



Dave Yost • Auditor of State

**VILLAGE OF NEWTON FALLS
TRUMBULL COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Village Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Newton Falls, Trumbull County, Ohio (the "Village"), as of and for the year ended December 31, 2011, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village'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 our audit provides a reasonable basis for our opinions.

As discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than accounting principles generally accepted in the United States of America.

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 Village of Newton Falls, Trumbull County, Ohio, as of December 31, 2011, and the respective changes in cash financial position, thereof and the respective budgetary comparison for the General, Permissive Auto and Court Computerization funds thereof for the year then ended in conformity with the accounting basis Note 2 describes.

As described in Note 3, during 2011 the Village of Newton Falls adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 7, 2012, on our consideration of the Village'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.

We conducted our audit to opine on the Village's financial statements taken as a whole. Management's Discussion and Analysis includes tables of net assets, changes in net assets, governmental activities, business-type activities and long-term debt. These tables provide additional information, but are not part of the basic financial statements. However these tables are management's responsibility, and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. These tables were subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. Other than the aforementioned procedures applied to the tables, we applied no procedures to any other information in Management's Discussion and Analysis, and we express no opinion or any other assurance on it.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

September 7, 2012

Village of Newton Falls, Trumbull County, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2011

Unaudited

This discussion and analysis of the Village of Newton Falls financial performance provides an overall review of the Village's financial activities for the year ended December 31, 2011, within the limitations of the Village's cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the Village's financial performance.

Highlights

Key highlights for 2011 are as follows:

- Net assets of governmental activities decreased from a decrease in property taxes and investment earnings as the economy continues to recover from the economic downturn. The fund most affected by the decrease in cash and cash equivalents was the general fund, which realized the greatest decrease in revenues in 2011.
- The Village's governmental receipts are primarily income taxes, intergovernmental revenues, and fines, licenses and permits. Intergovernmental revenues have decreased due to cuts in local government funding from the State of Ohio.

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 Village'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 Village as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the Village 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 Village 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 Village's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

Village of Newton Falls, Trumbull County, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2011

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 Village 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 Village consists of all funds, agencies, departments and offices that are not legally separated from the Village.

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

The statement of net assets and the statement of activities reflect how the Village did financially during 2011, 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 Village 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, grants and contributions restricted to meeting the operational or capital requirements of a particular program, and receipts of interest earned on grants required to be used to support 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 governmental program or business activity is self-financing on a cash basis or draws from the general receipts of the Village.

These statements report the Village'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 Village's financial health. Over time, increases or decreases in the Village's cash position is one indicator of whether the Village's financial health is improving or deteriorating. When evaluating the Village's financial condition, you should also consider other non-financial factors as well such as the Village's property tax base, the condition of the Village's capital assets and infrastructure, the extent of the Village'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 Village into two types of activities:

Governmental activities Most of the Village'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.

Village of Newton Falls, Trumbull County, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2011

Unaudited

Business-type activities The Village 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 Village of Newton Falls Most Significant Funds

Fund financial statements provide detailed information about the Village's major funds – not the Village as a whole. The Village 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 Village are split into three categories: governmental, proprietary and fiduciary.

Governmental Funds - Most of the Village's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the Village'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 Village's programs. The Village'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 Village's major governmental funds are the general fund, the permissive auto and court computerization special revenue funds 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 Village 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 Village has three enterprise funds: the water fund, the sewer fund and the electric fund. When the services are provided to other departments of the Village, the service is reported as an internal service fund. The Village has two internal service funds to account for employee health-care claims and utilities.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the Village. Fiduciary funds are not reflected on the government-wide financial statements because the resources of these funds are not available to support the Village's programs.

Village of Newton Falls, Trumbull County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2011
Unaudited

The Village of Newton Falls as a Whole

Table 1 provides a summary of the Village's net assets for 2011 compared to 2010 on a cash basis.

(Table 1)
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Assets						
Cash and Cash Equivalents	\$1,527,377	\$1,789,565	\$1,784,906	\$2,073,031	\$3,312,283	\$3,862,596
Restricted Cash and Cash Equivalents	0	0	143,549	105,249	143,549	105,249
Internal Balances	(97,494)	(152,393)	97,494	152,393	0	0
<i>Total Assets</i>	<u>\$1,429,883</u>	<u>\$1,637,172</u>	<u>\$2,025,949</u>	<u>\$2,330,673</u>	<u>\$3,455,832</u>	<u>\$3,967,845</u>
Net Assets						
Restricted for:						
Capital Outlay	\$211,331	\$109,055	\$0	\$0	\$211,331	\$109,055
Other Purposes	795,239	775,395	0	0	795,239	775,395
Debt Service	0	0	143,549	105,249	143,549	105,249
Unrestricted	423,313	752,722	1,882,400	2,225,424	2,305,713	2,978,146
<i>Total Net Assets</i>	<u>\$1,429,883</u>	<u>\$1,637,172</u>	<u>\$2,025,949</u>	<u>\$2,330,673</u>	<u>\$3,455,832</u>	<u>\$3,967,845</u>

- Total governmental assets decreased from 2010. The decrease in equity in pooled cash and cash equivalents is largely due to poor economic conditions.
- Net assets of business-type activities decreased from 2010. This decrease is largely made up of increased expenses for construction and improvements to the infrastructure of the Village and the continued pay down of outstanding debt obligations.

Village of Newton Falls, Trumbull County, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2011

Unaudited

Table 2 reflects the changes in net assets for 2011 compared to 2010 on a cash basis.

