



**Auditor of State
Betty Montgomery**

**CITY OF NEWTON FALLS
TRUMBULL COUNTY**

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**Auditor of State
Betty Montgomery**

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 City of Newton Falls, Trumbull County, (the City) as of and for the years ended December 31, 2002 and 2001. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

Ohio Administrative Code Section 117-2-03 (B) requires the City to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 1, the accompanying financial statements and notes have been prepared on a basis of accounting in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual reports in accordance with accounting principles generally accepted in the United States of America. This basis of accounting is a comprehensive basis of accounting other than 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the City of Newton Falls, Trumbull County, as of December 31, 2002 and 2001, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 21, 2003 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

August 21, 2003

**CITY OF NEWTON FALLS
TRUMBULL COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2002**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property Tax and Other Local Taxes	\$106,036	\$792,420		\$898,456
Intergovernmental Receipts	158,002	185,852	\$47,336	391,190
Charges for Services	9,387	25,248		34,635
Fines, Licenses, and Permits	533,530	142,274		675,804
Earnings on Investments	300,880	3,596		304,476
Miscellaneous	3,024	11,236		14,260
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Receipts	1,110,859	1,160,626	47,336	2,318,821
Cash Disbursements:				
Current:				
Security of Persons and Property	812,221	65,573		877,794
Leisure Time Activities		136,284		136,284
Community Environment	16,708			16,708
Transportation		329,013		329,013
General Government	1,045,309	161,552		1,206,861
Debt Service:				
Principal Payments		26,770		26,770
Interest Payments		33,296		33,296
Capital Outlay		75,669	441,015	516,684
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	1,874,238	828,157	441,015	3,143,410
Total Receipts Over/(Under) Disbursements	<hr/> <u>(763,379)</u>	<hr/> <u>332,469</u>	<hr/> <u>(393,679)</u>	<hr/> <u>(824,589)</u>
Other Financing Receipts and (Disbursements):				
Transfers-In	334,424	201,609	305,011	841,044
Other Financing Receipts	473,810			473,810
Transfers-Out	(246,137)	(608,044)		(854,181)
Other Financing Disbursements		(850)	(67,341)	(68,191)
	<hr/>	<hr/>	<hr/>	<hr/>
Total Other Financing Receipts/(Disbursements)	562,097	(407,285)	237,670	392,482
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(201,282)	(74,816)	(156,009)	(432,107)
Fund Cash Balances, January 1	<hr/> <u>1,023,859</u>	<hr/> <u>546,428</u>	<hr/> <u>311,543</u>	<hr/> <u>1,881,830</u>
Fund Cash Balances, December 31	<hr/> <u>\$822,577</u>	<hr/> <u>\$471,612</u>	<hr/> <u>\$155,534</u>	<hr/> <u>\$1,449,723</u>
Reserves for Encumbrances, December 31	<hr/> <u>\$37,628</u>	<hr/> <u>\$28,497</u>	<hr/> <u>\$31,890</u>	<hr/> <u>\$98,015</u>

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

**CITY OF NEWTON FALLS
TRUMBULL COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2002**

	Proprietary Fund Types		Fiduciary Fund Type	Totals (Memorandum Only)
	Enterprise	Internal Service	Agency	
Operating Cash Receipts:				
Charges for Services	\$6,065,122	\$520,851		\$6,585,973
Miscellaneous	5,819	1,402		7,221
Total Operating Cash Receipts	<u>6,070,941</u>	<u>522,253</u>		<u>6,593,194</u>
Operating Cash Disbursements:				
Personal Services	1,131,469	504,352		1,635,821
Travel and Transportation	12,730			12,730
Contractual Services	2,544,157			2,544,157
Supplies and Materials	267,926			267,926
Capital Outlay	863,556			863,556
Total Operating Cash Disbursements	<u>4,819,838</u>	<u>504,352</u>		<u>5,324,190</u>
Operating Income/(Loss)	<u>1,251,103</u>	<u>17,901</u>		<u>1,269,004</u>
Non-Operating Cash Receipts:				
Intergovernmental Receipts	38,635			38,635
Proceeds from Notes and Bonds	204,200			204,200
Other Non-Operating Receipts	186,525		\$1,496,197	1,682,722
Total Non-Operating Cash Receipts	<u>429,360</u>		<u>1,496,197</u>	<u>1,925,557</u>
Non-Operating Cash Disbursements:				
Debt Service	451,545			451,545
Other Non-Operating Cash Disbursements	650,436		1,505,178	2,155,614
Total Non-Operating Cash Disbursements	<u>1,101,981</u>		<u>1,505,178</u>	<u>2,607,159</u>
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	578,482	17,901	(8,981)	587,402
Transfers-In	468,137			468,137
Transfers-Out	(455,000)			(455,000)
Net Receipts Over/(Under) Disbursements	591,619	17,901	(8,981)	600,539
Fund Cash Balances, January 1	<u>4,708,171</u>	<u>365,874</u>	<u>48,580</u>	<u>5,122,625</u>
Fund Cash Balances, December 31	<u>\$5,299,790</u>	<u>\$383,775</u>	<u>\$39,599</u>	<u>\$5,723,164</u>
Reserve for Encumbrances, December 31	<u>\$211,169</u>	<u>\$544</u>		<u>\$211,713</u>

