



Mary Taylor, CPA
Auditor of State

**CITY OF NEWTON FALLS
TRUMBULL COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, 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, 2009, 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 § 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, 2009, 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 August 30, 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 Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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 black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

August 30, 2010

City of Newton Falls, Trumbull County, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2009

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, 2009, 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 2009 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 capital improvements capital projects fund, which realized the greatest increased revenues in 2009.
- 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, 2009

Unaudited

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

Reporting the City of Newton Falls as a Whole

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, agencies, departments and offices that are not legally separated from the City.

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

The statement of net assets and the statement of activities reflect how the City did financially during 2009, 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, 2009

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 major governmental funds are the general fund and the capital improvement capital projects 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 two internal service fund to account for employee health-care claims and refuse.

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, 2009

Unaudited

The City of Newton Falls as a Whole

Table 1 provides a summary of the City's net assets for 2009 compared to 2008 on a cash basis.

(Table 1)

Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Assets						
Cash and Cash Equivalents	\$2,110,657	\$2,018,714	\$2,781,511	\$4,269,785	\$4,892,168	\$6,288,499
Restricted Cash and Cash Equivalents	0	0	66,949	35,068	66,949	35,068
Internal Balances	(229,666)	(202,017)	229,666	202,017	0	0
<i>Total Assets</i>	<u>\$1,880,991</u>	<u>\$1,816,697</u>	<u>\$3,078,126</u>	<u>\$4,506,870</u>	<u>\$4,959,117</u>	<u>\$6,323,567</u>
Net Assets						
Restricted for:						
Capital Outlay	\$233,988	\$195,147	\$0	\$0	\$233,988	\$195,147
Other Purposes	537,255	622,203	0	0	537,255	622,203
Debt Service	0	0	66,949	35,068	66,949	35,068
Unrestricted	<u>1,109,748</u>	<u>999,347</u>	<u>3,011,177</u>	<u>4,471,802</u>	<u>4,120,925</u>	<u>5,471,149</u>
<i>Total Net Assets</i>	<u>\$1,880,991</u>	<u>\$1,816,697</u>	<u>\$3,078,126</u>	<u>\$4,506,870</u>	<u>\$4,959,117</u>	<u>\$6,323,567</u>

- Total governmental assets increased from 2008 to 2009. The increase in equity pooled in cash and cash equivalents is largely made up by management making an effort to control expenses throughout the City.
- Net assets of business-type activities decreased from 2008 to 2009. This decrease is largely made up of decreased expenses for construction and improvements to the infrastructure of the City and the continued pay down of outstanding debt obligations.

City of Newton Falls, Trumbull County, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2009

Unaudited

Table 2 reflects the changes in net assets for 2009 compared to 2008 on a cash basis.

	Governmental Activities		Business Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Receipts:						
<i>Program Receipts</i>						
Charges for Services	\$905,233	\$837,654	\$6,236,015	\$6,020,470	\$7,141,248	\$6,858,124
Operating Grants and Contributions	403,897	416,511	374,982	801,919	778,879	1,218,430
<i>Total Program Receipts</i>	<u>1,309,130</u>	<u>1,254,165</u>	<u>6,610,997</u>	<u>6,822,389</u>	<u>7,920,127</u>	<u>8,076,554</u>
<i>General Receipts:</i>						
Property Taxes	191,934	212,660	0	0	191,934	212,660
Income Taxes	733,209	788,843	0	0	733,209	788,843
Intergovernmental	464,004	161,167	0	0	464,004	161,167
Proceeds of Notes	0	0	2,995,000	10,365,000	2,995,000	10,365,000
Investment Earnings	214,156	254,843	0	0	214,156	254,843
Miscellaneous	907,995	746,456	38,015	135,971	946,010	882,427
<i>Total General Receipts</i>	<u>2,511,298</u>	<u>2,163,969</u>	<u>3,033,015</u>	<u>10,500,971</u>	<u>5,544,313</u>	<u>12,664,940</u>
<i>Total Receipts</i>	<u>3,820,428</u>	<u>3,418,134</u>	<u>9,644,012</u>	<u>17,323,360</u>	<u>13,464,440</u>	<u>20,741,494</u>
Disbursements:						
General Government	1,487,421	1,373,144	0	0	1,487,421	1,373,144
Security of Persons and Property:	1,058,192	953,580	0	0	1,058,192	953,580
Leisure Time Activities	107,097	95,013	0	0	107,097	95,013
Community Environment	261,959	128,799	0	0	261,959	128,799
Transportation	532,752	466,489	0	0	532,752	466,489
Capital Outlay	215,310	199,891	0	0	215,310	199,891
Principal Retirement	81,042	44,855	0	0	81,042	44,855
Interest and Fiscal Charges	12,361	15,211	0	0	12,361	15,211
Water	0	0	1,540,562	1,311,400	1,540,562	1,311,400
Sewer	0	0	1,529,250	9,073,064	1,529,250	9,073,064
Electric	0	0	8,002,944	7,326,705	8,002,944	7,326,705
<i>Total Disbursements</i>	<u>3,756,134</u>	<u>3,276,982</u>	<u>11,072,756</u>	<u>17,711,169</u>	<u>14,828,890</u>	<u>20,988,151</u>
Increase (Decrease) in Net Assets	64,294	141,152	(1,428,744)	(387,809)	(1,364,450)	(246,657)
<i>Net Assets, Beginning of Year</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>
<i>Net Assets, End of Year</i>	<u>\$1,880,991</u>	<u>\$1,816,697</u>	<u>\$3,078,126</u>	<u>\$4,506,870</u>	<u>\$4,959,117</u>	<u>\$6,323,567</u>

Program revenues increased in 2009. The majority of the increase is due to greater charges for services. General revenues also increased from 2008. The decrease in interest income was due to lower rates of return on the City's investments and less cash available for investments. Income taxes decreased as a result of the tough economic conditions.