(Table 2)
Changes in Net Assets

	Governmental Activities		Business Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Receipts:						
<i>Program Receipts</i>						
Charges for Services	\$1,108,895	\$1,105,591	\$6,992,567	\$6,868,033	\$8,101,462	\$7,973,624
Operating Grants	553,999	577,348	0	69,773	553,999	647,121
Capital Grants and Contributions	91,802	48,461	0	0	91,802	48,461
<i>Total Program Receipts</i>	<u>1,754,696</u>	<u>1,731,400</u>	<u>6,992,567</u>	<u>6,937,806</u>	<u>8,747,263</u>	<u>8,669,206</u>
<i>General Receipts:</i>						
Property Taxes	133,568	146,224	0	0	133,568	146,224
Income Taxes	766,382	686,848	0	0	766,382	686,848
Intergovernmental	228,429	230,799	0	0	228,429	230,799
Proceeds of Notes	0	0	2,745,000	2,895,000	2,745,000	2,895,000
Proceeds of OWDA Loans	0	0	0	92,085	0	92,085
Investment Earnings	112,108	168,813	0	0	112,108	168,813
Miscellaneous	693,483	757,849	102,274	63,390	795,757	821,239
<i>Total General Receipts</i>	<u>1,933,970</u>	<u>1,990,533</u>	<u>2,847,274</u>	<u>3,050,475</u>	<u>4,781,244</u>	<u>5,041,008</u>
<i>Total Receipts</i>	<u>3,688,666</u>	<u>3,721,933</u>	<u>9,839,841</u>	<u>9,988,281</u>	<u>13,528,507</u>	<u>13,710,214</u>
Disbursements:						
General Government	1,481,969	1,638,618	0	0	1,481,969	1,638,618
Security of Persons and Property	1,228,206	1,241,690	0	0	1,228,206	1,241,690
Leisure Time Activities	87,044	83,797	0	0	87,044	83,797
Community Environment	399,928	64,925	0	0	399,928	64,925
Transportation	472,206	580,450	0	0	472,206	580,450
Capital Outlay	142,362	262,869	0	0	142,362	262,869
Principal Retirement	83,249	78,307	0	0	83,249	78,307
Interest and Fiscal Charges	10,154	15,096	0	0	10,154	15,096
Water	0	0	1,402,594	1,410,687	1,402,594	1,410,687
Sewer	0	0	1,247,022	1,509,901	1,247,022	1,509,901
Electric	0	0	7,494,949	7,815,146	7,494,949	7,815,146
<i>Total Disbursements</i>	<u>3,905,118</u>	<u>3,965,752</u>	<u>10,144,565</u>	<u>10,735,734</u>	<u>14,049,683</u>	<u>14,701,486</u>
Change in Net Assets	(216,452)	(243,819)	(304,724)	(747,453)	(521,176)	(991,272)
<i>Net Assets, Beginning of Year</i>	<u>1,646,335</u>	<u>1,880,991</u>	<u>2,330,673</u>	<u>3,078,126</u>	<u>3,977,008</u>	<u>4,959,117</u>
<i>Net Assets, End of Year</i>	<u>\$1,429,883</u>	<u>\$1,637,172</u>	<u>\$2,025,949</u>	<u>\$2,330,673</u>	<u>\$3,455,832</u>	<u>\$3,967,845</u>

Program revenues increased in 2011, with the majority of the increase due to greater capital grant revenues received by the Village as the Village continues to seek out additional sources of revenue. General revenues decreased from 2010, from the decrease in interest income which was due to lower rates of return on the Village's investments and less cash available for investments. Property taxes and intergovernmental revenues decreased as a result of the tough economic conditions.

Village of Newton Falls, Trumbull County, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2011

Unaudited

Disbursements for general government represent the overhead costs of running the Village and the support services provided for the other Village activities. These include the costs of council, the village manager, the finance office, law department, and the municipal court.

Security of persons and property are the costs of police 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.

The Village made an effort to lower disbursements to help ensure positive cash balances.

Governmental and Business-Type Activities

If you look at the Statement of Activities on pages 14 and 15, you will see that the first column lists the major services provided by the Village. 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 Village that must be used to provide a specific service. The net Receipt (Disbursement) columns compare the program receipts for governmental and business-type activities to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local taxpayers. A comparison between the total cost of services and the net cost for governmental and business-type activities is presented in Table 3.

(Table 3)

	Governmental Activities		Business-Type Activities	
	Total Cost Of Services	Net Cost of Services	Total Cost Of Services	Net Cost of Services
	2011	2011	2011	2011
General Government	\$1,481,969	\$1,023,427	\$0	\$0
Security of Persons and Property	1,228,206	779,798	0	0
Leisure Time Activities	87,044	72,923	0	0
Community Environment	399,928	230,050	0	0
Transportation	472,206	79,685	0	0
Capital Outlay	142,362	(128,864)	0	0
Principal Retirement	83,249	83,249	0	0
Interest and Fiscal Charges	10,154	10,154	0	0
Water	0	0	1,402,594	(200,888)
Sewer	0	0	1,247,022	19,890
Electric	0	0	7,494,949	3,332,996
<i>Total Expenses</i>	<u>\$3,905,118</u>	<u>\$2,150,422</u>	<u>\$10,144,565</u>	<u>\$3,151,998</u>

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

Village of Newton Falls, Trumbull County, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2011

Unaudited

The Village of Newton Falls Funds

Total governmental funds had receipts of \$3,688,666 and disbursements of \$3,803,967. The greatest change within governmental funds occurred within the general fund as the result of increased revenue from income taxes and charges for services from the Village making a greater effort in collections to increase revenues.

General fund disbursements were greater than receipts indicating that the general fund is in a deficit 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 Village'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 Village's final budgeted receipts were more than actual receipts. The negative difference was due to lower than expected collections of general fund revenues, mainly due to over estimating the amount of fines, licenses and permits 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 Village does not currently keep track of its capital assets and infrastructure.

Debt

At December 31, 2011, the Village's outstanding debt included:

Table 4
Outstanding Long-Term Obligations at Year End

	<u>2011</u>	<u>2010</u>
<i>Governmental -Type Debt:</i>		
Municipal Court Promissory Notes	\$57,665	\$111,118
Capital Lease	31,317	60,737
Police and Fire Pension Liability	15,343	15,719
Total	<u>\$104,325</u>	<u>\$187,574</u>
<i>Business-Type Debt:</i>		
Mortgage Revenue Bonds	\$6,948,900	\$7,024,000
OWDA Loans	2,024,609	2,174,375
OPWC Loans	315,125	339,282
Bond Anticipation Note	2,745,000	0
Line of Credit	0	2,895,000
Capital Lease	58,590	85,817
Total	<u>\$12,092,224</u>	<u>\$12,518,474</u>

Village of Newton Falls, Trumbull County, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2011

Unaudited

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 2008, the Village 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.

During 2009, the Village 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 2011, the Village of Newton Falls issued a bond anticipation note for \$2,745,000 payable at a rate of 1.75 percent, for various improvements to the Broad Street Lighting, festival power, South Circuit voltavare conversion and upgrade, Warren Road substation addition, Church Street substation addition, and Peak Shaving Generator back-up. This issuance matures on June 30, 2012.

A line of credit has been established with the Ohio Water Development Authority in the amount of \$92,085 for the Warren Avenue Combined Sewer Separation; however, since this loan is not finalized, the repayment schedule is not included in the schedule of debt service payments.

Mortgage Revenue bonds of the Village of Newton Falls are obligations of the Village 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.

As of December 31, 2011 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, 2011, restricted the Village's Sewer fund assets in the amount of \$143,549 for operation and maintenance.

The Village's overall legal debt margin was \$6,274,363 with an unvoted debt margin of \$3,286,571 at December 31, 2011.

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

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 Village continues to seek out alternative funding in the way of grants to help our financial baseline. The Village 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.

Village of Newton Falls, Trumbull County, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2011

Unaudited

Contacting the Village's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Village's finances and to reflect the Village'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, Village of Newton Falls, 419 North Center Street, Newton Falls, Ohio, 44444.

