



Mary Taylor, CPA
Auditor of State

**CITY OF NEWTON FALLS
TRUMBULL COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Statement of Net Assets – Cash Basis – December 31, 2008	11
Statement of Activities – Cash Basis – For the Year Ended December 31, 2008.....	12
Statement of Cash Basis Assets and Fund Balances – Governmental Funds – December 31, 2008.....	14
Reconciliation of Cash Basis Assets and Fund Balances to Net Assets of Governmental Activities – December 31, 2008.....	15
Statement of Cash Receipts, Disbursements, and Changes in Cash Basis Fund Balances - Governmental Funds – For the Year Ended December 31, 2008	16
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, 2008	17
Statement of Receipts, Disbursements, and Changes in Fund Balance - Budget and Actual (Budget Basis) – General Fund – For the Year Ended December 31, 2008	19
Statement of Fund Net Assets - Cash Basis – Proprietary Funds - December 31, 2008.....	20
Statement of Cash Receipts, Disbursements, and Changes in Fund Net Assets - Cash Basis Proprietary Funds – For the Year Ended December 31, 2008	22
Statement of Fiduciary Net Assets - Cash Basis – Fiduciary Funds - December 31, 2008	24
Statement of Changes in Fiduciary Net Assets – Private Purpose Trust Fund – For the Year Ended December 31, 2008	25
Notes to the Basic Financial Statements	27
Federal Awards Expenditures Schedule for the Year Ended December 31, 2008.....	45
Notes to the Federal Awards Expenditures Schedule – Fiscal Year Ended December 31, 2008	46
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	47
Independent Accountants' Report on Compliance With Requirements Applicable to Its Major Federal Program and On Internal Control Over Compliance In Accordance With OMB Circular A-133	49
Schedule of Findings.....	51
Schedule of Prior Audit Findings.....	53

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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, each 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, 2008, 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 2, 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, each major fund, and the aggregate remaining fund information of the City of Newton Falls, Trumbull County, Ohio, as of December 31, 2008, 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 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2010, 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 grant agreements 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.

We conducted our audit to opine on the financial statements that collectively comprise the City's basic financial statements. The federal awards expenditures schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the federal awards expenditures schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

March 12, 2010

City of Newton Falls, Trumbull County, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2008

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, 2008, 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 2008 are as follows:

- Net assets of governmental activities increased due to an increase in intergovernmental, property taxes and miscellaneous revenues. The fund most affected by the increase in cash and cash equivalents was the permissive auto special revenue fund, which realized the greatest increased revenues in 2008.
- The City's governmental receipts are primarily income taxes and fines, licenses and permits. These receipts represent over half 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, 2008

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 units.

The statement of net assets and the statement of activities reflect how the City did financially during 2008, 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.

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.

City of Newton Falls, Trumbull County, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2008

Unaudited

Business-type activities The City has three business-type activities for the provision of water, sewer and electric. 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 three enterprise funds: the water fund, the sewer fund and the electric 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, 2008

Unaudited

The City of Newton Falls as a Whole

Table 1 provides a summary of the City's net assets for 2008 compared to 2007 on a cash basis.

(Table 1)

Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Assets						
Cash and Cash Equivalents	\$2,018,714	\$1,898,803	\$4,304,853	\$4,671,421	\$6,323,567	\$6,570,224
Internal Balances	(202,017)	(223,258)	202,017	223,258	0	0
<i>Total Assets</i>	<u>1,816,697</u>	<u>1,675,545</u>	<u>4,506,870</u>	<u>4,894,679</u>	<u>6,323,567</u>	<u>6,570,224</u>
Net Assets						
Restricted for:						
Capital Outlay	195,147	180,951	0	0	195,147	180,951
Other Purposes	622,203	500,742	0	0	622,203	500,742
Unrestricted	999,347	993,852	4,506,870	4,894,679	5,506,217	5,888,531
<i>Total Net Assets</i>	<u>\$1,816,697</u>	<u>\$1,675,545</u>	<u>\$4,506,870</u>	<u>\$4,894,679</u>	<u>\$6,323,567</u>	<u>\$6,570,224</u>

- Net assets of governmental activities increased \$141,152 or 8.42 percent during 2008.
- This increase is largely made up by management making an effort to control expenses throughout the City.
- Net assets of business-type activities decreased \$387,809 or 7.92 percent during 2008. This decrease is largely made up of increased expenses for construction and improvements to the infrastructure of the City.

City of Newton Falls, Trumbull County, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2008

Unaudited

Table 2 reflects the changes in net assets for 2008 compared to 2007 on a cash basis.