City of Newton Falls, Trumbull County, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2009

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. Transportation also represents a significant cost. 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)

	Governmental Activities		Business-Type Activities	
	Total Cost	Net Cost	Total Cost	Net Cost
	Of Services	of Services	Of Services	of Services
	2009	2009	2009	2009
General Government	\$1,487,421	\$1,081,927	\$0	\$0
Security of Persons and Property	1,058,192	718,475	0	0
Leisure Time Activities	107,097	65,550	0	0
Community Environment	261,959	103,847	0	0
Transportation	532,752	301,175	0	0
Capital Outlay	215,310	82,627	0	0
Principal Retirement	81,042	81,042	0	0
Interest and Fiscal Charges	12,361	12,361	0	0
Water	0	0	1,540,562	436,483
Sewer	0	0	1,529,250	90,371
Electric	0	0	8,002,944	3,934,905
<i>Total Expenses</i>	<u>\$3,756,134</u>	<u>\$2,447,004</u>	<u>\$11,072,756</u>	<u>\$4,461,759</u>

The dependence upon income tax and other tax receipts is apparent as over 65 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, 2009

Unaudited

The City of Newton Falls Funds

Total governmental funds had receipts of \$3,820,428 and disbursements of \$3,807,079. The greatest change within governmental funds occurred within the general fund as the result of increased intergovernmental receipts.

General fund disbursements were less than receipts 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 more than actual receipts. The negative difference was due to lower than expected collections of general fund revenues.

Final budgeted disbursements were more than actual disbursements. The positive difference was due to greater spending controls for general government and security of persons and property.

Capital Assets and Debt Administration

Capital Assets

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

Debt

At December 31, 2009, the City's outstanding debt included:

Outstanding Long-Term Obligations at Year End

	<u>2009</u>	<u>2008</u>
<i>Governmental -Type Debt:</i>		
Municipal Court Promissory Notes	\$161,428	\$213,628
Capital Lease	88,374	0
Police and Fire Pension Liability	16,079	16,433
Total	<u>\$265,881</u>	<u>\$230,061</u>
<i>Business-Type Debt:</i>		
Mortgage Revenue Bonds	\$7,096,000	\$7,165,000
Bond Anticipation Notes	2,995,000	3,200,000
OWDA Loans	2,347,867	2,550,864
OPWC Loans	363,440	387,597
Capital Lease	111,753	137,912
Total	<u>\$12,914,060</u>	<u>\$13,441,373</u>

See Note 12 to the basic financial statements for additional information on the City's debt.

City of Newton Falls, Trumbull County, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2009

Unaudited

Current Issues

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

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

Contacting the City's Financial Management

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

City of Newton Falls, Ohio
Statement of Net Assets - Cash Basis
December 31, 2009

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$2,110,657	\$2,781,511	\$4,892,168
Restricted Equity in Pooled Cash and Cash Equivalents	0	66,949	66,949
Internal Balances	(229,666)	229,666	0
<i>Total Assets</i>	<u>\$1,880,991</u>	<u>\$3,078,126</u>	<u>\$4,959,117</u>
Net Assets			
Restricted for:			
Capital Projects	\$233,988	\$0	\$233,988
Other Purposes	537,255	0	537,255
Debt Service	0	66,949	66,949
Unrestricted	<u>1,109,748</u>	<u>3,011,177</u>	<u>4,120,925</u>
<i>Total Net Assets</i>	<u>\$1,880,991</u>	<u>\$3,078,126</u>	<u>\$4,959,117</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, 2009

	Program Cash Receipts		
	Cash Disbursements	Charges for Services	Operating Grants
Governmental Activities			
General Government	\$1,487,421	\$405,494	\$0
Security of Persons and Property	1,058,192	332,679	7,038
Leisure Time Activities	107,097	14,090	27,457
Community Environment	261,959	14,912	143,200
Transportation	532,752	5,375	226,202
Capital Outlay	215,310	132,683	0
Principal Retirement	81,042	0	0
Interest and Fiscal Charges	12,361	0	0
<i>Total Governmental Activities</i>	<u>3,756,134</u>	<u>905,233</u>	<u>403,897</u>
Business-Type Activities			
Water	1,540,562	1,104,079	0
Sewer	1,529,250	1,063,897	374,982
Electric	8,002,944	4,068,039	0
<i>Total Business-Type Activities</i>	<u>11,072,756</u>	<u>6,236,015</u>	<u>374,982</u>
<i>Total</i>	<u>\$14,828,890</u>	<u>\$7,141,248</u>	<u>\$778,879</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