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

**CITY OF NEWTON FALLS
TRUMBULL COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2001**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property Tax and Other Local Taxes	\$105,687	\$790,147		\$895,834
Intergovernmental Receipts	159,042	165,936	\$20,004	344,982
Charges for Services	12,818	22,520		35,338
Fines, Licenses, and Permits	554,497	143,548		698,045
Earnings on Investments	369,104	6,203		375,307
Miscellaneous	15,242	6,208		21,450
Total Cash Receipts	<u>1,216,390</u>	<u>1,134,562</u>	<u>20,004</u>	<u>2,370,956</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	777,178	18,216		795,394
Leisure Time Activities		130,439		130,439
Community Environment	15,279			15,279
Transportation		289,245		289,245
General Government	933,785	193,894		1,127,679
Debt Service:				
Principal Payments		25,219		25,219
Interest Payments		34,847		34,847
Capital Outlay	11,923	282,330	412,676	706,929
Total Cash Disbursements	<u>1,738,165</u>	<u>974,190</u>	<u>412,676</u>	<u>3,125,031</u>
Total Receipts Over/(Under) Disbursements	<u>(521,775)</u>	<u>160,372</u>	<u>(392,672)</u>	<u>(754,075)</u>
Other Financing Receipts and (Disbursements):				
Transfers-In	330,138	265,893	378,300	974,331
Other Financing Receipts	666,990			666,990
Transfers-Out	(471,550)	(600,179)		(1,071,729)
Total Other Financing Receipts/(Disbursements)	<u>525,578</u>	<u>(334,286)</u>	<u>378,300</u>	<u>569,592</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	<u>3,803</u>	<u>(173,914)</u>	<u>(14,372)</u>	<u>(184,483)</u>
Fund Cash Balances, January 1	<u>1,020,056</u>	<u>720,342</u>	<u>325,915</u>	<u>2,066,313</u>
Fund Cash Balances, December 31	<u>\$1,023,859</u>	<u>\$546,428</u>	<u>\$311,543</u>	<u>\$1,881,830</u>
Reserves for Encumbrances, December 31	<u>\$51,342</u>	<u>\$51,973</u>	<u>\$42,272</u>	<u>\$145,587</u>

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

**CITY OF NEWTON FALLS
TRUMBULL COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2001**

	Proprietary Fund Types		Fiduciary Fund Type	Totals (Memorandum Only)
	Enterprise	Internal Service	Agency	
Operating Cash Receipts:				
Charges for Services	\$5,612,138	\$349,183		\$5,961,321
Miscellaneous	11,080	46,690		57,770
Total Operating Cash Receipts	<u>5,623,218</u>	<u>395,873</u>		<u>6,019,091</u>
Operating Cash Disbursements:				
Personal Services	1,031,837	454,058		1,485,895
Travel and Transportation	10,878			10,878
Contractual Services	2,726,520			2,726,520
Supplies and Materials	199,688			199,688
Capital Outlay	534,597			534,597
Total Operating Cash Disbursements	<u>4,503,520</u>	<u>454,058</u>		<u>4,957,578</u>
Operating Income/(Loss)	<u>1,119,698</u>	<u>(58,185)</u>		<u>1,061,513</u>
Non-Operating Cash Receipts:				
Intergovernmental Receipts	191,856			191,856
Proceeds from Notes and Bonds	96,860			96,860
Other Non-Operating Receipts	104,624		\$1,421,185	1,525,809
Total Non-Operating Cash Receipts	<u>393,340</u>		<u>1,421,185</u>	<u>1,814,525</u>
Non-Operating Cash Disbursements:				
Debt Service	451,933			451,933
Other Non-Operating Cash Disbursements	687,186		1,493,083	2,180,269
Total Non-Operating Cash Disbursements	<u>1,139,119</u>		<u>1,493,083</u>	<u>2,632,202</u>
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	373,919	(58,185)	(71,898)	243,836
Transfers-In	541,101			541,101
Transfers-Out	(443,703)			(443,703)
Net Receipts Over/(Under) Disbursements	471,317	(58,185)	(71,898)	341,234
Fund Cash Balances, January 1	<u>4,236,854</u>	<u>424,059</u>	<u>120,478</u>	<u>4,781,391</u>
Fund Cash Balances, December 31	<u>\$4,708,171</u>	<u>\$365,874</u>	<u>\$48,580</u>	<u>\$5,122,625</u>
Reserve for Encumbrances, December 31	<u>\$708,496</u>	<u>\$544</u>		<u>\$709,040</u>

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

**CITY OF NEWTON FALLS
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the 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 is directed by a publicly-elected five-member Council. The City provides general governmental services, street maintenance services, park and recreation services, water, sewer and electric utilities, and police protection services. The City contracts with Newton Falls Fire District to provide fire protection services.

