



Dave Yost • Auditor of State

**VILLAGE OF NEWTON FALLS
TRUMBULL COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Village Council:

Report on the Financial Statements

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, 2012, and the related notes to the financial statements, which collectively comprise the Village's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Government's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Government's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

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, 2012, and the respective changes in cash financial position and the respective budgetary comparison for the General and Court Computerization special revenue fund thereof for the year then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

We draw attention to Note 2 of the financial statements, which describes the accounting basis, which differs from generally accepted accounting principles. We did not modify our opinion regarding this matter.

Other Matters

Supplemental and Other Information

We audited to opine on the Village's financial statements that collectively comprise its basic financial statements.

Management's Discussion & Analysis includes tables of net position, changes in net position, governmental and business-type activities and long-term debt. This information provides additional analysis and is not a required part of the basic financial statements.

These tables are management's responsibility, and derive from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected these tables to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling these tables directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and in accordance with auditing standards generally accepted in the United States of America. In our opinion, these tables are 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 & Analysis, and we express no opinion or any other assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 6, 2014, 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.

That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control over financial reporting and compliance.

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
Columbus, Ohio

January 6, 2014

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Village of Newton Falls, Trumbull County, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2012

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, 2012, 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 2012 are as follows:

- Net position of governmental activities decreased as a result of expenditures exceeding revenues because of decreases in charges for services and fewer grant revenues.
- The Village's governmental receipts are primarily income taxes, intergovernmental revenues, and fines, licenses and permits.

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 position 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.

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.

Village of Newton Falls, Trumbull County, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2012

Unaudited

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 position and the statement of activities reflect how the Village did financially during 2012, within the limitations of cash basis accounting. The statement of net position 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 position 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.

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.

Village of Newton Falls, Trumbull County, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2012

Unaudited

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 court computerization special revenue fund and the capital improvement capital projects fund. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements. We describe this relationship in reconciliations presented with the governmental fund financial statements.

Proprietary Funds – When the 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, 2012
Unaudited

The Village of Newton Falls as a Whole

Table 1 provides a summary of the Village's net position for 2012 compared to 2011 on a cash basis.

(Table 1)
Net Position

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Assets						
Cash and Cash Equivalents	\$1,147,276	\$1,527,377	\$1,886,389	\$1,784,906	\$3,033,665	\$3,312,283
Restricted Cash						
and Cash Equivalents	0	0	181,849	143,549	181,849	143,549
Internal Balances	(10,406)	(97,494)	10,406	97,494	0	0
<i>Total Assets</i>	<i>\$1,136,870</i>	<i>\$1,429,883</i>	<i>\$2,078,644</i>	<i>\$2,025,949</i>	<i>\$3,215,514</i>	<i>\$3,455,832</i>
Net Position						
Restricted for:						
Capital Outlay	\$230,115	\$211,331	\$0	\$0	\$230,115	\$211,331
Other Purposes	723,091	795,239	0	0	723,091	795,239
Debt Service	0	0	181,849	143,549	181,849	143,549
Unrestricted	183,664	423,313	1,896,795	1,882,400	2,080,459	2,305,713
<i>Total Net Position</i>	<i>\$1,136,870</i>	<i>\$1,429,883</i>	<i>\$2,078,644</i>	<i>\$2,025,949</i>	<i>\$3,215,514</i>	<i>\$3,455,832</i>

- Total governmental assets decreased from 2011. The decrease in equity in pooled cash and cash equivalents is largely due to expenditures exceeding revenues as a result of fewer charges for services and fewer grant revenues.
- Net position of business-type activities increased over 2011. This increase is due to the continued pay down of outstanding debt obligations and an increase in revenue due to increases in water and sewer rates in 2012.

Village of Newton Falls, Trumbull County, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2012

Unaudited

Table 2 reflects the changes in net position for 2012 compared to 2011 on a cash basis.