	Governmental Activities		Business Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Receipts:						
<i>Program Receipts</i>						
Charges for Services	\$837,654	\$1,046,278	\$6,020,470	\$6,039,980	\$6,858,124	\$7,086,258
Operating Grants and Contributions	416,511	326,066	801,919	1,919,406	1,218,430	2,245,472
<i>Total Program Receipts</i>	<u>1,254,165</u>	<u>1,372,344</u>	<u>6,822,389</u>	<u>7,959,386</u>	<u>8,076,554</u>	<u>9,331,730</u>
<i>General Receipts:</i>						
Property Taxes	212,660	197,759	0	0	212,660	197,759
Income Taxes	788,843	789,313	0	0	788,843	789,313
Intergovernmental	161,167	152,102	0	0	161,167	152,102
Proceeds of Notes	0	0	10,365,000	3,200,000	10,365,000	3,200,000
Proceeds of OWDA Loans	0	0	0	2,407,790	0	2,407,790
Investment Earnings	254,843	294,239	0	0	254,843	294,239
Miscellaneous	746,456	489,813	135,971	29,946	882,427	519,759
<i>Total General Receipts</i>	<u>2,163,969</u>	<u>1,923,226</u>	<u>10,500,971</u>	<u>5,637,736</u>	<u>12,664,940</u>	<u>7,560,962</u>
<i>Total Receipts</i>	<u>3,418,134</u>	<u>3,295,570</u>	<u>17,323,360</u>	<u>13,597,122</u>	<u>20,741,494</u>	<u>16,892,692</u>
Disbursements:						
General Government	(1,373,144)	(1,465,244)	0	0	(1,373,144)	(1,465,244)
Security of Persons and Property:	(953,580)	(925,755)	0	0	(953,580)	(925,755)
Leisure Time Activities	(95,013)	(77,324)	0	0	(95,013)	(77,324)
Community Environment	(128,799)	(163,140)	0	0	(128,799)	(163,140)
Transportation	(466,489)	(455,561)	0	0	(466,489)	(455,561)
Capital Outlay	(199,891)	(90,546)	0	0	(199,891)	(90,546)
Principal Retirement	(44,855)	(70,021)	0	0	(44,855)	(70,021)
Interest and Fiscal Charges	(15,211)	(19,559)	0	0	(15,211)	(19,559)
Water	0	0	(1,311,400)	(1,281,603)	(1,311,400)	(1,281,603)
Sewer	0	0	(9,073,064)	(5,340,676)	(9,073,064)	(5,340,676)
Electric	0	0	(7,326,705)	(7,504,859)	(7,326,705)	(7,504,859)
Refuse	0	0	0	0	0	0
<i>Total Disbursements</i>	<u>(3,276,982)</u>	<u>(3,267,150)</u>	<u>(17,711,169)</u>	<u>(14,127,138)</u>	<u>(20,988,151)</u>	<u>(17,394,288)</u>
Increase (Decrease) in Net Assets	141,152	28,420	(387,809)	(530,016)	(246,657)	(501,596)
<i>Net Assets, January 1, 2007</i>	<u>1,675,545</u>	<u>1,647,125</u>	<u>4,894,679</u>	<u>5,424,695</u>	<u>6,570,224</u>	<u>7,071,820</u>
<i>Net Assets, December 31, 2007</i>	<u>\$1,816,697</u>	<u>\$1,675,545</u>	<u>\$4,506,870</u>	<u>\$4,894,679</u>	<u>\$6,323,567</u>	<u>\$6,570,224</u>

Program receipts for governmental activities represent 36.69 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 for governmental activities represent 63.31 percent of the City's total receipts, and of this amount, 46.28 percent are property and income taxes. State and federal grants and entitlements make up 7.45 percent of the City's general receipts. Other receipts and interest make up the balance of the general receipts (46.27 percent).

City of Newton Falls, Trumbull County, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2008

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 41.90 and 29.10 percent of all governmental disbursements, respectively. Transportation also represents a significant cost, about 14.24 percent. The next three columns of the Statement entitled Program Cash 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)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	Total Cost	Net Cost	Total Cost	Net Cost
	Of Services	of Services	Of Services	of Services
	2008	2008	2008	2008
General Government	\$1,373,144	\$988,565	\$0	\$0
Security of Persons and Property	953,580	638,786	0	0
Leisure Time Activities	95,013	78,500	0	0
Community Environment	128,799	(52,502)	0	0
Transportation	466,489	223,608	0	0
Capital Outlay	199,891	85,794	0	0
Principal Retirement	44,855	44,855	0	0
Interest and Fiscal Charges	15,211	15,211	0	0
Water	0	0	1,311,400	260,947
Sewer	0	0	9,073,064	7,224,190
Electric	0	0	7,326,705	3,403,643
<i>Total Expenses</i>	<u>\$3,276,982</u>	<u>\$2,022,817</u>	<u>\$17,711,169</u>	<u>\$10,888,780</u>

The dependence upon income tax and other tax receipts is apparent as over 61.73 percent of governmental activities are supported through these general receipts.

City of Newton Falls, Trumbull County, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2008

Unaudited

The City of Newton Falls Funds

Total governmental funds had receipts of \$3,418,134 and disbursements of \$3,237,845. The greatest change within governmental funds occurred within the General Fund. The fund balance of the General Fund increased \$44,632 as the result of increased miscellaneous receipts.

General Fund disbursements were less than receipts by \$268,429 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.

General Fund Budgeting Highlights

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

The City's final budgeted receipts were \$3,120,190 while actual receipts were \$2,549,780. The negative difference of \$570,410 was due to lower than expected collections of general fund revenues.

Final disbursements were budgeted at \$3,138,713 while actual disbursements were \$2,536,974. The positive difference of \$601,739 was due to greater spending controls for general government and security of persons and property in the amounts of \$363,236 and \$232,357, 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, 2008, the City's outstanding debt for governmental activities included \$213,628 in promissory notes issued for improvements to the municipal court, and \$16,433 in Ohio Police Pension debt. The City's outstanding debt for business-type activities included \$3,200,000 in bond anticipation notes for the City's electrical system, \$7,165,000 in mortgage revenue bonds, \$137,912 in a capital lease for a bucket truck, \$2,550,864 in OWDA Loans, and \$387,597 in OPWC Loans.