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

B. Basis of Accounting

Although required by the Ohio Administrative Code Section 117-2-03 (B) to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America, the City chooses to prepare its financial statements and notes in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual financial reports in accordance with accounting principles generally accepted in the United States of America. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraph.

C. Cash and Investments

Investments are included in fund cash balances. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

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

D. Fund Accounting

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

1. General Fund

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

**CITY OF NEWTON FALLS
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

2. Special Revenue Fund

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

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

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

3. Capital Project Funds

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

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

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

4. Enterprise Funds

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

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

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

**CITY OF NEWTON FALLS
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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

5. Internal Service Fund

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

6. Fiduciary Funds (Agency Funds)

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

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

E. Budgetary Process

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

1. Appropriations

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

2. Estimated Resources

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

3. Encumbrances

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

A summary of 2002 and 2001 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

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

**CITY OF NEWTON FALLS
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

G. Accumulated Leave

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

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

	2002	2001
Demand deposit	\$313,688	\$162,578
Total deposits	313,688	162,578
Second National Bank	520,950	920,002
McDonald & Company	6,144,224	5,857,351
STAR Ohio	194,025	64,524
Total investments	6,859,199	6,841,877
Total deposits and investments	\$7,172,887	\$7,004,455

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

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

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2002 and 2001 follows:

2002 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,508,521	\$1,919,093	\$410,572
Special Revenue	1,423,053	1,362,235	(60,818)
Capital Projects	325,000	352,347	27,347
Enterprise	6,619,088	6,968,438	349,350
Internal Service	400,000	522,253	122,253
Agency	0	165	165
Total	\$10,275,662	\$11,124,531	\$848,869

**CITY OF NEWTON FALLS
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

3. BUDGETARY ACTIVITY – (Continued)

2002 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$2,185,309	\$2,158,003	\$27,306
Special Revenue	1,608,760	1,465,548	143,212
Capital Projects	579,522	540,246	39,276
Enterprise	7,805,603	6,587,988	1,217,615
Internal Service	500,544	504,896	(4,352)
Agency	0	0	0
Total	<u>\$12,679,738</u>	<u>\$11,256,681</u>	<u>\$1,423,057</u>

2001 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$2,523,358	\$2,213,518	(\$309,840)
Special Revenue	1,361,041	1,400,455	39,414
Capital Projects	405,004	398,304	(6,700)
Enterprise	6,879,705	6,557,659	(322,046)
Internal Service	368,000	395,873	27,873
Agency	9,150	11,795	2,645
Total	<u>\$11,546,258</u>	<u>\$10,977,604</u>	<u>(\$568,654)</u>

2001 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$2,188,147	\$2,261,057	(\$72,910)
Special Revenue	1,697,356	1,626,342	71,014
Capital Projects	449,968	454,948	(4,980)
Enterprise	7,090,484	6,794,838	295,646
Internal Service	464,520	454,602	9,918
Agency	102,075	102,075	0
Total	<u>\$11,992,550</u>	<u>\$11,693,862</u>	<u>\$298,688</u>

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by City Council. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payments, the first half is due December 31. The second half payment is due the following June 20.

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

**CITY OF NEWTON FALLS
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

4. PROPERTY TAX – (Continued)

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

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

5. LOCAL INCOME TAX

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

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

6. DEBT

Debt outstanding at December 31, 2002 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Water Development Authority Loan	\$844,736	2% to 10.84%
Mortgage Revenue Bonds	201,000	6.25%
Electric Metering Promissory Note	358,909	5.64%
Municipal Court Renovation Promissory Note	522,501	6.03%
Ohio Police & Fire Pension Fund	18,220	4.25%
Total	<u>\$1,945,366</u>	

Outstanding Ohio Water Development Authority (OWDA) Loans consist of five cooperative agreements between the City of Newton Falls and the OWDA for improvements to the City's secondary treatment plant and water treatment plant. The OWDA has approved up to \$2,422,996 in loans to the City for these projects. The scheduled payment amount below assumes that \$2,422,996 will be borrowed. The scheduled payment will be adjusted to reflect any revisions in amounts actually borrowed. The City has pledged revenues from the Sewer and Water Funds to repay these debts.