(Table 2)

Changes in Net Position

	Governmental Activities		Business Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Receipts:						
<i>Program Receipts</i>						
Charges for Services	\$1,010,551	\$1,108,895	\$7,145,235	\$6,992,567	\$8,155,786	\$8,101,462
Operating Grants	427,707	553,999	0	0	427,707	553,999
Capital Grants and Contributions	149,952	91,802	206,472	0	356,424	91,802
<i>Total Program Receipts</i>	<u>1,588,210</u>	<u>1,754,696</u>	<u>7,351,707</u>	<u>6,992,567</u>	<u>8,939,917</u>	<u>8,747,263</u>
<i>General Receipts:</i>						
Property Taxes	129,318	133,568	0	0	129,318	133,568
Income Taxes	769,924	766,382	0	0	769,924	766,382
Intergovernmental	278,226	228,429	0	0	278,226	228,429
Proceeds of Notes	0	0	2,595,000	2,745,000	2,595,000	2,745,000
Investment Earnings	117,979	112,108	0	0	117,979	112,108
Miscellaneous	703,110	693,483	29,504	102,274	732,614	795,757
<i>Total General Receipts</i>	<u>1,998,557</u>	<u>1,933,970</u>	<u>2,624,504</u>	<u>2,847,274</u>	<u>4,623,061</u>	<u>4,781,244</u>
<i>Total Receipts</i>	<u>3,586,767</u>	<u>3,688,666</u>	<u>9,976,211</u>	<u>9,839,841</u>	<u>13,562,978</u>	<u>13,528,507</u>
Disbursements:						
General Government	1,548,941	1,481,969	0	0	1,548,941	1,481,969
Security of Persons and Property	1,224,902	1,228,206	0	0	1,224,902	1,228,206
Leisure Time Activities	116,978	87,044	0	0	116,978	87,044
Community Environment	17,354	399,928	0	0	17,354	399,928
Transportation	666,384	472,206	0	0	666,384	472,206
Capital Outlay	211,000	142,362	0	0	211,000	142,362
Principal Retirement	89,374	83,249	0	0	89,374	83,249
Interest and Fiscal Charges	4,847	10,154	0	0	4,847	10,154
Water	0	0	1,703,000	1,402,594	1,703,000	1,402,594
Sewer	0	0	1,286,328	1,247,022	1,286,328	1,247,022
Electric	0	0	6,934,188	7,494,949	6,934,188	7,494,949
<i>Total Disbursements</i>	<u>3,879,780</u>	<u>3,905,118</u>	<u>9,923,516</u>	<u>10,144,565</u>	<u>13,803,296</u>	<u>14,049,683</u>
Change in Net Position	(293,013)	(216,452)	52,695	(304,724)	(240,318)	(521,176)
<i>Net Position, Beginning of Year</i>	<u>1,429,883</u>	<u>1,646,335</u>	<u>2,025,949</u>	<u>2,330,673</u>	<u>3,455,832</u>	<u>3,977,008</u>
<i>Net Position, End of Year</i>	<u>\$1,136,870</u>	<u>\$1,429,883</u>	<u>\$2,078,644</u>	<u>\$2,025,949</u>	<u>\$3,215,514</u>	<u>\$3,455,832</u>

Program revenues of governmental activities decreased in 2012, with the majority of the decrease due to fewer charges for services and operating grant revenues received by the Village as the Village continues to seek out additional sources of revenue. General revenues of governmental activities increased over 2011, from the increase in intergovernmental revenues, income taxes as well as in interest income which was due to better rates of return on the Village's investments. Property taxes decreased as a result of the revaluation of assessed values decreasing.

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.

Village of Newton Falls, Trumbull County, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2012

Unaudited

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
	2012	2012	2012	2012
General Government	\$1,548,941	\$1,118,263	\$0	\$0
Security of Persons and Property	1,224,902	820,969	0	0
Leisure Time Activities	116,978	96,014	0	0
Community Environment	17,354	11,689	0	0
Transportation	666,384	245,810	0	0
Capital Outlay	211,000	(95,396)	0	0
Principal Retirement	89,374	89,374	0	0
Interest and Fiscal Charges	4,847	4,847	0	0
Water	0	0	1,703,000	(82,905)
Sewer	0	0	1,286,328	(91,117)
Electric	0	0	6,934,188	2,745,831
<i>Total Expenses</i>	<u>\$3,879,780</u>	<u>\$2,291,570</u>	<u>\$9,923,516</u>	<u>\$2,571,809</u>

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

The Village of Newton Falls Funds

Total governmental funds had receipts of \$3,586,767 and disbursements of \$3,719,317. The greatest change within governmental funds occurred within the general fund as the result of expenditures exceeding revenues due to fewer charges for services and fines, licenses and permits revenues received.