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.

City of Newton Falls, Trumbull County, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2008

Unaudited

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, 2008

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$2,018,714	\$4,304,853	\$6,323,567
Internal Balances	(202,017)	202,017	0
<i>Total Assets</i>	<u>1,816,697</u>	<u>4,506,870</u>	<u>6,323,567</u>
Net Assets			
Restricted for:			
Capital Projects	195,147	0	195,147
Other Purposes	622,203	0	622,203
Unrestricted	<u>999,347</u>	<u>4,506,870</u>	<u>5,506,217</u>
<i>Total Net Assets</i>	<u>\$1,816,697</u>	<u>\$4,506,870</u>	<u>\$6,323,567</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, 2008

	Program Cash Receipts		
	Cash Disbursements	Charges for Services	Operating Grants and Contributions
Governmental Activities			
General Government	\$1,373,144	\$384,579	\$0
Security of Persons and Property	953,580	309,506	5,288
Leisure Time Activities	95,013	16,513	0
Community Environment	128,799	7,801	173,500
Transportation	466,489	5,158	237,723
Capital Outlay	199,891	114,097	0
Principal Retirement	44,855	0	0
Interest and Fiscal Charges	15,211	0	0
<i>Total Governmental Activities</i>	<u>3,276,982</u>	<u>837,654</u>	<u>416,511</u>
Business-Type Activities			
Water	1,311,400	1,050,453	0
Sewer	9,073,064	1,046,955	801,919
Electric	7,326,705	3,923,062	0
<i>Total Business-Type Activities</i>	<u>17,711,169</u>	<u>6,020,470</u>	<u>801,919</u>
<i>Total</i>	<u><u>\$20,988,151</u></u>	<u><u>\$6,858,124</u></u>	<u><u>\$1,218,430</u></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

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
(\$988,565)	\$0	(\$988,565)
(638,786)	0	(638,786)
(78,500)	0	(78,500)
52,502	0	52,502
(223,608)	0	(223,608)
(85,794)	0	(85,794)
(44,855)	0	(44,855)
(15,211)	0	(15,211)
(2,022,817)	0	(2,022,817)
0	(260,947)	(260,947)
0	(7,224,190)	(7,224,190)
0	(3,403,643)	(3,403,643)
0	(10,888,780)	(10,888,780)
(2,022,817)	(10,888,780)	(12,911,597)
144,015	0	144,015
68,645	0	68,645
579,130	0	579,130
59,918	0	59,918
59,918	0	59,918
89,877	0	89,877
161,167	0	161,167
0	10,365,000	10,365,000
0	0	0
254,843	0	254,843
746,456	135,971	882,427
2,163,969	10,500,971	12,664,940
141,152	(387,809)	(246,657)
1,675,545	4,894,679	6,570,224
\$1,816,697	\$4,506,870	\$6,323,567

City of Newton Falls, Ohio
Statement of Cash Basis Assets and Fund Balances
Governmental Funds
December 31, 2008

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Equity in Pooled Cash and Cash Equivalents	<u>\$627,127</u>	<u>\$817,350</u>	<u>\$1,444,477</u>
Fund Balances			
Reserved for Encumbrances	\$255,623	\$124,625	\$380,248
Unreserved, Undesignated, Reported in:			
General Fund	371,504	0	371,504
Special Revenue Funds	0	508,632	508,632
Capital Projects Funds	<u>0</u>	<u>184,093</u>	<u>184,093</u>
<i>Total Fund Balances</i>	<u>\$627,127</u>	<u>\$817,350</u>	<u>\$1,444,477</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, 2008*

Total Governmental Funds Balances	\$1,444,477
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*Amounts reported for governmental activities in the
statement of net assets are different because*

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

Net Assets	574,237	
Internal Balances	(202,017)	
		<hr/>
Total		372,220

<i>Net Assets of Governmental Activities</i>	<u><u>\$1,816,697</u></u>
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See accompanying notes to the basic financial statements

City of Newton Falls, Ohio
Statement of Cash Receipts, Disbursements and Changes in Cash Basis Fund Balances
Governmental Funds
For the Year Ended December 31, 2008

	General	Other Governmental Funds	Total Governmental Funds
Receipts			
Property Taxes	\$144,015	\$68,645	\$212,660
Municipal Income Taxes	579,130	209,713	788,843
Intergovernmental	161,167	416,511	577,678
Charges for Services	20,101	21,671	41,772
Fines, Licenses and Permits	658,244	137,638	795,882
Investment Earnings	254,430	413	254,843
Miscellaneous	732,693	13,763	746,456
<i>Total Receipts</i>	<u>2,549,780</u>	<u>868,354</u>	<u>3,418,134</u>
Disbursements			
Current:			
General Government	1,344,378	8,690	1,353,068
Security of Persons and Property	912,798	27,324	940,122
Leisure Time Activities	0	95,013	95,013
Community Environment	24,175	104,624	128,799
Transportation	0	460,886	460,886
Capital Outlay	0	199,891	199,891
Debt Service:			
Principal Retirement	0	44,855	44,855
Interest and Fiscal Charges	0	15,211	15,211
<i>Total Disbursements</i>	<u>2,281,351</u>	<u>956,494</u>	<u>3,237,845</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>268,429</u>	<u>(88,140)</u>	<u>180,289</u>
Other Financing Sources (Uses)			
Transfers In	0	223,797	223,797
Transfers Out	(223,797)	0	(223,797)
<i>Total Other Financing Sources (Uses)</i>	<u>(223,797)</u>	<u>223,797</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	44,632	135,657	180,289
<i>Fund Balances Beginning of Year</i>	<u>582,495</u>	<u>681,693</u>	<u>1,264,188</u>
<i>Fund Balances End of Year</i>	<u><u>\$627,127</u></u>	<u><u>\$817,350</u></u>	<u><u>\$1,444,477</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, 2008*