Basic Financial Statements

Village of Newton Falls, Ohio
Statement of Net Assets - Cash Basis
December 31, 2011

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$1,527,377	\$1,784,906	\$3,312,283
Restricted Equity in Pooled Cash and Cash Equivalents	0	143,549	143,549
Internal Balances	(97,494)	97,494	0
<i>Total Assets</i>	<u>\$1,429,883</u>	<u>\$2,025,949</u>	<u>\$3,455,832</u>
Net Assets			
Restricted for:			
Capital Projects	\$211,331	\$0	\$211,331
Other Purposes	795,239	0	795,239
Debt Service	0	143,549	143,549
Unrestricted	423,313	1,882,400	2,305,713
<i>Total Net Assets</i>	<u>\$1,429,883</u>	<u>\$2,025,949</u>	<u>\$3,455,832</u>

See accompanying notes to the basic financial statements

Village of Newton Falls, Ohio
Statement of Activities - Cash Basis
For the Year Ended December 31, 2011

	Program Cash Receipts			
	Cash Disbursements	Charges for Services	Operating Grants	Capital Grants and Contributions
Governmental Activities				
General Government	\$1,481,969	\$458,542	\$0	\$0
Security of Persons and Property	1,228,206	439,215	9,193	0
Leisure Time Activities	87,044	13,621	500	0
Community Environment	399,928	11,878	158,000	0
Transportation	472,206	6,215	386,306	0
Capital Outlay	142,362	179,424	0	91,802
Principal Retirement	83,249	0	0	0
Interest and Fiscal Charges	10,154	0	0	0
<i>Total Governmental Activities</i>	<u>3,905,118</u>	<u>1,108,895</u>	<u>553,999</u>	<u>91,802</u>
Business-Type Activities				
Water	1,402,594	1,603,482	0	0
Sewer	1,247,022	1,227,132	0	0
Electric	7,494,949	4,161,953	0	0
<i>Total Business-Type Activities</i>	<u>10,144,565</u>	<u>6,992,567</u>	<u>0</u>	<u>0</u>
<i>Total</i>	<u>\$14,049,683</u>	<u>\$8,101,462</u>	<u>\$553,999</u>	<u>\$91,802</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 - Restated

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
(\$1,023,427)	\$0	(\$1,023,427)
(779,798)	0	(779,798)
(72,923)	0	(72,923)
(230,050)	0	(230,050)
(79,685)	0	(79,685)
128,864	0	128,864
(83,249)	0	(83,249)
(10,154)	0	(10,154)
<u>(2,150,422)</u>	<u>0</u>	<u>(2,150,422)</u>
0	200,888	200,888
0	(19,890)	(19,890)
0	(3,332,996)	(3,332,996)
<u>0</u>	<u>(3,151,998)</u>	<u>(3,151,998)</u>
<u>(2,150,422)</u>	<u>(3,151,998)</u>	<u>(5,302,420)</u>
117,978	0	117,978
15,590	0	15,590
551,783	0	551,783
61,314	0	61,314
61,314	0	61,314
91,971	0	91,971
228,429	0	228,429
0	2,745,000	2,745,000
112,108	0	112,108
693,483	102,274	795,757
<u>1,933,970</u>	<u>2,847,274</u>	<u>4,781,244</u>
(216,452)	(304,724)	(521,176)
<u>1,646,335</u>	<u>2,330,673</u>	<u>3,977,008</u>
<u>\$1,429,883</u>	<u>\$2,025,949</u>	<u>\$3,455,832</u>

Village of Newton Falls, Ohio
Statement of Cash Basis Assets and Fund Balances
 Governmental Funds
 December 31, 2011

	General	Permissive Auto	Court Computerization	Capital Improvement	Other Governmental Funds	Total Governmental Funds
Assets						
Equity in Pooled Cash and Cash Equivalents	\$243,932	\$177,610	\$220,077	\$179,606	\$419,854	\$1,241,079
Restricted Assets:						
Equity in Pooled Cash and Cash Equivalents	9,168	0	0	0	0	9,168
<i>Total Assets</i>	<u>253,100</u>	<u>177,610</u>	<u>220,077</u>	<u>179,606</u>	<u>419,854</u>	<u>1,250,247</u>
Fund Balances						
Nonspendable	\$9,168	\$0	\$0	\$0	\$0	\$9,168
Restricted	255	177,610	220,077	179,606	419,854	997,402
Assigned	47,294	0	0	0	0	47,294
Unassigned	196,383	0	0	0	0	196,383
<i>Total Fund Balances</i>	<u>\$253,100</u>	<u>\$177,610</u>	<u>\$220,077</u>	<u>\$179,606</u>	<u>\$419,854</u>	<u>\$1,250,247</u>

See accompanying notes to the basic financial statements

Village of Newton Falls, Ohio
*Reconciliation of Cash Basis Assets and Fund Balances to
 Net Assets of Governmental Activities
 December 31, 2011*

Total Governmental Funds Balances	\$1,250,247
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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	277,130	
Internal Balances	(97,494)	
 Total		179,636

<i>Net Assets of Governmental Activities</i>	<u><u>\$1,429,883</u></u>
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See accompanying notes to the basic financial statements

Village of Newton Falls, Ohio
Statement of Cash Receipts, Disbursements and Changes in Cash Basis Fund Balances
Governmental Funds
For the Year Ended December 31, 2011

	General	Permissive Auto	Court Computerization	Capital Improvement	Other Governmental Funds	Total Governmental Funds
Receipts						
Property Taxes	\$117,978	\$0	\$0	\$0	\$15,590	\$133,568
Municipal Income Taxes	551,783	0	0	91,971	122,628	766,382
Intergovernmental	228,429	172,678	0	91,802	381,321	874,230
Charges for Services	37,979	0	0	0	19,836	57,815
Fines, Licenses and Permits	835,408	0	73,672	0	142,000	1,051,080
Investment Earnings	111,581	0	0	0	527	112,108
Miscellaneous	640,178	0	0	3,800	49,505	693,483
<i>Total Receipts</i>	<u>2,523,336</u>	<u>172,678</u>	<u>73,672</u>	<u>187,573</u>	<u>731,407</u>	<u>3,688,666</u>
Disbursements						
Current:						
General Government	1,419,887	0	0	0	10,195	1,430,082
Security of Persons and Property	1,162,238	0	0	0	31,185	1,193,423
Leisure Time Activities	0	0	0	0	87,044	87,044
Community Environment	33,443	0	0	0	366,485	399,928
Transportation	0	37,525	0	0	420,200	457,725
Capital Outlay	0	0	33,179	83,656	25,527	142,362
Debt Service:						
Principal Retirement	0	0	0	29,420	53,829	83,249
Interest and Fiscal Charges	0	0	0	3,917	6,237	10,154
<i>Total Disbursements</i>	<u>2,615,568</u>	<u>37,525</u>	<u>33,179</u>	<u>116,993</u>	<u>1,000,702</u>	<u>3,803,967</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(92,232)</u>	<u>135,153</u>	<u>40,493</u>	<u>70,580</u>	<u>(269,295)</u>	<u>(115,301)</u>
Other Financing Sources (Uses)						
Transfers In	0	0	0	0	136,021	136,021
Transfers Out	(136,021)	0	0	0	0	(136,021)
<i>Total Other Financing Sources (Uses)</i>	<u>(136,021)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>136,021</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	<u>(228,253)</u>	<u>135,153</u>	<u>40,493</u>	<u>70,580</u>	<u>(133,274)</u>	<u>(115,301)</u>
Fund Balances						
<i>Beginning of Year -Restated</i>	<u>481,353</u>	<u>42,457</u>	<u>179,584</u>	<u>109,026</u>	<u>553,128</u>	<u>1,365,548</u>
<i>Fund Balances End of Year</i>	<u>\$253,100</u>	<u>\$177,610</u>	<u>\$220,077</u>	<u>\$179,606</u>	<u>\$419,854</u>	<u>\$1,250,247</u>