Village of Newton Falls, Trumbull County, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2012

Unaudited

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, security of persons and property and community environment.

Capital Assets and Debt Administration

Capital Assets

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

Debt

At December 31, 2012, the Village's outstanding debt included:

Table 4
Outstanding Long-Term Obligations at Year End

	2012	2011
<i>Governmental -Type Debt:</i>		
Municipal Court Promissory Notes	\$0	\$57,665
Capital Lease	0	31,317
Police and Fire Pension Liability	14,951	15,343
Total	<u>\$14,951</u>	<u>\$104,325</u>
<i>Business-Type Debt:</i>		
Mortgage Revenue Bonds	\$6,870,500	\$6,948,900
OWDA Loans	1,900,454	2,024,609
OPWC Loans	290,966	315,125
Bond Anticipation Note	2,595,000	2,745,000
Capital Lease	30,007	58,590
Total	<u>\$11,686,927</u>	<u>\$12,092,224</u>

The municipal court renovation promissory note was paid from the court special projects special revenue fund. The Ohio police pension liability will be paid from the police pension special revenue fund. The mortgage revenue bonds will be paid with user charges from the sewer enterprise fund. The OWDA and OPWC loans will be paid with user charges from the water and sewer enterprise funds.

Village of Newton Falls, Trumbull County, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2012

Unaudited

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 was paid from the capital improvements fund.

During 2012, the Village of Newton Falls issued a bond anticipation note for \$2,595,000 payable at a rate of 1.25 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 27, 2013.

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, 2012 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, 2012, restricted the Village's Sewer fund assets in the amount of \$181,849 for operation and maintenance.

The Village's overall legal debt margin was \$6,304,998 with an unvoted debt margin of \$3,302,618 at December 31, 2012.

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.

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.

Village of Newton Falls, Ohio
Statement of Net Position - Cash Basis
 December 31, 2012

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$1,147,276	\$1,886,389	\$3,033,665
Restricted Equity in Pooled Cash and Cash Equivalents	0	181,849	181,849
Internal Balances	(10,406)	10,406	0
<i>Total Assets</i>	<u>\$1,136,870</u>	<u>\$2,078,644</u>	<u>\$3,215,514</u>
Net Position			
Restricted for:			
Capital Projects	\$230,115	\$0	\$230,115
Other Purposes	723,091	0	723,091
Debt Service	0	181,849	181,849
Unrestricted	183,664	1,896,795	2,080,459
<i>Total Net Position</i>	<u>\$1,136,870</u>	<u>\$2,078,644</u>	<u>\$3,215,514</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, 2012

	Program Cash Receipts			
	Cash Disbursements	Charges for Services	Operating Grants	Capital Grants and Contributions
Governmental Activities				
General Government	\$1,548,941	\$430,678	\$0	\$0
Security of Persons and Property	1,224,902	393,295	10,638	0
Leisure Time Activities	116,978	17,780	3,184	0
Community Environment	17,354	5,665	0	0
Transportation	666,384	6,689	413,885	0
Capital Outlay	211,000	156,444	0	149,952
Principal Retirement	89,374	0	0	0
Interest and Fiscal Charges	4,847	0	0	0
<i>Total Governmental Activities</i>	<u>3,879,780</u>	<u>1,010,551</u>	<u>427,707</u>	<u>149,952</u>
Business-Type Activities				
Water	1,703,000	1,636,832	0	149,073
Sewer	1,286,328	1,320,046	0	57,399
Electric	6,934,188	4,188,357	0	0
<i>Total Business-Type Activities</i>	<u>9,923,516</u>	<u>7,145,235</u>	<u>0</u>	<u>206,472</u>
<i>Total</i>	<u>\$13,803,296</u>	<u>\$8,155,786</u>	<u>\$427,707</u>	<u>\$356,424</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