Net Change in Fund Balance - Total Governmental Funds	\$180,289
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*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	(60,378)	
Internal Balances	21,241	
		<u> </u>
Total		<u> (39,137)</u>

<i>Change in Net Assets of Governmental Activities</i>	<u><u>\$141,152</u></u>
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See accompanying notes to the basic financial statements

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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, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts				
Property Taxes	\$156,565	\$176,224	\$144,015	(\$32,209)
Municipal Income Taxes	629,597	708,654	579,130	(129,524)
Intergovernmental	175,212	197,212	161,167	(36,045)
Charges for Services	21,853	24,597	20,101	(4,496)
Fines, Licenses and Permits	715,605	805,462	658,244	(147,218)
Investment Earnings	276,602	311,334	254,430	(56,904)
Miscellaneous	796,670	896,707	732,693	(164,014)
<i>Total Receipts</i>	2,772,104	3,120,190	2,549,780	(570,410)
Disbursements				
Current:				
General Government	1,760,767	1,849,613	1,486,377	363,236
Security of Persons and Property	1,195,515	1,255,840	1,023,483	232,357
Community Environment	31,663	33,260	27,114	6,146
<i>Total Disbursements</i>	2,987,945	3,138,713	2,536,974	601,739
<i>Excess of Receipts Over (Under) Disbursements</i>	(215,841)	(18,523)	12,806	31,329
Other Financing Uses				
Transfers Out	(293,113)	(307,903)	(223,797)	84,106
<i>Net Change in Fund Balance</i>	(508,954)	(326,426)	(210,991)	115,435
<i>Fund Balance Beginning of Year</i>	502,464	502,464	502,464	0
Prior Year Encumbrances Appropriated	80,031	80,031	80,031	0
<i>Fund Balance End of Year</i>	\$73,541	\$256,069	\$371,504	\$115,435

See accompanying notes to the basic financial statements

City of Newton Falls, Ohio
Statement of Fund Net Assets - Cash Basis
Proprietary Funds
December 31, 2008

	Enterprise		
	Water	Sewer	Electric
Assets			
Equity in Pooled Cash and Cash Equivalents	\$745,106	\$996,108	\$2,563,639
Net Assets			
Unrestricted	\$745,106	\$996,108	\$2,563,639

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>Total</u>	<u>Internal Service</u>
<u>\$4,304,853</u>	<u>\$574,237</u>
4,304,853	<u><u>\$574,237</u></u>
<u>202,017</u>	
<u><u>\$4,506,870</u></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, 2008*

	Enterprise		
	Water	Sewer	Electric
Operating Receipts			
Charges for Services	\$1,050,453	\$1,046,955	\$3,923,062
Miscellaneous	6,211	1,082	128,678
<i>Total Operating Receipts</i>	<u>1,056,664</u>	<u>1,048,037</u>	<u>4,051,740</u>
Operating Disbursements			
Personal Services	574,608	362,820	295,330
Travel and Transportation	447	0	4,634
Contractual Services	135,130	143,770	3,015,379
Materials and Supplies	109,389	50,623	50,757
Claims	0	0	0
Capital Outlay	56,953	540,988	209,239
Miscellaneous	222,211	222,211	415,746
<i>Total Operating Disbursements</i>	<u>1,098,738</u>	<u>1,320,412</u>	<u>3,991,085</u>
<i>Operating Income (Loss)</i>	<u>(42,074)</u>	<u>(272,375)</u>	<u>60,655</u>
Non-Operating Receipts (Disbursements)			
Redemption of Principal	(152,947)	(7,740,963)	(3,200,000)
Interest and Fiscal Charges	(50,840)	(5,349)	(129,594)
Operating Grants	0	801,919	0
Proceeds of Notes	0	7,165,000	3,200,000
<i>Total Non-Operating Receipts (Disbursements)</i>	<u>(203,787)</u>	<u>220,607</u>	<u>(129,594)</u>
<i>Change in Net Assets</i>	<u>(245,861)</u>	<u>(51,768)</u>	<u>(68,939)</u>
<i>Net Assets Beginning of Year</i>	<u>990,967</u>	<u>1,047,876</u>	<u>2,632,578</u>
<i>Net Assets End of Year</i>	<u><u>\$745,106</u></u>	<u><u>\$996,108</u></u>	<u><u>\$2,563,639</u></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>Total</u>	<u>Internal Service</u>
\$6,020,470	\$466,427
<u>135,971</u>	<u>0</u>
6,156,441	466,427
1,232,758	0
5,081	0
3,294,279	0
210,769	0
0	526,805
807,180	0
<u>860,168</u>	<u>0</u>
6,410,235	526,805
<u>(253,794)</u>	<u>(60,378)</u>
(11,093,910)	0
(185,783)	0
801,919	0
<u>10,365,000</u>	<u>0</u>
<u>(112,774)</u>	<u>0</u>
(366,568)	(60,378)
	<u>634,615</u>
	<u>\$574,237</u>
<u>(21,241)</u>	
<u>(\$387,809)</u>	

