would further limit its investment choices.

Concentration of Credit Risk. The City places no limit on the amount it may invest in any one issuer. The following is the City's allocation as of December 31, 2005:

Investment	Percentage of Investments
Repurchase Agreements	2.36 %
Taxable Bonds	79.35
Fixed Income Securities	16.85
STAROhio	1.44

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 2005 for real and public utility property taxes represents collections of the 2004 taxes. Property tax payments received during 2005 for tangible personal property (other than public utility property) are for 2005 taxes.

City of Newton Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

2005 real property taxes are levied after October 1, 2005 on the assessed value as of January 1, 2005, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2005 real property taxes are collected in and intended to finance 2006.

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. 2005 public utility property taxes became a lien December 31, 2004, are levied after October 1, 2005, and are collected in 2006 with real property taxes.

2005 tangible personal property taxes are levied after October 1, 2004, on the value as of December 31, 2004. Collections are made in 2005. Tangible personal property assessments are 25 percent of true value for capital assets and 23 percent of true value for inventories.

The full tax rate for all City operations for the year ended December 31, 2005 was \$2.50 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2005 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	7,487,256
Total	<u><u>\$61,970,336</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 county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30; with the remainder payable by September 20.

The County Treasurer collects property tax on behalf of all taxing districts within the county. 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 2005, 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.

City of Newton Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

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, 2005.

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 2005, the City contracted with Ohio Plan Insurance for various types of insurance coverage as follows:

<u>Type</u>	<u>Coverage</u>	<u>Deductible</u>
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 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

City of Newton Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

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 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) 222-6701 or (800) 222-7377.

For the year ended December 31, 2005, 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. 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 employer's contribution rate for pension benefits for 2005 was 9.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the employer'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, 2005, 2004, and 2003 were \$187,767, \$179,456, and \$152,839 respectively; 86.10 percent has been contributed for 2005 and 100 percent for 2004 and 2003. There were no contributions to the member-directed plan for 2005.

B. Ohio Police Pension Fund

The City contributes to the Ohio Police and Fire 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 benefits while the employer is required to contribute 11.75 percent for police officers. Contributions are authorized by State statute. The City's contributions to the OP&F for police for the years ended December 31, 2005, 2004, and 2003 were \$38,756, \$37,579, and \$36,206 respectively; 73.02 percent has been contributed for 2005 and 100 percent for 2004 and 2003.

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

City of Newton Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

combined plans. Health care coverage for disability benefit recipients and qualified survivor benefit 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 combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2005 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 4 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, 2005, include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between 0.50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1 to 6 percent annually for the next eight years and 4 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 376,109. Actual City contributions for 2005 which were used to fund postemployment benefits were \$78,646. The actual contribution and the actuarially required contribution amounts are the same. The actuarial value of OPERS's net assets available for payment of benefits at December 31, 2005, was \$11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$31.3 billion and \$20.2 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. Member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

B. Ohio Police Pension Fund

The Ohio Police and Fire 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 and Fire 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 2005 and 2004. In addition, since July 1, 1992, most retirees and survivors have

City of Newton Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

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 2005 that were used to fund postemployment health care benefits were \$25,562 for police. The OP&F's total health care expense for the year ended December 31, 2005 was \$108,039,449, which was net of member contributions of \$55,271,881. The number of OP&F participants eligible to receive health care benefits as of December 31, 2005, was 13,922 for police.

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
<i>Governmental-Type Debt:</i>			
Municipal Court Renovation Promissory Note	6.03%	\$580,000	2015
Ohio Police Pension	4.25%	N/A	2035
<i>Business-Type Debt</i>			
Electric Metering Promissory Note	5.64%	642,941	2007
<i>OWDA Loans</i>			
Wastewater Treatment Plant and Sewer Improvements	2.00%	1,005,976	2011
Wastewater Treatment Plant Expansion Design	3.20%	697,727	2009
OWDA DWAF #3806	2.00%	3,192,533	2024
<i>OPWC Loans</i>			
Broad Street Water Distribution	0.00%	253,463	2025
Broad Street Storm Water	0.00%	186,493	2025
OPWC #CF28G	0.00%	43,187	2025
Electric System Bond Anticipation Note	3.00%	3,350,000	2006