Bond Anticipation Notes Issued

Investment Earnings

Miscellaneous

Total General Receipts

Change in Net Position

Net Position Beginning of Year

Net Position End of Year

See accompanying notes to the basic financial statements

Net (Disbursements) Receipts
and Changes in Net Position

Governmental Activities	Business-Type Activities	Total
(\$1,118,263)	\$0	(\$1,118,263)
(820,969)	0	(820,969)
(96,014)	0	(96,014)
(11,689)	0	(11,689)
(245,810)	0	(245,810)
95,396	0	95,396
(89,374)	0	(89,374)
(4,847)	0	(4,847)
<u>(2,291,570)</u>	<u>0</u>	<u>(2,291,570)</u>
0	82,905	82,905
0	91,117	91,117
0	<u>(2,745,831)</u>	<u>(2,745,831)</u>
<u>0</u>	<u>(2,571,809)</u>	<u>(2,571,809)</u>
<u>(2,291,570)</u>	<u>(2,571,809)</u>	<u>(4,863,379)</u>
114,037	0	114,037
15,281	0	15,281
553,900	0	553,900
61,721	0	61,721
61,721	0	61,721
92,582	0	92,582
278,226	0	278,226
0	2,595,000	2,595,000
117,979	0	117,979
703,110	29,504	732,614
<u>1,998,557</u>	<u>2,624,504</u>	<u>4,623,061</u>
(293,013)	52,695	(240,318)
<u>1,429,883</u>	<u>2,025,949</u>	<u>3,455,832</u>
<u>\$1,136,870</u>	<u>\$2,078,644</u>	<u>\$3,215,514</u>

Village of Newton Falls, Ohio
Statement of Cash Basis Assets and Fund Balances
Governmental Funds
December 31, 2012

	<u>General</u>	<u>Court Computerization</u>	<u>Capital Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Equity in Pooled Cash and Cash Equivalents	\$164,746	\$264,063	\$229,423	\$450,167	\$1,108,399
Restricted Assets: Equity in Pooled Cash and Cash Equivalents	<u>9,298</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>9,298</u>
<i>Total Assets</i>	<u>\$174,044</u>	<u>\$264,063</u>	<u>\$229,423</u>	<u>\$450,167</u>	<u>\$1,117,697</u>
Fund Balances					
Nonspendable	\$9,298	\$0	\$0	\$0	\$9,298
Restricted	255	264,063	229,423	450,167	943,908
Assigned	56,117	0	0	0	56,117
Unassigned	<u>108,374</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>108,374</u>
<i>Total Fund Balances</i>	<u>\$174,044</u>	<u>\$264,063</u>	<u>\$229,423</u>	<u>\$450,167</u>	<u>\$1,117,697</u>

See accompanying notes to the basic financial statements

Village of Newton Falls, Ohio
*Reconciliation of Cash Basis Assets and Fund Balances to
Net Position of Governmental Activities
December 31, 2012*

Total Governmental Funds Balances	\$1,117,697
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*Amounts reported for governmental activities in the
statement of net position 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 position:

Net Position	29,579
Internal Balances	<u>(10,406)</u>

Total	<u>19,173</u>
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<i>Net Position of Governmental Activities</i>	<u><u>\$1,136,870</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, 2012

	General	Court Computerization	Capital Improvement	Other Governmental Funds	Total Governmental Funds
Receipts					
Property Taxes	\$114,037	\$0	\$0	\$15,281	\$129,318
Municipal Income Taxes	553,900	0	92,582	123,442	769,924
Intergovernmental	278,226	0	149,952	427,707	855,885
Charges for Services	6,779	0	0	24,469	31,248
Fines, Licenses and Permits	789,907	62,715	0	126,681	979,303
Investment Earnings	116,825	0	0	1,154	117,979
Miscellaneous	695,341	0	1,858	5,911	703,110
<i>Total Receipts</i>	<u>2,555,015</u>	<u>62,715</u>	<u>244,392</u>	<u>724,645</u>	<u>3,586,767</u>
Disbursements					
Current:					
General Government	1,424,561	0	0	42,069	1,466,630
Security of Persons and Property	1,148,647	0	0	21,076	1,169,723
Leisure Time Activities	0	0	0	116,978	116,978
Community Environment	17,354	0	0	0	17,354
Transportation	0	0	0	643,411	643,411
Capital Outlay	0	18,729	161,238	31,033	211,000
Debt Service:					
Principal Retirement	0	0	31,317	58,057	89,374
Interest and Fiscal Charges	0	0	2,020	2,827	4,847
<i>Total Disbursements</i>	<u>2,590,562</u>	<u>18,729</u>	<u>194,575</u>	<u>915,451</u>	<u>3,719,317</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(35,547)</u>	<u>43,986</u>	<u>49,817</u>	<u>(190,806)</u>	<u>(132,550)</u>
Other Financing Sources (Uses)					
Transfers In	39,242	0	0	82,751	121,993
Transfers Out	(82,751)	0	0	(39,242)	(121,993)
<i>Total Other Financing Sources (Uses)</i>	<u>(43,509)</u>	<u>0</u>	<u>0</u>	<u>43,509</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	<u>(79,056)</u>	<u>43,986</u>	<u>49,817</u>	<u>(147,297)</u>	<u>(132,550)</u>
Fund Balances					
<i>Beginning of Year</i>	<u>253,100</u>	<u>220,077</u>	<u>179,606</u>	<u>597,464</u>	<u>1,250,247</u>
<i>Fund Balances End of Year</i>	<u>\$174,044</u>	<u>\$264,063</u>	<u>\$229,423</u>	<u>\$450,167</u>	<u>\$1,117,697</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, 2012*