City of Newton Falls, Ohio
Statement of Fiduciary Net Assets - Cash Basis
Fiduciary Funds
December 31, 2008

	Private Purpose Trust	
	Unclaimed Monies	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$8,209	\$215,355
Cash and Cash Equivalents:		
In Segregated Accounts	0	19,817
Total Assets	8,209	\$235,172
Liabilities		
Deposits Held and Due to Others	0	\$235,172
Net Assets		
Held in Trust for Unclaimed Monies	\$8,209	

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, 2008

	<u>Unclaimed Monies</u>
Additions	
Miscellaneous	\$9
Deductions	
	<u>0</u>
<i>Change in Net Assets</i>	9
<i>Net Assets Beginning of Year</i>	<u>8,200</u>
<i>Net Assets End of Year</i>	<u><u>\$8,209</u></u>

See accompanying notes to the basic financial statements

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City of Newton Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

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, departments 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, 2008

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 an 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, 2008

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 2008, investments were limited to mutual funds, taxable bonds, fixed income securities, and STAROhio, the State Treasurer's Investment Pool.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as nonnegotiable certificates of deposit and repurchase agreements 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, 2008.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2008 amounted to \$254,430, which includes \$229,156 assigned from other City funds.

City of Newton Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

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

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

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. Net assets restricted for other purposes include parks and recreation, law library and court computerization.

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

K. Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues. Transfers between governmental activities are eliminated

City of Newton Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

on the government-wide financial statements. Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the Statement of Activities.

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 – Change in Accounting Principles

For 2008, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations". GASB Statement No. 49 addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effect of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The implementation of this Statement did not result in any change to the City's financial statements.

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.

City of Newton Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

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 \$255,623.

Note 6 – Deposits and Investments

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

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in securities listed above;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;

City of Newton Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, and
7. The State Treasurer's investment pool (STAROhio).
8. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time.

The City may also invest any monies not required to be used for a period of six months or more in the following:

1. Bonds of the State of Ohio;
2. Bond of any municipal corporation, village, county, township or other political subdivision of this State, as to which there is not default of principal, interest, or coupons; and,
3. Obligations of the City.

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

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

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

Deposits

Custodial Credit Risk Custodial credit risk for deposits is the risk that, in the event of failure of the counterparty, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$3,074,806 of the City's bank balance of \$4,574,073 was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the City to a successful claim by the FDIC.

The City has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the 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, 2008

Investments

Investments are reported at fair value. As of December 31, 2008, 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	
Mutual Funds	\$1,185,501	\$0	\$0	\$1,185,501
Taxable Bonds	61,798	116,478	663,515	841,791
STAR Ohio	8,067	0	0	8,067
Total Portfolio	\$1,255,366	\$116,478	\$663,515	\$2,035,359

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, unless they are matched to a specific obligation or debt of the City, 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. State statute limits investments in repurchase agreements 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 United States Treasury Notes and the underlying securities of the repurchase agreement carry a rating of AAA by Standard & Poor's and STAROhio 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 addresses credit risk.

Custodial Credit Risk For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The underlying securities of the repurchase agreement are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty. The City has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

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, 2008:

Investment	Percentage of Investments
Mutual Funds	58.25 %
Taxable Bonds	41.35
STAROhio	0.40

City of Newton Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

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 2008 for real and public utility property taxes represents collections of the 2007 taxes. Property tax payments received during 2008 for tangible personal property (other than public utility property) are for 2008 taxes.

2008 real property taxes are levied after October 1, 2008 on the assessed value as of January 1, 2008, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2008 real property taxes are collected in and intended to finance 2009.

Real property taxes are payable annually or semi-annually. If paid annually, 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 later payment dates to be established.

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. 2008 public utility property taxes which became a lien December 31, 2007, are levied after October 1, 2008, and are collected in 2009 with real property taxes.

2008 tangible personal property taxes are levied after October 1, 2007, on the value as of December 31, 2007. Collections are made in 2008. Tangible personal property assessments are being phased out – the assessment percentage for all property including inventory for 2008 is 6.25 percent. This will be reduced to zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may be 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 September 20.

The full tax rate for all City operations for the year ended December 31, 2008 was \$2.50 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2008 property tax receipts were based are as follows:

Real Property	
Residential/Agricultural	\$44,315,420
Other Real Estate	14,720,170
Public Utility Personal Property	525,870
Tangible Personal Property	1,619,724
Total	<u><u>\$61,181,184</u></u>

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

B. Income Tax

The City levies and collects an income tax of 1.0 percent on all income earned within the City as well as on income of residents earned outside the City. In the latter case, the City allows a credit of 100 percent of the tax paid to another municipality, not to exceed the amount owed. Employers within the City are required to withhold income tax on employee earnings and remit the tax to the City either monthly or quarterly as

City of Newton Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

required. Corporations and other individual taxpayers are also required to pay their estimated tax at least quarterly and file a final return annually. In 2008, the proceeds were allocated 65 percent to the general fund, 10 percent to the street, construction, repair and maintenance and 10 percent to the park and recreation special revenue funds and 15 percent to the capital improvement capital projects fund.