See accompanying notes to the financial statements

Village 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, 2011*

Net Change in Fund Balance - Total Governmental Funds (115,301)

*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	(156,050)
Internal Balances	<u>54,899</u>

Total	<u>(101,151)</u>
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Change in Net Assets of Governmental Activities (\$216,452)

See accompanying notes to the basic financial statements

Village 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, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts				
Property Taxes	\$136,477	\$146,649	\$117,978	(\$28,671)
Municipal Income Taxes	638,302	685,877	551,783	(134,094)
Intergovernmental	264,247	283,942	228,429	(55,513)
Charges for Services	43,934	47,209	37,979	(9,230)
Fines, Licenses and Permits	966,400	1,038,429	835,408	(203,021)
Investment Earnings	129,077	138,697	111,581	(27,116)
Miscellaneous	740,556	795,753	640,178	(155,575)
<i>Total Receipts</i>	2,918,993	3,136,556	2,523,336	(613,220)
Disbursements				
Current:				
General Government	1,697,408	1,742,003	1,441,041	300,962
Security of Persons and Property	1,387,438	1,423,889	1,177,887	246,002
Community Environment	39,871	40,918	33,849	7,069
<i>Total Disbursements</i>	3,124,717	3,206,810	2,652,777	554,033
<i>Excess of Receipts Under Disbursements</i>	(205,724)	(70,254)	(129,441)	(59,187)
Other Financing Uses				
Transfers Out	(160,220)	(164,429)	(136,021)	28,408
<i>Net Change in Fund Balance</i>	(365,944)	(234,683)	(265,462)	(30,779)
<i>Fund Balance Beginning of Year</i>	425,730	425,730	425,730	0
Prior Year Encumbrances Appropriated	55,368	55,368	55,368	0
<i>Fund Balance End of Year</i>	\$115,154	\$246,415	\$215,636	(\$30,779)

See accompanying notes to the basic financial statements

Village of Newton Falls, Ohio
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual (Budget Basis)
Permissive Auto Fund
For the Year Ended December 31, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts				
Intergovernmental	\$212,577	\$172,678	\$172,678	\$0
Disbursements				
Current:				
Transportation	232,215	203,705	206,695	(2,990)
<i>Net Change in Fund Balance</i>	(19,638)	(31,027)	(34,017)	(2,990)
<i>Fund Balance Beginning of Year</i>	36,189	36,189	36,189	0
Prior Year Encumbrances Appropriated	6,268	6,268	6,268	0
<i>Fund Balance End of Year</i>	<u>\$22,819</u>	<u>\$11,430</u>	<u>\$8,440</u>	<u>(\$2,990)</u>

See accompanying notes to the basic financial statements

Village of Newton Falls, Ohio
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual (Budget Basis)
Court Computerization Fund
For the Year Ended December 31, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts				
Fines, Licenses and Permits	\$50,000	\$73,672	\$73,672	\$0
Disbursements				
Capital Outlay	50,000	29,000	35,814	(6,814)
<i>Net Change in Fund Balance</i>	0	44,672	37,858	(6,814)
<i>Fund Balance Beginning of Year</i>	168,354	168,354	168,354	0
Prior Year Encumbrances Appropriated	11,230	11,230	11,230	0
<i>Fund Balance End of Year</i>	<u>\$179,584</u>	<u>\$224,256</u>	<u>\$217,442</u>	<u>(\$6,814)</u>

See accompanying notes to the basic financial statements

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Village of Newton Falls, Ohio
Statement of Fund Net Assets - Cash Basis
Proprietary Funds
December 31, 2011

	Enterprise		
	Water	Sewer	Electric
Assets			
Equity in Pooled Cash and Cash Equivalents	\$539,845	\$536,877	\$708,184
Restricted Equity in Pooled Cash and Cash Equivalents	0	143,549	0
Total Assets	<u>\$539,845</u>	<u>\$680,426</u>	<u>\$708,184</u>
Net Assets			
Restricted for:			
Debt Service	\$0	\$143,549	\$0
Unrestricted	539,845	536,877	708,184
Total Net Assets	<u>\$539,845</u>	<u>\$680,426</u>	<u>\$708,184</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>
\$1,784,906	\$277,130
143,549	0
<u>\$1,928,455</u>	<u>\$277,130</u>
\$143,549	\$0
1,784,906	277,130
	<u>\$277,130</u>
<u>97,494</u>	
<u>\$2,025,949</u>	

Village 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, 2011*

	Enterprise		
	Water	Sewer	Electric
Operating Receipts			
Charges for Services	\$1,603,482	\$1,227,132	\$4,161,953
Miscellaneous	13,857	299	88,118
<i>Total Operating Receipts</i>	<u>1,617,339</u>	<u>1,227,431</u>	<u>4,250,071</u>
Operating Disbursements			
Personal Services	622,812	403,793	280,908
Travel and Transportation	542	22	4,923
Contractual Services	165,903	192,422	3,446,978
Materials and Supplies	117,754	35,252	41,794
Claims	0	0	0
Capital Outlay	67,219	1,963	374,159
Miscellaneous	201,638	201,638	329,997
<i>Total Operating Disbursements</i>	<u>1,175,868</u>	<u>835,090</u>	<u>4,478,759</u>
<i>Operating Income (Loss)</i>	<u>441,471</u>	<u>392,341</u>	<u>(228,688)</u>
Non-Operating Receipts (Disbursements)			
Redemption of Principal	(161,444)	(87,579)	(2,922,227)
Interest and Fiscal Charges	(42,343)	(307,968)	(78,388)
Proceeds of Notes	0	0	2,745,000
<i>Total Non-Operating Receipts (Disbursements)</i>	<u>(203,787)</u>	<u>(395,547)</u>	<u>(255,615)</u>
<i>Change in Net Assets</i>	237,684	(3,206)	(484,303)
<i>Net Assets Beginning of Year</i>	<u>302,161</u>	<u>683,632</u>	<u>1,192,487</u>
<i>Net Assets End of Year</i>	<u>\$539,845</u>	<u>\$680,426</u>	<u>\$708,184</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>
\$6,992,567	\$535,909
<u>102,274</u>	<u>0</u>
7,094,841	535,909
<u>1,307,513</u>	<u>0</u>
5,487	0
3,805,303	0
194,800	0
0	691,959
443,341	0
<u>733,273</u>	<u>0</u>
<u>6,489,717</u>	<u>691,959</u>
<u>605,124</u>	<u>(156,050)</u>
(3,171,250)	0
(428,699)	0
<u>2,745,000</u>	<u>0</u>
<u>(854,949)</u>	<u>0</u>
(249,825)	(156,050)
	<u>433,180</u>
	<u>\$277,130</u>
<u>(54,899)</u>	
<u><u>(\$304,724)</u></u>	

Village of Newton Falls, Ohio
Statement of Fiduciary Assets and Liabilities - Cash Basis
Fiduciary Fund
December 31, 2011

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$187,881
Cash and Cash Equivalents:	
In Segregated Accounts	<u>15,157</u>
<i>Total Assets</i>	<u><u>\$203,038</u></u>
Liabilities	
Deposits Held and Due to Others	<u><u>\$203,038</u></u>

See accompanying notes to the basic financial statements

Village of Newton Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

Note 1 - Reporting Entity

The Village of Newton Falls, Trumbull County, (the Village) is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a five-member council elected at large for four year terms. The Mayor is elected to a four-year term, serves as the President of Council and votes only to break a tie.

The reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements of the Village are not misleading.

Primary Government

The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the Village. The primary government of the Village of Newton Falls provides the following services to its citizens: general government services, street maintenance services, park and recreation services, water, sewer and electric utilities and police protection. The Village contracts with the Newton Falls Joint Fire District to provide fire protection services. Council has direct responsibility for these services.

Joint Ventures

A joint venture is a legal entity or other organization that results from a contractual arrangement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility. Under the cash basis of accounting, the Village does not report assets for equity interests in joint ventures.

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

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

Note 2 - Summary of Significant Accounting Policies

As discussed further in the "Basis of Accounting" section of this note, 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 Village 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 Village's accounting policies.

Village of Newton Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

Basis of Presentation

The Village's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide 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 Village as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" receipts and disbursements. The statements distinguish between those activities of the Village that are governmental in nature and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental receipts or other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The statement of net assets presents the cash balance and internal balances of the governmental and business-type activities of the Village at year end. The statement of activities compares disbursements with program receipts for each program or function of the Village's governmental activities and business-type activities. 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 Village is responsible. Program receipts include charges paid by the recipient of the program's goods or services, grants and contributions restricted to meeting the operational or capital requirements of a particular program, and receipts of interest earned on grants required to be used to support 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 governmental program or business activity is self-financing on a cash basis or draws from the general receipts of the Village.

Fund Financial Statements During the year, the Village segregates transactions related to certain Village 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 Village 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. The internal service fund is presented in a single column on the face of the proprietary fund financial statements. 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 Village 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. The funds of the Village are presented in three categories: governmental, proprietary and fiduciary.

Governmental Funds Governmental funds are those through which most governmental functions of the Village are financed. The following are the Village's major governmental funds:

General Fund The general fund accounts for and reports all financial resources except those required to be accounted for and reported in another fund. The general fund balance is available to

Village of Newton Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

the Village for any purpose provided it is expended or transferred according to the general laws of Ohio.

Permissive Auto Fund The special revenue fund accounts for and reports additional motor vehicle registration fees restricted for maintenance and repair of streets within the Village.

Court Computerization Fund The special revenue fund accounts for and reports the portion of restricted court costs received by the Village restricted for the computerization and use of Computerized Legal Research for the operations of the Newton Falls Municipal Court.

Capital Improvement Fund The capital improvements fund accounts for and reports that portion of municipal income tax restricted for the purpose of improving, constructing, and purchasing those items necessary to enhance the operation of the Village.

The other governmental funds of the Village account for grants and other resources whose use is restricted, committed or assigned to a particular purpose.

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

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

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

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

Electric Fund The electric fund accounts for electric services to the residential and commercial users located within the Village and also customers located outside Village 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 Village on a cost-reimbursement basis. The Village’s internal service funds report on Village departments’ self insurance programs for employee medical benefits and utilities.

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 Village under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Village’s own programs. 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.

Village of Newton Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

Basis of Accounting

The Village's financial statements are prepared using the cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the Village'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 Village 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 Village is pooled and invested. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through Village records. Interest in the pool is presented as "equity in pooled cash and cash equivalents".

During 2011, investments were limited to mutual funds, taxable bonds and STAR Ohio, 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.

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio 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 STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 2011.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2011 amounted to \$111,581, which includes \$104,088 assigned from other Village funds.

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

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

Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation. Unclaimed monies that are required to be held for five years before they may be utilized by the Village are reported as restricted. Pursuant to a bond indenture for the sewer fund, restricted assets include

Village of Newton Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

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 Village's cash basis of accounting.

Employer Contributions to Cost-Sharing Pension Plans

The Village recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 10 and 11, the employer contributions include portions for pension benefits and for postretirement health care benefits.

Long-term Obligations

The Village's cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither an other financing source nor a capital outlay expenditure is reported at inception. Lease payments are reported when paid.

Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the Village is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash.

Restricted Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation (Village ordinances).

Enabling legislation authorizes the Village to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those

Village of Newton Falls, Ohio
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For the Year Ended December 31, 2011

resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the Village can be compelled by an external party—such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

Committed The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (ordinance or resolution) of Village Council. Those committed amounts cannot be used for any other purpose unless the Village Council removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by Village Council, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints are not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned Amounts in the assigned fund balance classification are intended to be used by the Village for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by Village Council or a Village official delegated that authority by Village ordinance, or by State Statute.

Unassigned Unassigned fund balance is the residual classification for the general fund and includes amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Village applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

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 Village) or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes include parks and recreation, law library and court computerization.

The Village's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted resources are available.

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.

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies from one fund to another without a requirement for repayment are reported as

Village of Newton Falls, Ohio
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For the Year Ended December 31, 2011

interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating receipts/disbursements in proprietary funds. Repayments from funds responsible for particular disbursements to the funds that initially paid for them are not presented in the financial statements.

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 Village Council may appropriate. The appropriations ordinance is the Village Council’s authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Village Council. The legal level of control has been established by the Village Council at the object level for all funds. Any budgetary modifications at this level may only be made by ordinance of the Village Council.

The certificate of estimated resources may be amended during the year if the Village 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 Village Council.

The Village 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 Village Council passed during the year.

Note 3 – Change in Accounting Principles and Restatement of Prior Year Balances

For fiscal year 2011, the Village has implemented Governmental Accounting Standard Board (GASB) Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions”. GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of GASB Statement No. 54 had the following effect on fund balances of the major funds and all other governmental funds as previously reported.

	General	Permissive Auto	Court Computerization	Capital Improvement
Fund Balance at December 31, 2010	\$471,935	\$42,457	\$179,584	\$109,026
GASB 54 Change in Fund Structure	9,418	0	0	0
Adjusted Fund Balance at December 31, 2010	\$481,353	\$42,457	\$179,584	\$109,026

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	Nonmajor Governmental Funds	Total Governmental Funds
Fund Balance at		
December 31, 2010	\$553,383	\$1,356,385
GASB 54 Change in Fund Structure	(255)	9,163
Adjusted Fund Balance at		
December 31, 2010	\$553,128	\$1,365,548

The private purpose trust fund had a fund balance of \$9,163. It was determined that this fund should have been combined with the general fund for proper reporting purposes.