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
(\$1,081,927)	\$0	(\$1,081,927)
(718,475)	0	(718,475)
(65,550)	0	(65,550)
(103,847)	0	(103,847)
(301,175)	0	(301,175)
(82,627)	0	(82,627)
(81,042)	0	(81,042)
(12,361)	0	(12,361)
<u>(2,447,004)</u>	<u>0</u>	<u>(2,447,004)</u>
0	(436,483)	(436,483)
0	(90,371)	(90,371)
0	(3,934,905)	(3,934,905)
<u>0</u>	<u>(4,461,759)</u>	<u>(4,461,759)</u>
<u>(2,447,004)</u>	<u>(4,461,759)</u>	<u>(6,908,763)</u>
126,785	0	126,785
65,149	0	65,149
534,962	0	534,962
56,642	0	56,642
56,642	0	56,642
84,963	0	84,963
464,004	0	464,004
0	2,995,000	2,995,000
214,156	0	214,156
907,995	38,015	946,010
<u>2,511,298</u>	<u>3,033,015</u>	<u>5,544,313</u>
64,294	(1,428,744)	(1,364,450)
<u>1,816,697</u>	<u>4,506,870</u>	<u>6,323,567</u>
<u>\$1,880,991</u>	<u>\$3,078,126</u>	<u>\$4,959,117</u>

City of Newton Falls, Ohio
Statement of Cash Basis Assets and Fund Balances
Governmental Funds
December 31, 2009

	<u>General</u>	<u>Capital Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Equity in Pooled Cash and Cash Equivalents	<u>\$686,583</u>	<u>\$226,586</u>	<u>\$544,657</u>	<u>\$1,457,826</u>
Fund Balances				
Reserved for Encumbrances	\$193,050	\$11,072	\$25,788	\$229,910
Unreserved, Undesignated, Reported in:				
General Fund	493,533	0	0	493,533
Special Revenue Funds	0	0	511,467	511,467
Capital Projects Funds	<u>0</u>	<u>215,514</u>	<u>7,402</u>	<u>222,916</u>
<i>Total Fund Balances</i>	<u>\$686,583</u>	<u>\$226,586</u>	<u>\$544,657</u>	<u>\$1,457,826</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, 2009*

Total Governmental Funds Balances	\$1,457,826
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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	652,831	
Internal Balances	(229,666)	
 Total		423,165

<i>Net Assets of Governmental Activities</i>	\$1,880,991
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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, 2009

	General	Capital Improvement	Other Governmental Funds	Total Governmental Funds
Receipts				
Property Taxes	\$126,785	\$0	\$65,149	\$191,934
Municipal Income Taxes	534,962	84,963	113,284	733,209
Intergovernmental	350,818	30,278	486,805	867,901
Charges for Services	6,882	0	19,465	26,347
Fines, Licenses and Permits	710,075	0	168,811	878,886
Investment Earnings	214,156	0	0	214,156
Miscellaneous	882,048	13,827	12,120	907,995
<i>Total Receipts</i>	<u>2,825,726</u>	<u>129,068</u>	<u>865,634</u>	<u>3,820,428</u>
Disbursements				
Current:				
General Government	1,503,749	0	9,805	1,513,554
Security of Persons and Property	1,026,699	0	49,012	1,075,711
Leisure Time Activities	0	0	107,097	107,097
Community Environment	49,883	0	212,076	261,959
Transportation	0	0	540,045	540,045
Capital Outlay	0	64,179	151,131	215,310
Debt Service:				
Principal Retirement	0	33,337	47,705	81,042
Interest and Fiscal Charges	0	0	12,361	12,361
<i>Total Disbursements</i>	<u>2,580,331</u>	<u>97,516</u>	<u>1,129,232</u>	<u>3,807,079</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>245,395</u>	<u>31,552</u>	<u>(263,598)</u>	<u>13,349</u>
Other Financing Sources (Uses)				
Transfers In	0	7,500	185,939	193,439
Transfers Out	(185,939)	0	(7,500)	(193,439)
<i>Total Other Financing Sources (Uses)</i>	<u>(185,939)</u>	<u>7,500</u>	<u>178,439</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	59,456	39,052	(85,159)	13,349
<i>Fund Balances Beginning of Year</i>	<u>627,127</u>	<u>187,534</u>	<u>629,816</u>	<u>1,444,477</u>
<i>Fund Balances End of Year</i>	<u><u>\$686,583</u></u>	<u><u>\$226,586</u></u>	<u><u>\$544,657</u></u>	<u><u>\$1,457,826</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, 2009*

Net Change in Fund Balance - Total Governmental Funds	\$13,349
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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	78,594	
Internal Balances	(27,649)	
		<u>50,945</u>

<i>Change in Net Assets of Governmental Activities</i>	<u><u>\$64,294</u></u>
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See accompanying notes to the basic financial statements