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

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

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

**CITY OF NEWTON FALLS
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

6. DEBT – (Continued)

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

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

Year ending December 31:	OWDA Loan	Mortgage Revenue Bonds	Electric Metering Promissory Note	Municipal Court Renovation Promissory Note	OP&F Pension Fund Obligation
2003	\$153,829	\$210,469	\$87,600	\$59,026	\$1,040
2004	307,358		87,600	59,026	1,040
2005	303,440		87,600	59,026	1,040
2006	205,055		87,600	59,026	1,040
2007	205,055		59,555	59,026	1,040
Subsequent	306,900			457,455	28,551
Total	<u>\$1,481,637</u>	<u>\$210,469</u>	<u>\$409,955</u>	<u>\$752,585</u>	<u>\$33,751</u>

7. RETIREMENT SYSTEMS

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

Contribution rates are also prescribed by the Ohio Revised Code. For 2002 and 2001, OP&F participants contributed 10% of their wages. The City contributed an amount equal to 19.5% of their wages. PERS members contributed 8.5% of their wages. The City contributed an amount equal to 13.55% of participants' gross salaries. The City has paid all contributions required through December 31, 2002.

8. RISK MANAGEMENT

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

The City operates a self-funded health and welfare plan that provides health insurance, dental and vision coverage, and life insurance to full-time employees. The City has entered into an agreement with a third party administrator that provides the City with a comprehensive range of administrative services regarding their medical claims submitted by person's covered under the health and welfare plan. The City had accumulated \$383,775 and \$365,874 toward future medical insurance claims as of December 31, 2002 and 2001, respectively. Also, the Village maintains stop-loss coverage with an insurance company of \$25,000 per claim for medical coverage.

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**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL 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 accompanying financial statements of the City of Newton Falls, Trumbull County, (the City) as of and for the years ended December 31, 2002 and 2001, and have issued our report thereon dated August 21, 2003, which noted the City prepares its financial statements on a basis of accounting other than that prescribed by Ohio Administrative Code Section 117-2-03 (B). We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2002-001. We also noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated August 21, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 2002-002.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the City of Newton Falls in a separate letter dated August 21, 2003.

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

August 21, 2003

**CITY OF NEWTON FALLS
TRUMBULL COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2002 AND 2001**

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

FINDING NUMBER 2002-001

Ohio Administrative Code Section 117-2-03 (B) requires the City to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, the City prepares its financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with accounting principles generally accepted in the United States of America. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. The City can be fined and various other legal administrative remedies may be taken against the City.

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

Reportable Condition

FINDING NUMBER 2002-002

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

- Monthly cash reconciliations included fund balances, deposits in transit, outstanding checks, and other reconciling items that were incorrect or not supported;
- The City's Receipts and Appropriation Ledgers did not agree to its Annual Financial Reports in several funds/accounts;
- The City's proprietary financial statements were not classified in the same format as prior years' financial statements. In addition, the City's financial statements contained various receipts and disbursements that were not properly posted.

In order to correct these matters and reflect accurate cash reconciliations, adjustments were required to the City's financial statements for 2002 and 2001 in the amount of \$7,443 and \$6,029, respectively. Additionally, certain of these errors resulted in reclassifications of receipts and disbursements.

Council should carefully review these matters and develop internal control over the City's financial reporting system which supports the integrity of the City's financial records. We recommend the City consider the following procedures:

- Council and management should review the Cash Journal, Receipts and Appropriations Ledgers, and Financial Statements, and document said review in the City's Record of Proceedings of its Council's meetings. As part of the review, Council and management should determine whether transactions are posted to the appropriate fund and line-item, and that totals of the Cash Journal, Receipts and Appropriations Ledgers, and Financial Statements agree and are complete and accurate;

FINDING NUMBER 2002-002
(Continued)

- Council and management should review the support for the cash reconciliation and document said review in the City's Record of Proceedings of its Council's meetings;
- Council and management should prepare analytics or a comparable mechanism to identify unusual and/or significant fluctuations in the Cash Journal and the Receipts and Appropriations Ledgers, and take corrective action, if necessary.

**CITY OF NEWTON FALLS
TRUMBULL COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2002 AND 2001**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2000-31178-001	ORC Section 5705.41 (D) - Failure to properly certify funds.	No	We reported this Finding in the Management Letter.
2000-31178-002	Discrepancies identified with the City's financial reporting system	No	Partially Corrected. The City has taken corrective action to ensure that their Investment Ledger contained accurate cost basis valuations. They have also taken measures to remove stale dated checks to their Unclaimed Moneys Fund. The remainder of this recommendation was reissued as finding No. 2002-002.
2000-31178-003	Failure to establish an audit committee	Fully Corrected	



**Auditor of State
Betty Montgomery**

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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
NOVEMBER 6, 2003**