Note 4 - Fund Balances

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the Village is bound to observe constraints imposed upon the use of the resources in the governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balances	General	Permissive Auto	Court Computerization	Capital Improvement	Nonmajor Governmental Funds	Total
<i>Nonspendable</i>						
Unclaimed Monies	\$9,168	\$0	\$0	\$0	\$0	\$9,168
<i>Restricted for</i>						
Recreation	0	0	0	0	68,796	68,796
Public Safety	0	0	0	0	272,245	272,245
Street Maintenance	0	177,610	0	0	24,987	202,597
Enforcement and Education	0	0	220,077	0	13,526	233,603
Community Development	255	0	0	0	8,575	8,830
Capital Improvements	0	0	0	179,606	31,725	211,331
<i>Total Restricted</i>	255	177,610	220,077	179,606	419,854	997,402
<i>Assigned to</i>						
Other Purposes	47,294	0	0	0	0	47,294
<i>Unassigned</i>	196,383	0	0	0	0	196,383
<i>Total Fund Balances</i>	\$253,100	\$177,610	\$220,077	\$179,606	\$419,854	\$1,250,247

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 restriction of fund balance (cash basis). The general fund encumbrances outstanding

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at year end (budgetary basis) amounted to \$37,209. The permissive auto special revenue fund encumbrances outstanding at year end (budgetary basis) amounted to \$169,170 and the court computerization special revenue fund encumbrances outstanding at year end (budgetary basis) amounted to \$2,635.

Note 6 – Deposits and Investments

The Village has elected to follow the provisions of State statute. State statutes classify monies held by the Village into three categories.

Active monies are public monies determined to be necessary to meet current demands upon the Village treasury. Active monies must be maintained either as cash in the Village 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 Village 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 (STAR Ohio).

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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.

Protection of the Village's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by collateral pledged to the Village 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 Village, 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 Village 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".

Investments

Investments are reported at fair value. As of December 31, 2011, the Village had the following investments:

	Fair Value	Maturity	Standard & Poor's	Percent of Total Investments
Mutual Funds	\$1,432,023	Daily	AA+	61.72%
Taxable Bonds	883,835	Greater than five years	AA+	38.09%
STAR Ohio	4,405	Average 57 Days	AAAm	N/A
<i>Totals</i>	<u>\$2,320,263</u>			

Interest Rate Risk As a means of limiting its exposure to fair value losses caused by rising interest rates, the Village'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 Village, and that the Village'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 AA+ by Standard & Poor's and STAR Ohio carries a rating of AAm by Standard & Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The Village has no investment policy that addresses credit risk.

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Custodial Credit Risk For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Village 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 Village 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 Village places no limit on the amount it may invest in any one issuer.

Note 7 – Receivables

Property Taxes

Property taxes include amounts levied against all real and public utility property located in the Village. Property tax revenue received during 2011 for real and public utility property taxes represents collections of 2010 taxes

2011 real property taxes are levied after October 1, 2011, on the assessed value as of January 1, 2011, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2011 real property taxes are collected in and intended to finance 2012.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2011 public utility property taxes which became a lien December 31, 2010, are levied after October 1, 2011, and are collected in 2011 with real property taxes.

The full tax rate for all Village operations for the year ended December 31, 2011 was \$2.50 per \$1,000 of assessed value. The assessed values of real property and public utility tangible property upon which 2011 property tax receipts were based are as follows:

Real Property	
Residential/Agricultural	\$44,815,670
Other Real Estate	14,516,930
Public Utility Personal Property	423,240
Total	<u><u>\$59,755,840</u></u>

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

Income Tax

The Village levies and collects an income tax of 1.0 percent on all income earned within the Village as well as on income of residents earned outside the Village. In the latter case, the Village allows a credit of 100

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percent of the tax paid to another municipality, not to exceed the amount owed. Employers within the Village are required to withhold income tax on employee earnings and remit the tax to the Village 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 2011, the proceeds were allocated 65 percent to the general fund, 10 percent to the street, construction, repair and maintenance and 10 percent to the park and recreation special revenue funds and 15 percent to the capital improvement capital projects fund.

Note 8 - Contingencies

Grants

The Village 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 Village at December 31, 2011.

Litigation

The Village of Newton Falls is a party to legal proceedings. The Village 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 Village.

Note 9 - Risk Management

The Village 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 2011, the Village contracted with Ohio Plan Insurance for various types of insurance coverage as follows:

<u>Type</u>	<u>Coverage</u>	<u>Deductible</u>
Inland Marine	\$958,509	\$1,000
Property	34,507,965	2,500
Electronic Data Processing	101,500	500
Fleet Vehicle		
Physical Damage	50,000	0
Liability	5,000,000	500

The Village manages employee health benefits on a self-insured basis. The employee health benefit plan provides basic health and dental coverage through MCA Administrators, Inc., the third party administrator (TPA) of the program, which reviews and pays the claims. A specific excess loss coverage (stop-loss) insurance policy covers claims in excess of \$45,000 per employee per year.

Workers' compensation is provided by the State. The Village 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.

Village of Newton Falls, Ohio
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For the Year Ended December 31, 2011

Note 10 - Defined Benefit Pension Plans

Ohio Public Employees Retirement System

Plan Description – The Village participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed Plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost-of-living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions and currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units and 18.1 percent of covered payroll for law and public safety employer units. Member contribution rates, as set in the Ohio Revised Code, are not to exceed 10 percent. For the year ended December 31, 2011, members in state and local classifications contributed 10 percent of covered payroll while public safety and law enforcement members contributed 10.5 percent and 11.1 percent, respectively. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Pension Plan. For 2011, member and employer contribution rates were consistent across all three plans.

The Village's 2011 contribution rate was 14.0 percent, except for those plan members in law enforcement or public safety, for whom the Village's contribution was 18.1 percent of covered payroll. The portion of employer contributions used to fund pension benefits is net of post-employment health care benefits. The portion of employer contribution allocated to health care for members in the Traditional and Combined Plans was 4 percent. Employer contribution rates are actuarially determined.

The Village's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2011, 2010 and 2009 were \$229,991, \$203,851 and \$185,025, respectively; 92.25 percent has been contributed for 2011 and 100 percent for 2010 and 2009. There were no contributions to the Member-Directed Plan for 2011.

Ohio Police Pension Fund

Plan Description – The Village 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

Village of Newton Falls, Ohio
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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 requires plan members to contribute 10.0 percent of their annual covered salary, while employers are required to contribute 19.5 percent for police officers.

The OP&F Pension Fund is authorized by the Ohio Revised Code to allocate a portion of the employer contributions to retiree health care benefits. The portion of employer contributions used to fund pension benefits was 12.75 percent of covered payroll for police officers. The Village's contributions to OP&F for police was \$45,987 for the year ended December 31, 2011, \$48,178 for the year ended December 31, 2010, and \$41,831 for the year ended December 31, 2009. 75.72 percent for police has been contributed for 2011. The full amount has been contributed for 2010 and 2009.

In addition to current contributions, the Village 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, 2011, the unfunded liability of the Village was \$15,343 payable in semi-annual payments through the year 2035. This is an accounting liability of the Village which will not vary.

Note 11 – Postemployment Benefits

Ohio Public Employees Retirement System

Plan Description – Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan—a cost sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan—a defined contribution plan; and the Combined Plan—a cost sharing, multiple employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

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 mandate, 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). The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement 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.

Village of Newton Falls, Ohio
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Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2011, state and local employers contributed at a rate of 14.0 percent of covered payroll, and public safety and law enforcement employers contributed at 18.1 percent. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units and 18.1 percent of covered payroll for law and public safety employer units.