City of Newton Falls, Ohio
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Year Ended December 31, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts				
Property Taxes	\$145,016	\$152,096	\$126,785	(\$25,311)
Municipal Income Taxes	611,888	641,761	534,962	(106,799)
Intergovernmental	401,265	420,855	350,818	(70,037)
Charges for Services	7,872	8,256	6,882	(1,374)
Fines, Licenses and Permits	812,182	851,833	710,075	(141,758)
Investment Earnings	244,951	256,910	214,156	(42,754)
Miscellaneous	1,008,883	1,058,138	882,048	(176,090)
<i>Total Receipts</i>	3,232,057	3,389,849	2,825,726	(564,123)
Disbursements				
Current:				
General Government	1,901,023	1,859,274	1,610,988	248,286
Security of Persons and Property	1,310,181	1,281,408	1,110,290	171,118
Community Environment	61,483	60,133	52,103	8,030
<i>Total Disbursements</i>	3,272,687	3,200,815	2,773,381	427,434
<i>Excess of Receipts Over (Under) Disbursements</i>	(40,630)	189,034	52,345	(136,689)
Other Financing Uses				
Transfers Out	(219,415)	(214,597)	(185,939)	28,658
<i>Net Change in Fund Balance</i>	(260,045)	(25,563)	(133,594)	(108,031)
<i>Fund Balance Beginning of Year</i>	371,504	371,504	371,504	0
Prior Year Encumbrances Appropriated	255,623	255,623	255,623	0
<i>Fund Balance End of Year</i>	\$367,082	\$601,564	\$493,533	(\$108,031)

See accompanying notes to the basic financial statements

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City of Newton Falls, Ohio
Statement of Fund Net Assets - Cash Basis
Proprietary Funds
December 31, 2009

	Enterprise		
	Water	Sewer	Electric
Assets			
Equity in Pooled Cash and Cash Equivalents	\$303,747	\$830,536	\$1,647,228
Restricted Equity in Pooled Cash and Cash Equivalents	0	66,949	0
Total Assets	<u>\$303,747</u>	<u>\$897,485</u>	<u>\$1,647,228</u>
Net Assets			
Restricted for:			
Debt Service	\$0	\$66,949	\$0
Unrestricted	303,747	830,536	1,647,228
Total Net Assets	<u>\$303,747</u>	<u>\$897,485</u>	<u>\$1,647,228</u>

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

Net assets of business-type activities:

See accompanying notes to the basic financial statements

<u>Funds</u>	
<u>Total</u>	<u>Internal Service</u>
\$2,781,511	\$652,831
66,949	0
<u>\$2,848,460</u>	<u>\$652,831</u>
66,949	\$0
2,781,511	<u>652,831</u>
	<u>\$652,831</u>
<u>229,666</u>	
<u>\$3,078,126</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, 2009*

	Enterprise		
	Water	Sewer	Electric
Operating Receipts			
Charges for Services	\$1,104,079	\$1,063,897	\$4,068,039
Miscellaneous	6,677	0	31,338
<i>Total Operating Receipts</i>	<u>1,110,756</u>	<u>1,063,897</u>	<u>4,099,377</u>
Operating Disbursements			
Personal Services	648,864	405,213	323,885
Travel and Transportation	500	0	5,608
Contractual Services	176,998	154,997	3,301,276
Materials and Supplies	138,479	34,303	63,015
Claims	0	0	0
Capital Outlay	146,227	288,174	590,472
Miscellaneous	237,260	237,260	398,772
<i>Total Operating Disbursements</i>	<u>1,348,328</u>	<u>1,119,947</u>	<u>4,683,028</u>
<i>Operating Income (Loss)</i>	<u>(237,572)</u>	<u>(56,050)</u>	<u>(583,651)</u>
Non-Operating Receipts (Disbursements)			
Redemption of Principal	(155,723)	(127,850)	(3,226,159)
Interest and Fiscal Charges	(48,064)	(289,705)	(101,601)
Operating Grants	0	374,982	0
Proceeds of Notes	0	0	2,995,000
<i>Total Non-Operating Receipts (Disbursements)</i>	<u>(203,787)</u>	<u>(42,573)</u>	<u>(332,760)</u>
<i>Change in Net Assets</i>	(441,359)	(98,623)	(916,411)
<i>Net Assets Beginning of Year</i>	<u>745,106</u>	<u>996,108</u>	<u>2,563,639</u>
<i>Net Assets End of Year</i>	<u><u>\$303,747</u></u>	<u><u>\$897,485</u></u>	<u><u>\$1,647,228</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>
\$6,236,015	\$768,422
<u>38,015</u>	<u>0</u>
6,274,030	768,422
1,377,962	0
6,108	0
3,633,271	0
235,797	0
0	689,828
1,024,873	0
<u>873,292</u>	<u>0</u>
7,151,303	689,828
<u>(877,273)</u>	<u>78,594</u>
(3,509,732)	0
(439,370)	0
374,982	0
<u>2,995,000</u>	<u>0</u>
<u>(579,120)</u>	<u>0</u>
(1,456,393)	78,594
	<u>574,237</u>
	<u>\$652,831</u>
<u>27,649</u>	
<u>(\$1,428,744)</u>	

City of Newton Falls, Ohio
Statement of Fiduciary Net Assets - Cash Basis
Fiduciary Funds
December 31, 2009

	Private Purpose Trust	
	Unclaimed Monies	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$8,871	\$201,140
Cash and Cash Equivalents:		
In Segregated Accounts	0	18,391
<i>Total Assets</i>	8,871	\$219,531
Liabilities		
Deposits Held and Due to Others	0	\$219,531
Net Assets		
Held in Trust for Unclaimed Monies	\$8,871	

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, 2009

	<u>Unclaimed Monies</u>
Additions	
Miscellaneous	\$662
Deductions	
	<u>0</u>
<i>Change in Net Assets</i>	662
<i>Net Assets Beginning of Year</i>	<u>8,209</u>
<i>Net Assets End of Year</i>	<u><u>\$8,871</u></u>

See accompanying notes to the basic financial statements

City of Newton Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2009

Note 1 - Reporting Entity

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

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

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

Note 2 - Summary of Significant Accounting Policies

As discussed further in Note 2, 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.