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

	Balance 12/31/04	Additions	Reductions	Balance 12/31/05	Amounts Due in One Year
Governmental Activities					
<i>Promissory Note</i>					
Municipal Court Renovation	\$464,469	\$0	(\$63,729)	\$400,740	\$72,882
<i>Other</i>					
Ohio Police Pension	17,672	0	(292)	17,380	303
Total Governmental Activities	\$482,141	\$0	(\$64,021)	\$418,120	\$73,185

City of Newton Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

	Balance 12/31/04	Additions	Reductions	Balance 12/31/05	Amounts Due in One Year
Business-Type Activities					
<i>Promissory Note</i>					
Electric Metering	\$217,180	\$0	(\$77,266)	\$139,914	\$81,791
<i>OWDA Loans</i>					
OWDA #1384	51,064	0	(51,064)	0	0
OWDA #1385	8,117	0	(8,117)	0	0
Wastewater Treatment Plant and Sewer Improvements	288,623	0	(45,754)	242,869	46,669
Wastewater Treatment Plant Expansion Design	527,761	0	(135,049)	392,712	139,405
OWDA #3806	2,895,314	75,555	(133,902)	2,836,967	125,217
<i>Total OWDA Loans</i>	<u>3,770,879</u>	<u>75,555</u>	<u>(373,886)</u>	<u>3,472,548</u>	<u>311,291</u>
<i>OPWC Loans</i>					
Broad Street Water Distribution	253,463	0	(12,673)	240,790	12,673
Broad Street Storm Water	186,493	0	(9,324)	177,169	9,324
OPWC #CF28G	0	43,187	(1,080)	42,107	2,159
<i>Total OPWC Loans</i>	<u>439,956</u>	<u>43,187</u>	<u>(23,077)</u>	<u>460,066</u>	<u>24,156</u>
<i>Bond Anticipation Notes</i>					
Electric System	3,350,000	3,350,000	(3,350,000)	3,350,000	3,350,000
Total Business-Type Activities	<u><u>\$7,778,015</u></u>	<u><u>\$3,468,742</u></u>	<u><u>(\$3,824,229)</u></u>	<u><u>\$7,422,528</u></u>	<u><u>\$3,767,238</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 2005, the City of Newton Falls issued \$3,350,000 in bond anticipation notes payable at 3.00 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 \$3,192,533 for project #3806 for various replacements and improvements to the Wastewater Treatment Plant; however, since this loan has not been finalized, the repayment schedule is not included in the schedule of debt service payments.

The City's overall legal debt margin was \$6,106,145 with an unvoted debt margin of \$3,007,628 at December 31, 2005. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2005 are as follows:

City of Newton Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Governmental-Type Activities

	Municipal Court Renovation Promissory Note		Ohio Police and Fire Pension Liability	
	Principal	Interest	Principal	Interest
	2006	\$72,882	\$25,343	\$303
2007	35,762	23,265	315	725
2008	37,967	21,058	327	713
2009	40,309	18,717	339	701
2010	42,796	16,231	352	688
2011 - 2015	171,024	33,771	1,987	3,213
2016 - 2020	0	0	2,470	2,730
2021 - 2025	0	0	3,094	2,106
2026-2030	0	0	3,786	1,414
2031-2035	0	0	4,407	794
Total	\$400,740	\$138,385	\$17,380	\$13,821

Business-Type Activities

	Electric Metering Promissory Note		OWDA Loans		OPWC Loans
	Principal	Interest	Principal	Interest	Principal
	2006	\$81,791	\$5,967	\$186,074	\$9,319
2007	58,123	2,599	191,505	8,529	24,156
2008	0	0	157,960	6,473	24,156
2009	0	0	49,526	2,000	24,156
2010	0	0	50,516	1,010	24,156
2011 - 2015	0	0	0	0	120,780
2016 - 2020	0	0	0	0	120,780
2021 - 2025	0	0	0	0	97,726
Total	\$139,914	\$8,566	\$635,581	\$27,331	\$460,066

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. OMEGA JV1 is managed by AMP-Ohio who acts as the joint venture's agent. Each member has a contract which provides for AMP-Ohio to purchase the right to each participant's share of power and energy that is made available through the joint venture contract. OMEGA JV1 does not have any debt outstanding. In the event of a shortfall, the JV participants would be billed for the respective shares of the estimated shortfall. The City's equity interest in OMEGA JV1 was \$11,522 at December 31, 2005. Financial information for OMEGA JV1 may be obtained from AMP-Ohio, 2600 Airport Drive, Columbus, Ohio 43219.