Note 8 - Contingencies

A. Grants

The City receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or any other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2008.

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 2008, 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	\$891,009	\$1,000
Property	33,502,879	2,500
Electronic Data Processing	101,500	500
Fleet Vehicle		
Physical Damage	50,000	500
Liability	5,000,000	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.

City of Newton Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

Note 10 - Defined Benefit Pension Plans

A. Ohio Public Employees Retirement System

Plan Description – The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member-directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan. Under the combined plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to the traditional pension plan benefit. Member contributions, the investment of which is self-directed by the members, 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 pension 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. Interested parties may obtain a copy by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions. For the year ended December 31, 2008, members in state and local classifications contributed 10.0 percent of covered payroll and public safety and law enforcement members contributed 10.1 percent.

The City's contribution rate for 2008 was 14.0 percent, except for those plan members in law enforcement or public safety, for whom the City's contribution was 17.4 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 year ended December 31, 2008, 2007, and 2006 were \$153,113, \$176,855, and \$179,756, respectively; 91.93 percent has been contributed for 2008 and 100 percent for 2007 and 2006. There were no contributions to the member-directed plan for 2008.

B. Ohio Police Pension Fund

Plan Description – 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 OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy – Plan members are required to contribute 10.0 percent of their annual covered salary to fund pension obligations. The City's contribution was 19.5 percent for police officers. Contribution rates are established by State statute. For 2008, a portion of the City's contributions equal to 6.75 percent of covered payroll was allocated to fund the post-employment health care plan. The City's contributions to OP&F for police was \$34,081 for the year ended December 31, 2008, \$34,135 for the year ended December 31, 2007,

City of Newton Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

and \$39,388 for the year ended December 31, 2006. 72.74 percent for police has been contributed for 2008. The full amount has been contributed for 2007 and 2006.

In addition to current contributions, the City pays installments on the accrued liability incurred when the State of Ohio established the statewide pension system for police in 1967. As of December 31, 2008, the unfunded liability of the City was \$16,433 payable in semi-annual payments through the year 2035. This is an accounting liability of the City which will not vary.

Note 11 – Postemployment Benefits

A. Ohio Public Employees Retirement System

Plan Description – OPERS maintains a cost-sharing multiple-employer defined benefit post-employment health care plan for qualifying members of both the traditional and combined pension plans. Members of the member-directed plan do not qualify for ancillary benefits, including post-employment health care. The plan includes a medical plan, a prescription drug program and Medicare Part B premium reimbursement.

To qualify for post-employment health care coverage, age-and-service retirees under the traditional and combined plans must have ten or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The Ohio Revised Code permits, but does not require, OPERS to provide health care benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in OPERS financial report which may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy – The post-employment health care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). State Statute requires that public employers fund post-employment health care through their contributions to OPERS. A portion of each employer's contribution to the traditional and combined plans is set aside for the funding of post-retirement health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2008, state and local employers contributed at a rate of 14.0 percent of covered payroll (17.40 percent for public safety and law enforcement). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding post-employment health care benefits. For 2008, the amount of the employer contributions which was allocated to fund post-employment health care was 7.0 percent of covered payroll.

The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2008, 2007, and 2006 were \$153,113, \$116,491, and \$87,924, respectively; 91.93 percent has been contributed for 2008 and 100 percent for 2007 and 2006.

City of Newton Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007, and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

B. Police Disability and Pension Fund

Plan Description – The City contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored health care program, a cost-sharing multiple-employer defined post-employment health care plan administered by OP&F. OP&F provides health care benefits including coverage for medical, prescription drugs, dental, vision, Medicare Part B Premium reimbursement and long-term care to retirees, qualifying benefit recipients and their eligible dependents.

OP&F provides access to post-retirement health care coverage for 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.

The Ohio Revised Code allows, but does not mandate OP&F to provide OPEB benefits. Authority for the OP&F Board of Trustees to provide health care coverage to eligible participants and to establish and amend benefits is 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 OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy – OP&F's post-employment health care plan was established and is administered as an Internal Revenue Code 410(h) account within the defined benefit plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees. The Ohio Revised Code sets the contribution rates for participating employers and for plan members to the OP&F. Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.50 percent of covered payroll for police employers.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made to the pension plan to the 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2008, the employer contribution allocated to the health care plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Section 401(h).

The OP&F Board of Trustees also is authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions to OP&F which were allocated to fund post-employment health care benefits for police were \$18,043 for the year ended December 31, 2008, \$18,071 for the year ended December 31, 2007, and \$25,979 for the year ended December 31, 2006. The full amount has been contributed for 2007 and 2006. 72.74 percent has been contributed for police for 2008.