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, 2009

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 modified 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.

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.

Capital Improvement Fund The capital improvement fund accounts for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

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

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

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

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

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

City of Newton Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2009

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.

Internal Service Funds – The internal service funds account 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 funds report on City departments' self insurance programs for employee medical benefits and refuse.

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.

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.

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 2009, investments were limited to mutual funds, taxable bonds 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 to 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on December 31, 2009.

City of Newton Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2009

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2009 amounted to \$214,156, which includes \$185,763 assigned from other City funds.

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

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

Restricted Assets

Pursuant to a bond indenture for the sewer fund, restricted assets include certain revenue bond debt proceeds, funds reserved for the redemption of matured revenue bond interest, funds reserved for the replacement of assets and funds to cover unexpected contingencies.

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.

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.

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.

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.

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.

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

City of Newton Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2009

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.

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 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. Interfund payments for services provided and used are not eliminated.

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.

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 fiscal year 2009, the City has implemented Governmental Accounting Standard Board (GASB) Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments", Statement No. 56, "Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards", Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans", and Statement No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies".

City of Newton Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2009

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. It requires governments to measure derivative instruments, with the exception of synthetic guaranteed investment contracts that are fully benefit-responsive, at fair value in their economic resources measurement focus financial statements. The implementation of this statement did not result in any change in the City's financial statements.

GASB Statement No. 56 incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants' and auditing literature into the GASB's accounting and financial reporting literature for state and local governments. The statement's guidance addresses related party transactions, going concern considerations, and subsequent events from the AICPA literature. The implementation of this statement did not result in any change in the City's financial statements.

GASB Statement No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans (that is, agent employers). The requirements in this Statement will allow more agent employers to use the alternative measurement method to produce actuarially based information for purposes of financial reporting and clarify that OPEB measures reported by agent multiple-employer OPEB plans and their participating employers should be determined at the same minimum frequency and as of a common date to improve the consistency of reporting with regard to funded status and funding progress information. The implementation of this statement did not result in any change in the City's financial statements.

GASB Statement No. 58 provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. The requirements in this Statement will provide more consistent recognition, measurement, display, and disclosure guidance for governments that file for Chapter 9 bankruptcy. The implementation of this statement did not result in any change in 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.

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 \$193,050.

City of Newton Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2009

Note 6 – Deposits and Investments

The City has elected to follow the provisions of State statute. State statutes classify monies held by the City 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;
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.

City of Newton Falls, Ohio
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For the Year Ended December 31, 2009

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, \$2,213,623 of the City's bank balance of \$3,405,957 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
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For the Year Ended December 31, 2009

Investments

Investments are reported at fair value. As of December 31, 2009, 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	\$1,097,667	\$0	\$0	\$1,097,667
Taxable Bonds	0	184,408	640,686	825,094
STAROhio	4,398	0	0	4,398
Total Portfolio	\$1,102,065	\$184,408	\$640,686	\$1,927,159

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.

Credit Risk The United States taxable bonds 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. As of December 31, 2009 the City had 42.82 percent of investments in taxable bonds.

Note 7 – Receivables

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 2009 for real and public utility property taxes represents collections of the 2008 taxes. Property tax payments received during 2009 for tangible personal property (other than public utility property) is for 2009 taxes.

City of Newton Falls, Ohio
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For the Year Ended December 31, 2009

2009 real property taxes are levied after October 1, 2009, on the assessed value as of January 1, 2009, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2009 real property taxes are collected in and intended to finance 2010.

Real property taxes are payable annually or semi-annually. If paid annually, the payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits 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. 2009 public utility property taxes which became a lien December 31, 2008, are levied after October 1, 2009, and are collected in 2010 with real property taxes.

Tangible personal property tax revenue received during 2009 (other than public utility property tax) represents the collection of 2009 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. Tangible personal property taxes received from telephone companies in 2009 were levied after October 1, 2008, on the value as of December 31, 2008. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The full tax rate for all City operations for the year ended December 31, 2009 was \$2.50 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2009 property tax receipts were based are as follows:

Real Property	
Residential/Agricultural	\$44,790,960
Other Real Estate	14,591,090
Public Utility Personal Property	467,040
Tangible Personal Property	444,893
Total	<u><u>\$60,293,983</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.

Income Tax

The City levies and collects an income tax of 1.0 percent on all income earned within the City as well as on income of residents earned outside the City. In the latter case, the City allows a credit of 100 percent of the tax paid to another municipality, not to exceed the amount owed. Employers within the City are required to withhold income tax on employee earnings and remit the tax to the City either monthly or quarterly as required. Corporations and other individual taxpayers are also required to pay their estimated tax at least quarterly and file a final return annually. In 2009, the proceeds were allocated 65 percent to the general fund, 10 percent to the street, construction, repair and maintenance and 10 percent to the park and recreation special revenue funds and 15 percent to the capital improvement capital projects fund.

City of Newton Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2009

Note 8 - Contingencies

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, 2009.