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 portion of employer contributions allocated to health care for members in the Traditional and Combined Plans was 4 percent.

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 Village's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2011, 2010 and 2009 were \$91,996, \$116,095 and \$133,827 respectively; 92.25 percent has been contributed for 2011 and 100 percent for 2010 and 2009.

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.

Ohio Police Pension Fund

Plan Description – The Village 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 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 by Ohio Revised Code 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. Active members do not make contributions to the OPEB Plan.

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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, 2011, 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 Village's contributions to OP&F which were allocated to fund post-employment health care benefits for police were \$24,346 for the year ended December 31, 2011, \$25,506 for the year ended December 31, 2010, and \$22,146 for the year ended December 31, 2009. 75.72 percent has been contributed for police for 2011. The full amount has been contributed for 2010 and 2009.

Note 12 - Long-Term Obligations

Original issue amounts and interest rates of the Village'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	2013
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>			
Warren Avenue Combined Sewer Separation	1.00	92,085	2030
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	1.75	2,745,000	2012

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

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	Balance 12/31/10	Additions	Reductions	Balance 12/31/11	Amounts Due in One Year
Governmental Activities					
<i>Promissory Note</i>					
Municipal Court Renovation	\$111,118	\$0	(\$53,453)	\$57,665	\$48,237
<i>Capital Lease</i>	60,737	0	(29,420)	31,317	31,317
<i>Other</i>					
Ohio Police Pension	15,719	0	(376)	15,343	381
<i>Total Governmental Activities</i>	<u>\$187,574</u>	<u>\$0</u>	<u>(\$83,249)</u>	<u>\$104,325</u>	<u>\$79,935</u>
	Balance 12/31/10	Additions	Reductions	Balance 12/31/11	Amounts Due in One Year
Business-Type Activities					
<i>Mortgage Revenue Bonds</i>					
Series A	\$4,862,400	\$0	(\$52,000)	\$4,810,400	\$54,300
Series B	2,161,600	0	(23,100)	2,138,500	24,100
<i>Total Mortgage Revenue Bonds</i>	<u>7,024,000</u>	<u>0</u>	<u>(75,100)</u>	<u>6,948,900</u>	<u>78,400</u>
<i>OWDA Loans</i>					
Warren Avenue Combined Sewer Separation	20,747	0	(3,155)	17,592	0
OWDA #3806	2,153,628	0	(146,611)	2,007,017	149,558
<i>Total OWDA Loans</i>	<u>2,174,375</u>	<u>0</u>	<u>(149,766)</u>	<u>2,024,609</u>	<u>149,558</u>
<i>OPWC Loans</i>					
Broad Street Water Distribution	177,425	0	(12,673)	164,752	12,674
Broad Street Storm Water	130,545	0	(9,324)	121,221	9,324
OPWC #CF28G	31,312	0	(2,160)	29,152	2,160
<i>Total OPWC Loans</i>	<u>339,282</u>	<u>0</u>	<u>(24,157)</u>	<u>315,125</u>	<u>24,158</u>
<i>Bond Anticipation Notes</i>					
Electric System	0	2,745,000	0	2,745,000	2,745,000
<i>Line of Credit</i>					
Electric System	2,895,000	0	(2,895,000)	0	0
<i>Capital Lease</i>	85,817	0	(27,227)	58,590	28,583
<i>Total Business-Type Activities</i>	<u>\$12,518,474</u>	<u>\$2,745,000</u>	<u>(\$3,171,250)</u>	<u>\$12,092,224</u>	<u>\$3,025,699</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. The Village has pledged investment securities as collateral for the promissory note.

Village of Newton Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

During 2008, the Village 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.

During 2009, the Village 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 2011, the Village of Newton Falls issued a bond anticipation note for \$2,745,000 payable at a rate of 1.75 percent, for various improvements to the Broad Street Lighting, festival power, South Circuit voltavare conversion and upgrade, Warren Road substation addition, Church Street substation addition, and Peak Shaving Generator back-up. This issuance matures on June 30, 2012.

A line of credit has been established with the Ohio Water Development Authority in the amount of \$92,085 for the Warren Avenue Combined Sewer Separation; however, since this loan is not finalized, the repayment schedule is not included in the schedule of debt service payments.

Mortgage Revenue bonds of the Village of Newton Falls are obligations of the Village 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.

As of December 31, 2011 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, 2011, restricted the Village's Sewer fund assets in the amount of \$143,549 for operation and maintenance.

The Village 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 2.38 percent of net revenues. The total principal remaining to be paid on the debt is \$121,221. Principal paid for the current year and total net revenues were \$9,324 and \$392,341 respectively.

The Village 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 3.36 percent of net revenues. The total principal remaining to be paid on the debt is \$193,904. Principal paid for the current year and total net revenues were \$14,833 and \$441,471 respectively.

The Village's overall legal debt margin was \$6,274,363 with an unvoted debt margin of \$3,286,571 at December 31, 2011. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2011 are as follows:

Village of Newton Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

Governmental-Type Activities

	Municipal Court Renovation Promissory Note		Ohio Police Pension Liability	
	Principal	Interest	Principal	Interest
	2012	\$48,237	\$10,789	\$381
2013	9,428	7,814	396	644
2014	0	0	413	627
2015	0	0	431	609
2016	0	0	450	590
2017 - 2021	0	0	2,585	2,615
2022 - 2026	0	0	3,231	1,969
2027 - 2031	0	0	3,920	1,280
2032 - 2035	0	0	3,536	590
Total	<u>\$57,665</u>	<u>\$18,603</u>	<u>\$15,343</u>	<u>\$9,583</u>

Business-Type Activities

	OWDA Loans		OPWC Loans	Mortgage Revenue Bonds	
	Principal	Interest	Principal	Principal	Interest
	2012	\$149,558	\$39,396	\$24,158	\$78,400
2013	152,565	36,391	24,156	81,900	300,584
2014	155,631	33,324	24,156	85,400	297,001
2015	158,760	30,196	24,156	89,300	293,265
2016	161,950	27,004	24,156	93,000	289,358
2017 - 2021	859,908	84,866	120,780	530,200	1,382,036
2022 - 2026	368,645	9,262	73,563	656,800	1,255,450
2027 - 2031	0	0	0	813,600	1,098,646
2032 - 2036	0	0	0	1,007,900	904,396
2037 - 2041	0	0	0	1,248,400	663,771
2042 - 2046	0	0	0	1,546,500	365,719
2047 - 2048	0	0	0	717,500	47,425
Total	<u>\$2,007,017</u>	<u>\$260,439</u>	<u>\$315,125</u>	<u>\$6,948,900</u>	<u>\$7,201,665</u>

Note 13 – Joint Ventures

Ohio Municipal Electric Generation Agency Joint Venture (JV1)

The Village'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

Village of Newton Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

participants would be billed for the respective shares of the estimated shortfall. The Village's net investment in JV1 was \$11,757 at December 31, 2011. Financial information for JV1 may be obtained from AMP, Inc., 2600 Airport Drive, Columbus, Ohio 43219.