City of Newton Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Note 14 – Interfund Transfers

During 2005, the following transfers were made:

Transfers In	Transfers Out
	General
<i>Other Governmental Activities:</i>	
Special Revenue Funds:	
Street Construction, Maintenance and Repair	\$64,780
State Highway	797
Permissive Auto	1,529
Senior Van	15,000
<i>Total Transfers</i>	\$82,106

The general fund transfers to the street construction, maintenance and repair, state highway, permissive auto and senior van special revenue funds are to provide additional operating costs per the budget.



Mary Taylor, CPA

Auditor of State

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

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, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 18, 2009, wherein we noted the City prepared 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 as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the City's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the City's internal control over financial reporting.

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

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

We consider the following deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting: 2005-002.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, of the significant deficiencies described above, we believe finding 2005-002 is also a material weakness.

We also noted certain internal control matters that we reported to the City's management in a separate letter dated February 18, 2009.

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, 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 items 2005-001.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated February 18, 2009.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the City's responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of the audit committee, management and City Council. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

February 18, 2009

**CITY OF NEWTON FALLS
TRUMBULL COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005**

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

FINDING NUMBER 2005-001

Noncompliance Citation

Ohio Revised Code § 117.38 provides each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code § 117-2-03 further clarifies the requirements of Ohio Revised Code § 117.38.

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

Officials' Response:

The City recognizes the need to prepare financial reports in accordance with accounting principles generally accepted in the United States of America. However, since it has not been done in the past, it will be a very time consuming and costly task to undertake. We are currently evaluating proposals to identify and assign valuation for fixed assets. Once that is completed, the City will take appropriate action to correct the aforementioned concern.

FINDING NUMBER 2005-002

Material Weakness and Significant Deficiency

The City's cash reconciliation process included the following errors:

- The cash reconciliation contained inaccurate depository and investment balances, and cash fund balances;
- The City could not provide a cash reconciliation for the payroll account;
- The outstanding check list included two checks that were voided and replaced by manual checks that cleared the bank;
- The cash reconciliation listed two reconciling items that did not pertain to fiscal year 2005;
- The cash fund balance did not agree to the depository balance.

**FINDING NUMBER 2005-002
(Continued)**

In order to correct these errors and reflect proper financial statements and an accurate cash reconciliation as of December 31, 2005, an adjustment was required to decrease the General Fund's cash fund balance in the amount of \$9,292.

Council should carefully review these matters and develop internal control over the City's cash reconciliation process that supports the integrity of the City's financial records. We recommend the City consider the following procedures:

- Council and management should review the Cash Journal, Receipts and Appropriations Ledgers, and Financial Statements, and document said review in the City's Record of Proceedings of its Council's meetings. As part of this review, Council and management should determine whether transactions are posted to the appropriate fund and line-item, and that totals of the Cash Journal, Receipts and Appropriations Ledgers, and Financial Statements agree and are complete and accurate;
- Council and management should review the support for the cash reconciliations and document said review in the City's Record of Proceedings of its Council's meetings;
- Council and management should prepare analytics or a comparable mechanism to identify unusual and/or significant fluctuations in the Cash Journal and the Receipts and Appropriations Ledgers, and take corrective action, if necessary.

Officials' Response:

Control mechanisms have been implemented to avoid future accounting errors. Bank and cash reconciliations will be done on a monthly basis. Cash based financial statements will be prepared and presented to Council on a regular basis. The City continues to take appropriate action to correct the aforementioned concern.

CITY OF NEWTON FALLS
TRUMBULL COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2005

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2004-001	Failure to prepare annual financial report in accordance with generally accepted accounting principles.	No	Not Corrected. This was reissued as Finding Number 2005-001.



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
MARCH 10, 2009**