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 2009, 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	\$1,039,921	\$1,000
Property	35,543,207	2,500
Electronic Data Processing	101,500	500
Fleet Vehicle		
Physical Damage	50,000	0
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 \$45,000 per individual.

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

Note 10 - Defined Benefit Pension Plans

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

City of Newton Falls, Ohio
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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 and survivor 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, 2009, members in state and local classifications contributed 10.0 percent of covered payroll.

The City's 2009 contribution rate was 14.0 percent. For the period January 1 through March 31, a portion of the City's contribution equal to 7.0 percent of covered payroll was allocated to fund the post-employment health care plan; for the period April 1 through December 31, 2009 this amount was decreased to 5.5 percent. Employer contribution rates are actuarially determined. State statute sets a maximum contribution rate for the City of 14.0 percent.

The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2009, 2008, and 2007 were \$185,025, \$153,113, and \$176,855, respectively; 92.03 percent has been contributed for 2009 and 100 percent for 2008 and 2007. There were no contributions to the Member-Directed Plan for 2009.

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, while employers are required to contribute 19.5 percent for police officers. The City's contributions to OP&F for police was \$41,831 for the year ended December 31, 2009, \$34,081 for the year ended December 31, 2008, and \$31,457 for the year ended December 31, 2007. 72.35 percent for police has been contributed for 2009. The full amount has been contributed for 2008 and 2007.

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, 2009, the unfunded liability of the City was \$16,094 payable in semi-annual payments through the year 2035. This is an accounting liability of the City which will not vary.

City of Newton Falls, Ohio
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Note 11 – Postemployment Benefits

Ohio Public Employees Retirement System

Plan Description – Ohio Public Employees Retirement System (OPERS) maintains a cost-sharing multiple-employer defined benefit post-employment health care plan for qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. The plan includes a medical plan, prescription drug program and Medicare Part B premium reimbursement.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 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 the 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 administrated in accordance with, Internal Revenue Code 401(h). State Statute requires that public employers fund post-employment health care through contributions to OPERS. A portion of each employer’s contribution to OPERS 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 2009, state and local employers contributed at a rate of 14.0 percent of covered payroll. Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The amount of employer contributions which were allocated to fund post-employment health care was 7.0 percent from January 1 through March 31, 2009, and 5.5 percent from April 1 through December 31, 2009.

The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the post-employment health care plan.

The City’s contributions allocated to fund post-employment health care benefits for the years ended December 31, 2009, 2008, and 2007 were \$133,827, \$153,113, and \$116,491 respectively; 92.03 percent has been contributed for 2009 and 100 percent for 2008 and 2007.

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 on January 1 of each year from 2006 to 2008. Rates for law and public safety employers increased over a six year period beginning on January 1, 2006, with a final rate increase on January 1, 2011. These rate increases allowed additional funds to be allocated to the health care plan.

City of Newton Falls, Ohio
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Ohio Police 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 health care coverage provided by OP&F meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45.

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 – The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F defined benefit pension plan. Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.5 percent of covered payroll for police. The Ohio Revised Code states that the employer contribution may not exceed 19.5 percent of covered payroll for police employer units. Active members do not make contributions to the OPEB Plan.

OP&F maintains funds for health care in two separate accounts. One for health care benefits under an IRS Code Section 115 trust and one for Medicare Part B reimbursements administrated as an Internal Revenue Code 401(h) account, both of which are within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2009, 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 Sections 115 and 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 \$22,146 for the year ended December 31, 2009, \$18,043 for the year ended December 31, 2008, and \$20,748 for the year ended December 31, 2007. The full amount has been contributed for 2008 and 2007. 72.35 percent has been contributed for police for 2009.

City of Newton Falls, Ohio
Notes to the Basic Financial Statements
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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
<i>OWDA Loans</i>			
Wastewater Treatment Plant and Sewer Improvements	2.00%	1,005,976	2011
OWDA #3806	2.00%	3,102,133	2024
<i>OPWC Loans</i>			
Broad Street Water Distribution	0.00%	253,463	2025
Broad Street Storm Water	0.00%	186,493	2025
OPWC #CF28G	0.00%	43,187	2025
Electric System Bond Anticipation Note	3.00%	2,995,000	2010

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

	Balance 12/31/08	Additions	Reductions	Balance 12/31/09	Amounts Due in One Year
Governmental Activities					
<i>Promissory Note</i>					
Municipal Court Renovation	\$208,787	\$0	(\$47,359)	\$161,428	\$42,796
<i>Capital Lease</i>	0	121,711	(33,337)	88,374	27,637
<i>Other</i>					
Ohio Police Pension	16,425	0	(346)	16,079	352
Total Governmental Activities	\$225,212	\$121,711	(\$81,042)	\$265,881	\$70,785