Note 14 – Interfund Transfers

During 2011, the following transfers were made:

Transfers In	Transfers Out
	General
<i>Other Governmental Activities:</i>	
Special Revenue Fund:	
Street Construction, Maintenance and Repair	\$119,202
Senior Van	16,819
<i>Total Transfers</i>	\$136,021

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.

Note 15 – Capital Lease

The Village 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 Leases" and have been recorded on the statements. The original amounts capitalized for the capital leases and the book value as of December 31, 2011 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	24,342	36,777	61,119
Current Book Value	\$97,369	\$101,135	\$198,504

Village of Newton Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

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, 2011.

	Governmental Activities	Business-Type Activities	Total
2012	\$33,337	\$31,502	\$64,839
2013	0	31,502	31,502
Total Minimum Lease Payments	33,337	63,004	96,341
Less: Amount Representing Interest	(2,020)	(4,414)	(6,434)
Present Value of Minimum Lease Payments	\$31,317	\$58,590	\$89,907

Note 16 – American Municipal Power Generating Station Project

The Village of Newton Falls is a participant in the American Municipal Power Generating Station Project (the "AMPGS Project"). The Village executed a take-or-pay contract on November 1, 2007 in order to participate in the AMPGS Project.

History of the AMPGS Project

In November 2009, the participants of the AMP Generating Station Project (the "AMPGS Project") voted to terminate the development of the pulverized coal power plant in Meigs County, Ohio. The AMPGS Project was to be a 1,000 MW base load, clean-coal technology plant scheduled to go on-line in 2014. This pulverized coal plant was estimated to be a \$3 billion project, but the project's estimated capital costs increased by 37 percent and the engineer, procure and construct ("EPC") contractor could not guarantee that the costs would not continue to escalate. At the termination date, minimal construction had been performed on the AMPGS Project at the Meigs County site.

At the same time, the participants voted to pursue conversion of the project to a Natural Gas Combined Cycle Plant (the "NGCC Plant") to be developed under a lump-sum-turn-key fixed-price contract that would be open to interested AMP members. The NGCC Plant was planned to be developed on the Meigs County site previously planned for the AMPGS project. In February 2011, development of the NGCC Plant was suspended due to the availability of purchasing the AMP Fremont Energy Center ("AFEC") at a favorable price. AMP intends to develop this site for the construction of a generating asset; however, at December 31, 2011, the type of generating asset has not been determined.

As mentioned above, the AMPGS project participants signed "take or pay" contracts with AMP. As such, the participants of the project are obligated to pay all costs incurred for the project. To date it has not been determined what those total final costs are for the project participants.

As a result of these decisions to date, the AMPGS Project costs have been reclassified out of construction work-in-progress and into plant held for future use or regulatory assets in the combined balance sheet. AMP has reclassified \$34,881,075 of costs to plant held for future use as these costs were determined to be associated with the undeveloped Meigs County site regardless of the determination of which type of generating asset will be developed on the site. The remaining costs previously incurred were determined to be impaired but reclassified as a regulatory asset which is fully recoverable from the AMPGS Project participants as part of their unconditional obligation under the "take or pay" contract. At December 31, 2011 AMP has a regulatory asset of \$86,548,349 for the recovery of these abandoned construction costs. AMP is

Village of Newton Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

currently working with the AMPGS project participants to establish a formal plan for the recovery on a participant by participant basis.

AMP has consistently communicated with the AMPGS participants as to the risks and uncertainties with respect to the outstanding potential liability the Village has as a result of the cancellation of the AMPGS Project. Meetings with AMPGS Project participants have been held as necessary to communicate any updates to both costs being incurred and ongoing litigation. At the request of the participants, on November 18, 2011 and December 13, 2011 AMP sent memos to AMPGS participants providing the participant's information identifying their potential AMPGS stranded cost liability and providing options for payment of those stranded costs, if the participant so chose. These memos were not invoices, but provided the participants with information which they could utilize in determining if they wanted to pay down a portion or all of the identified maximum exposure. AMP is holding the AMPGS Project stranded costs on its revolving credit facility and is accruing interest in addition to legal fees being incurred in its case with the EPC contractor. AMP would hold any payments received as a deposit in order to cease interest accruals on that portion paid.

Based on an allocation to Newton Falls of 7,130 kW and the allocation methodology, both approved as the same by the AMP Board of Trustees, as of December 31, 2011 the Village of Newton Falls has a potential stranded cost obligation of \$1,166,149 for the AMPGS Project. The Village of Newton Falls does not have any payments on deposit with AMP at December 31, 2011.

AMP Fremont Energy Center (AFEC) Development Fee

The AFEC Development Fee is the amount paid by AFEC participants to the AMPGS project as a Development Fee in August, 2011. AFEC participants are a separate group of AMP members that obtained financing for engineering, consulting and other development costs for expertise obtained by AMP for Natural Gas Combined Cycle power plants. This amount is financed by AMP, Inc. and is to be collected through debt service from AFEC participants. The Development Fee paid by all AFEC Participants is credited to the potential AMPGS costs of each AFEC participant that is also an AMPGS participant in proportion to their relative percentage of AFEC (but not less than zero) as approved by the AMP Board. The Village is a participant in the AFEC project and has received a credit to reduce its share of AMPGS potential stranded costs as noted below.

Based on the allocation methodology approved by the AMP Board of Trustees as mentioned above, the Village receives a credit of \$217,768 for being a participant in both projects. This credit is proportionate to its AFEC allocation kW share of 2,080 and the total kW share of those participating in both projects. The Village has not recorded this credit in its financial statements as of December 31, 2011.

Recording of Stranded Costs

The Village has not recorded stranded costs for the AMPGS Project.

The Village of Newton Falls has not requested an invoice from AMP for the potential stranded costs identified in the memos AMP sent in November and December of 2011. The Village is not intending to request an invoice from AMP until such time as the litigation with the EPC contractor is finalized.

Had the Village chosen to expense the potential stranded costs with a lump sum payment, the Village believes it would have violated its covenant obligations for its Electric Fund.

Village of Newton Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

In making its determination as to how to proceed with the accounting treatment for the potential AMPGS Project liability, the Village has relied upon its Village Law Director, information provided by AMP and its legal counsel with respect to the data, as well as the Village's audit team and Village management.

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Dave Yost • Auditor of State

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

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

To the Village Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Newton Falls, Trumbull County, (the "Village") as of and for the year ended December 31, 2011, which collectively comprise the Village's basic financial statements and have issued our report thereon dated September 7, 2012, wherein we noted the Village has adopted Governmental Accounting Standards Board Statement No. 54. 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 Village'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 Village's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Village'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 Village'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.

Compliance and Other Matters

As part of reasonably assuring whether the Village'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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note certain matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated September 7, 2012.

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

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

Dave Yost
Auditor of State

September 7, 2012

**VILLAGE OF NEWTON FALLS
TRUMBULL COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2011**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2010-001	Failure to prepare annual financial report in accordance with generally accepted accounting principles.	Yes	Finding No Longer Valid

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Dave Yost • Auditor of State

VILLAGE OF NEWTON FALLS

TRUMBULL COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
OCTOBER 23, 2012