City of Newton Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

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>			
Mortgage Revenue Bonds Series A	4.38%	4,960,000	2048
Mortgage Revenue Bonds Series B	4.38%	2,205,000	2048
<u>OWDA Loans</u>			
Wastewater Treatment Plant and Sewer Improvements	2.00%	1,005,976	2011
Wastewater Treatment Plant Expansion Design	3.20%	697,727	2009
OWDA #3806	2.00%	3,192,533	2024
Wastewater Treatment Plant Improvement	4.26%	7,583,750	2026
<u>OPWC Loans</u>			
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	2.37%	3,200,000	2009

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

	Balance 12/31/07	Additions	Reductions	Balance 12/31/08	Amounts Due in One Year
Governmental Activities					
<i>Promissory Note</i>					
Municipal Court Renovation	\$258,152	\$0	(\$44,524)	\$213,628	\$40,309
<i>Other</i>					
Ohio Police Pension	16,760	0	(327)	16,433	339
Total Governmental Activities	\$274,912	\$0	(\$44,851)	\$230,061	\$40,648

City of Newton Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

	Balance 12/31/07	Additions	Reductions	Balance 12/31/08	Amounts Due in One Year
Business-Type Activities					
<i>Mortgage Revenue Bonds</i>					
Series A	\$0	\$4,960,000	\$0	\$4,960,000	\$47,800
Series B	0	2,205,000	0	2,205,000	21,200
<i>Total Mortgage Revenue Bonds</i>	0	7,165,000	0	7,165,000	69,000
<i>OWDA Loans</i>					
Wastewater Treatment Plant and Sewer Improvements	148,597	0	(48,555)	100,042	49,526
Wastewater Treatment Plant Expansion Design	109,405	0	(96,825)	12,580	12,580
OWDA #3806	2,576,357	0	(138,115)	2,438,242	140,891
Wastewater Treatment Plant Improvement	7,507,653	78,606	(7,586,259)	0	0
<i>Total OWDA Loans</i>	10,342,012	78,606	(7,869,754)	2,550,864	202,997
<i>OPWC Loans</i>					
Broad Street Water Distribution	215,444	0	(12,673)	202,771	12,673
Broad Street Storm Water	158,520	0	(9,324)	149,196	9,324
OPWC #CF28G	37,789	0	(2,159)	35,630	2,159
<i>Total OPWC Loans</i>	411,753	0	(24,156)	387,597	24,156
<i>Bond Anticipation Notes</i>					
Electric System	3,200,000	3,200,000	(3,200,000)	3,200,000	3,200,000
Capital Lease	0	137,912	0	137,912	31,502
<i>Total Business-Type Activities</i>	\$13,953,765	\$10,581,518	(\$11,093,910)	\$13,441,373	\$3,527,655

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 revenue fund. The mortgage revenue bonds will be paid with user charges from the sewer enterprise fund. The OWDA and OPWC loans will be paid with user charges from the water and sewer enterprise funds.

During 2008, the City of Newton Falls issued \$3,200,000 in bond anticipation notes payable at 2.37 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.

Mortgage Revenue bonds of the City of Newton Falls are obligations of the City secured by a mortgage upon all assets of the sewer system. These bonds are payable solely from gross revenues of the sewer system after provisions for operating and maintenance expenses. These bond indentures have certain restrictive covenants and principally require that bond reserve funds be maintained and charges for services to customers in sufficient amounts to satisfy the annual obligation under the indenture agreement. In addition, special provisions exist regarding covenant violations, redemptions of principal, payment of interest, establishing renewal and replacement accounts and maintenance of properties.

City of Newton Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

As of December 31, 2008 the Sewer Revenue Bonds have a redemption price of 1.01 percent. The restrictions that were placed upon these bonds by the indenture as of December 31, 2008, restricted the City's Sewer fund assets in the amount of \$382,565 for operation and maintenance. The bond indenture also requires 5 percent of sales, or \$275,000 to be set-aside for replacement and improvements. The City has not yet established a fund for this reserve.

A line of credit was established with the Ohio Water Development Authority in the amount of \$7,586,259 for various replacements and improvements to the Wastewater Treatment Plant. This loan has been paid in full during 2008.

During 2008, the City entered into a five year capital lease with Kansas State Bank of Manhattan for an electric bucket truck for the principal amount of \$137,912. The lease will be paid from the electric enterprise fund.

The City's overall legal debt margin was \$6,210,396 with an unvoted debt margin of \$3,151,337 at December 31, 2008. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2008 are as follows:

	Governmental-Type Activities			
	Municipal Court Renovation Promissory Note		Ohio Police and Fire Pension Liability	
	Principal	Interest	Principal	Interest
2009	40,309	18,717	339	701
2010	42,796	16,231	352	688
2011	45,435	13,592	366	674
2012	48,237	10,789	381	659
2013	36,851	7,814	396	644
2014 - 2018	0	0	2,258	2,942
2019 - 2023	0	0	2,830	2,370
2024 - 2028	0	0	3,510	1,690
2029-2033	0	0	4,175	1,025
2034-2035	0	0	1,826	253
Total	\$213,628	\$67,143	\$16,433	\$11,646