City of Newton Falls, Ohio
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	Balance 12/31/08	Additions	Reductions	Balance 12/31/09	Amounts Due in One Year
Business-Type Activities					
<i>Mortgage Revenue Bonds</i>					
Series A	\$4,960,000	\$0	(\$47,800)	\$4,912,200	\$49,800
Series B	2,205,000	0	(21,200)	2,183,800	22,200
<i>Total Mortgage Revenue Bonds</i>	<u>7,165,000</u>	<u>0</u>	<u>(69,000)</u>	<u>7,096,000</u>	<u>72,000</u>
<i>OWDA Loans</i>					
Wastewater Treatment Plant and Sewer Improvements	100,042	0	(49,526)	50,516	50,516
OWDA #3806	2,438,242	0	(140,891)	2,297,351	143,723
<i>Total OWDA Loans</i>	<u>2,538,284</u>	<u>0</u>	<u>(190,417)</u>	<u>2,347,867</u>	<u>194,239</u>
<i>OPWC Loans</i>					
Broad Street Water Distribution	202,771	0	(12,673)	190,098	12,673
Broad Street Storm Water	149,196	0	(9,324)	139,872	9,324
OPWC #CF28G	35,630	0	(2,159)	33,471	2,159
<i>Total OPWC Loans</i>	<u>387,597</u>	<u>0</u>	<u>(24,156)</u>	<u>363,441</u>	<u>24,156</u>
<i>Bond Anticipation Notes</i>					
Electric System	3,200,000	2,995,000	(3,200,000)	2,995,000	0
<i>Capital Lease</i>					
	137,911	0	(26,159)	111,752	25,935
<i>Total Business-Type Activities</i>	<u>\$13,428,792</u>	<u>\$2,995,000</u>	<u>(\$3,509,732)</u>	<u>\$12,914,060</u>	<u>\$316,330</u>

The municipal court renovation promissory note will be paid from the court special projects special revenue fund. The Ohio police pension liability will be paid from the police pension special projects. 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 2009, the City entered into a four year capital lease with Ford Motor Credit for police cruisers for the principal amount of \$121,711. The lease will be paid from the capital improvements fund.

During 2009, the City of Newton Falls issued \$2,995,000 in bond anticipation notes payable at 3.00 percent for various improvements to the Broad Street Lighting, festival power, South Circuit voltage conversion and upgrade, Warren Road substation addition, Church Street substation addition, and Peak Shaving Generator back-up.

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
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For the Year Ended December 31, 2009

As of December 31, 2009 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, 2009, restricted the City's Sewer fund assets in the amount of \$66,949 for operation and maintenance.

The City has pledged future revenues, net of operating expenses, to repay OPWC loans in the sewer enterprise fund. The debt is payable solely from net revenues and are payable through 2025. Annual principal payments on the debt issues are expected to require less than 100 percent in future years; however, in 2009, the principal payments exceeded net revenues. The total principal remaining to be paid on the debt is \$173,342. Principal paid for the current year and total net revenues were \$11,843 and (\$56,050) respectively.

The City has pledged future revenues, net of operating expenses, to repay OPWC loans in the water enterprise fund. The debt is payable solely from net revenues and are payable through 2025. Annual principal payments on the debt issues are expected to require less than 100 percent in future years; however, in 2009, the principal payments exceeded net revenues. The total principal remaining to be paid on the debt is \$190,098. Principal paid for the current year and total net revenues were \$12,673 and (\$237,572) respectively.

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 \$6,157,549 with an unvoted debt margin of \$3,142,850 at December 31, 2009. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2009 are as follows:

	Governmental-Type Activities			
	Municipal Court Renovation Promissory Note		Ohio Police Pension Liability	
	Principal	Interest	Principal	Interest
2010	\$42,796	\$16,231	\$352	\$688
2011	45,435	13,592	366	674
2012	48,237	10,789	381	659
2013	24,960	7,814	396	644
2014	0	0	413	627
2015 - 2019	0	0	2,361	2,839
2020 - 2024	0	0	2,960	2,240
2025 - 2029	0	0	3,649	1,551
2030-2034	0	0	4,294	906
2035	0	0	907	117
Total	\$161,428	\$48,426	\$16,079	\$10,945

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For the Year Ended December 31, 2009

Business-Type Activities					
	OWDA Loans		OPWC Loans	Mortgage Revenue Bonds	
	Principal	Interest	Principal	Principal	Interest
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	155,631	33,324	24,156	85,400	297,001
2015 - 2019	826,355	118,420	120,780	486,700	1,425,550
2020 - 2024	722,908	32,908	120,795	602,900	1,309,359
2025 - 2029	0	0	1,086	746,900	1,165,421
2030 - 2034	0	0	0	925,100	987,118
2035 - 2039	0	0	0	1,146,000	766,238
2040 - 2044	0	0	0	1,419,500	492,647
2045 - 2048	0	0	0	1,376,100	153,733
Total	<u>\$2,347,867</u>	<u>\$349,024</u>	<u>\$363,441</u>	<u>\$7,096,000</u>	<u>\$7,819,415</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, Incorporated (AMP, Inc.), 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, Inc. who acts as the joint venture's agent. Each member has a contract which provides for AMP, Inc. 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 \$12,311 at December 31, 2009. Financial information for JV1 may be obtained from AMP, Inc., 2600 Airport Drive, Columbus, Ohio 43219.

City of Newton Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2009

Note 14 – Interfund Transfers

During 2009, the following transfers were made:

Transfers In	Transfers Out		
	General	Court Security Diversion	Total
<i>Other Governmental Activities:</i>			
Special Revenue Fund:			
Street Construction, Maintenance and Repair	\$126,561	\$0	\$126,561
Senior Van	13,278	0	13,278
Capital Projects Funds:			
Capital Improvements	0	7,500	7,500
Roads, Buildings and Equipment	46,100	0	46,100
<i>Total Transfers</i>	<u>\$185,939</u>	<u>\$7,500</u>	<u>\$193,439</u>

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 and the court security diversion fund transfer to the capital improvements capital projects fund were per City ordinance.

Note 15 – Capital Lease

The City has entered into capitalized leases for police cruisers and an electric bucket. These leases meet the criteria for a capital lease as defined by the Statement of Financial Accounting Standards No. 13 “Accounting for Lease” and have been recorded on the statements. The original amounts capitalized for the capital leases and the book value as of December 31, 2009 for governmental and business-type activities follows:

	Governmental Activities	Business-Type Activities	Total
Asset:			
Equipment	\$0	\$137,912	\$137,912
Vehicles	121,711	0	121,711
Total Capitalized	121,711	137,912	259,623
Less: Accumulated depreciation	8,114	18,388	26,502
Current Book Value	<u>\$113,597</u>	<u>\$119,524</u>	<u>\$233,121</u>

City of Newton Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2009

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of December 31, 2009.

	Governmental Activities	Business-Type Activities	Total
2010	\$33,337	\$31,502	\$64,839
2011	33,338	31,502	64,840
2012	33,337	31,501	64,838
2013	0	31,502	31,502
Total Minimum Lease Payments	100,012	126,007	226,019
Less: Amount Representing Interest	(11,638)	(14,254)	(25,892)
Present Value of Minimum Lease Payments	\$88,374	\$111,753	\$200,127

CITY OF NEWTON FALLS
TRUMBULL COUNTY

FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2009

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Pass Through Entity Number	Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
<i>Direct Program:</i>			
Water and Waste Disposal Systems for Rural Communities	10.760	Rural Development Grant	\$ 285,061
Total U.S. Department of Agriculture			<u>285,061</u>
<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	<u>212,076</u>
Total U.S. Department of Housing and Urban Development			<u>212,076</u>
<u>U.S. DEPARTMENT OF JUSTICE</u>			
<i>Direct Programs:</i>			
Bulletproof Vest Partnership Program	16.607	2009BUBX09046510	3,263
ARRA - Public Safety Partnership and Community Policing Grants	16.710	2009RKWX0694	10,003
<i>Passed Through Ohio Governor's Office of Criminal Justice Services:</i>			
ARRA - Edward Byrne Memorial Competitive Grant Program	16.808	2009-RA-E01-2243	<u>30,278</u>
Total U.S. Department of Justice			<u>43,544</u>
TOTAL			<u>\$ 540,681</u>

The accompanying notes are an integral part of this schedule.

**CITY OF NEWTON FALLS
TRUMBULL COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
YEAR ENDED DECEMBER 31, 2009**

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 that the City 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.

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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, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 30, 2010, wherein we noted the City prepared its financial statements on a basis of accounting other than that prescribed by Ohio Administrative Code § 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 the purpose of expressing our opinion on the financial statements, but not for the purpose of opining 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.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

We did note certain internal control matters that we reported to the City's management in a separate letter dated August 30, 2010.

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

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 matter that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2009-001.

We also noted certain matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated August 30, 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 management, the audit committee, City Council, and federal awarding agencies and pass-through entities, and others within the City. We intend it for no one other than these specified parties.



Mary Taylor, CPA

Auditor of State

August 30, 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, 2009. 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 included in the Comptroller General of the United States' *Government Auditing Standards*; 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 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, 2009. However, the results of our auditing procedures disclosed another instance of noncompliance with those requirements that, while not affecting our opinion on compliance, OMB Circular A-133 requires us to report. The accompanying schedule of findings lists this instance as Finding 2009-002.

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. In planning and performing our audit, we considered the City's internal control over compliance with the 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, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance.

Accordingly, we have not opined 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 was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, we cannot assure we have identified all deficiencies, significant deficiencies, or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings as item 2009-002 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

August 30, 2010

**CITY OF NEWTON FALLS
TRUMBULL COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2009**

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)?	No
<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 2009-001

Material Noncompliance Citation

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

**FINDING NUMBER 2009-001
 (Continued)**

Ohio Administrative Code § 117-2-03 (B) requires the City to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, 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	2009-002
CFDA Title and Number	Water and Waste Disposal Systems for Rural Communities – CFDA #10.760
Federal Award Number / Year	2009
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 as noted in finding number 2009-001 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, 2009**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2008-001	Failure to prepare annual financial report in accordance with generally accepted accounting principles.	No	Not Corrected, see current year finding number 2009-001.
2008-002	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 number 2009-002.

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**CITY OF NEWTON FALLS
TRUMBULL COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A -133 § .315 (c)
DECEMBER 31, 2009**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2009-001	The City recognizes the need to prepare financial reports in accordance with accounting principles generally accepted in the United States. 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 valuations for fixed assets. Once that is completed, the City will take appropriate action to correct the situation.	07/01/11	Tracy L. Reibold 330-872-1010
2009-002	The City recognizes the need to prepare financial reports in accordance with accounting principles generally accepted in the United States. 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 valuations for fixed assets. Once that is completed, the City will take appropriate action to correct the situation.	07/01/11	Tracy L. Reibold 330-872-1010

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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
SEPTEMBER 30, 2010**