City of Newton Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

	Business-Type Activities				
	OWDA Loans		OPWC Loans	Mortgage Revenue Bonds	
	Principal	Interest	Principal	Principal	Interest
2009	\$202,997	\$50,063	\$24,156	\$69,000	\$313,469
2010	194,239	46,242	24,156	72,000	310,450
2011	146,611	42,343	24,156	75,100	307,300
2012	149,558	39,396	24,156	78,400	304,014
2013	152,565	36,391	24,156	81,900	300,584
2014 - 2018	810,073	134,703	120,780	466,300	1,445,951
2019 - 2023	894,821	49,949	120,780	577,600	1,334,629
2024 - 2028	0	0	25,257	715,500	1,196,724
2029 - 2033	0	0	0	886,400	1,025,898
2034 - 2038	0	0	0	1,098,000	814,275
2039 - 2043	0	0	0	1,360,000	552,147
2044 - 2048	0	0	0	1,684,800	227,443
Total	<u>\$2,550,864</u>	<u>\$399,087</u>	<u>\$387,597</u>	<u>\$7,165,000</u>	<u>\$8,132,884</u>

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. 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 net investment in JV1 was \$12,080 at December 31, 2008. Financial information for 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, 2008

Note 14 – Interfund Transfers

During 2008, the following transfers were made:

Transfers In	Transfers Out
	General
<i>Other Governmental Activities:</i>	
Special Revenue Fund:	
Street Construction, Maintenance and Repair	\$129,920
Senior Van	18,877
Capital Projects Funds:	
Roads, Buildings and Equipment	75,000
<i>Total Transfers</i>	\$223,797

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

Note 15 – Subsequent Event

On May 15, 2009, the City rolled over the Electric System Improvement Bond Anticipation Notes in the amount of \$3,350,000.

**CITY OF NEWTON FALLS
TRUMBULL COUNTY**

**FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2008**

FEDERAL GRANTOR Pass Through Grantor Program Title	Federal CFDA Number	Pass Through Entity Number	Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
<i>Direct:</i>			
Water and Waste Disposal Systems for Rural Communities	10.760	OWDA Loan	\$421,259
		Rural Development Grant	380,660
Total U.S. Department of Agriculture			801,919
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
<i>Passed Through Ohio Department of Development:</i>			
Community Development Block Grant / State's Program	14.228	A-C-05-155-1	104,624
Total U.S. Department of Housing and Urban Development			104,624
TOTAL			\$906,543

The accompanying notes are an integral part of this schedule.

**CITY OF NEWTON FALLS
TRUMBULL COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED DECEMBER 31, 2008**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Expenditures Schedule (the “Schedule”) reports the City of Newton Falls’ (the “City’s”) federal award programs’ disbursements. The Schedule has been prepared on the cash basis of accounting.

NOTE B – MATCHING REQUIREMENTS

Certain Federal programs require the City to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The City has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.



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, each 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, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon March 12, 2010, 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 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 finding 2008-001 described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting.

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.

City of Newton Falls

Trumbull County

Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and
Other Matters Required by Government Auditing Standards

Page 2

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. The significant deficiency described above, 2008-001, 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 March 12, 2010.

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, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2008-001.

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 March 12, 2010.

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

We intend this report solely for the information and use of the audit committee, management, City Council, and federal awarding agencies and pass-through entities. We intend it for no one other than these specified parties.



Mary Taylor, CPA

Auditor of State

March 12, 2010



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

To the City Council:

Compliance

We have audited the compliance of the City of Newton Falls (the "City") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to its major federal program for the year ended December 31, 2008. The summary of auditor's results section of the accompanying schedule of findings identifies the City's major federal program. The City's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City of Newton Falls complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended December 31, 2008. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that OMB Circular A-133 requires us to report, which is described in the accompanying schedule of findings as item 2008-002.

Internal Control Over Compliance

The City's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs.

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In planning and performing our audit, we considered the City's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that the City's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings as finding 2008-002 to be a significant deficiency.

A material weakness is significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that the City's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements. We consider finding 2008-002 described in the accompanying schedule of findings to be a material weakness.

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

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



Mary Taylor, CPA
Auditor of State

March 12, 2010

**CITY OF NEWTON FALLS
TRUMBULL COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2008**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(ii)</i>	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	Yes
<i>(d)(1)(iv)</i>	Were there any other significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	Yes
<i>(d)(1)(vii)</i>	Major Programs (list):	Water and Waste Disposal Systems for Rural Communities CFDA # 10.760
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

FINDING NUMBER 2008-001

Material Citation and Material Weakness

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.

**FINDING NUMBER 2008-001
 (Continued)**

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.

3. FINDINGS FOR FEDERAL AWARDS

1. Reporting

Finding Number	2008-002
CFDA Title and Number	Water and Waste Disposal Systems for Rural Communities – CFDA #10.760
Federal Award Number / Year	2008
Federal Agency	U.S. Department of Agriculture
Pass-Through Agency	Direct award

Noncompliance Finding and Material Weakness

United States Department of Agriculture Water or Waste System (Rural Utilities Service) Grant Agreement – Section M, Subsection 1 requires the accurate, current, and complete disclosure of the financial results of each grant with financial reporting to be on an accrual basis. The City did not prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. We believe this finding also represents a material citation and material weakness as noted in finding number 2008-001 under 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*.

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.

**CITY OF NEWTON FALLS
TRUMBULL COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2008**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2007-001	Failure to prepare annual financial report in accordance with generally accepted accounting principles.	No	Not Corrected, see current year finding # 2008-001.
2007-002	Failure to prepare annual financial report in accordance with generally accepted accounting principles as required by grant agreement.	No	Not Corrected, see current year finding # 2008-002.



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
MAY 6, 2010**