Net Change in Fund Balance - Total Governmental Funds (132,550)

*Amounts reported for governmental activities in the
statement of net position are different because*

The internal service fund used by management is not reported in the Village-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 Position	(247,551)
Internal Balances	<u>87,088</u>

Total (160,463)

Change in Net Position of Governmental Activities (\$293,013)

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, 2012*

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Receipts				
Property Taxes	\$139,448	\$143,649	\$114,037	(\$29,612)
Municipal Income Taxes	677,324	697,733	553,900	(143,833)
Intergovernmental	340,222	350,474	278,226	(72,248)
Charges for Services	8,290	8,539	6,779	(1,760)
Fines, Licenses and Permits	965,920	995,025	789,907	(205,118)
Investment Earnings	142,857	147,161	116,825	(30,336)
Miscellaneous	811,038	836,663	695,341	(141,322)
<i>Total Receipts</i>	<u>3,085,099</u>	<u>3,179,244</u>	<u>2,555,015</u>	<u>(624,229)</u>
Disbursements				
Current:				
General Government	1,666,010	1,796,057	1,443,454	352,603
Security of Persons and Property	1,313,329	1,418,188	1,163,881	254,307
Community Environment	19,842	21,426	17,584	3,842
<i>Total Disbursements</i>	<u>2,999,181</u>	<u>3,235,671</u>	<u>2,624,919</u>	<u>610,752</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>85,918</u>	<u>(56,427)</u>	<u>(69,904)</u>	<u>(13,477)</u>
Other Financing Sources (Uses)				
Transfers In	39,242	39,242	39,242	0
Transfers Out	(93,377)	(100,832)	(82,751)	18,081
<i>Total Other Financing Sources (Uses)</i>	<u>(54,135)</u>	<u>(61,590)</u>	<u>(43,509)</u>	<u>18,081</u>
<i>Net Change in Fund Balance</i>	31,783	(118,017)	(113,413)	4,604
<i>Fund Balance Beginning of Year</i>	215,636	215,636	215,636	0
Prior Year Encumbrances Appropriated	37,209	37,209	37,209	0
<i>Fund Balance End of Year</i>	<u>\$284,628</u>	<u>\$134,828</u>	<u>\$139,432</u>	<u>\$4,604</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, 2012*

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Receipts				
Fines, Licenses and Permits	\$50,000	\$62,715	\$62,715	\$0
Disbursements				
Capital Outlay	127,635	21,635	19,272	2,363
<i>Net Change in Fund Balance</i>	(77,635)	41,080	43,443	2,363
<i>Fund Balance Beginning of Year</i>	217,442	217,442	217,442	0
Prior Year Encumbrances Appropriated	2,635	2,635	2,635	0
<i>Fund Balance End of Year</i>	<u>\$142,442</u>	<u>\$261,157</u>	<u>\$263,520</u>	<u>\$2,363</u>

See accompanying notes to the basic financial statements

Village of Newton Falls, Ohio
Statement of Fund Net Position - Cash Basis
Proprietary Funds
December 31, 2012

	Enterprise		
	Water	Sewer	Electric
Assets			
Equity in Pooled Cash and Cash Equivalents	\$667,590	\$616,159	\$602,640
Restricted Equity in Pooled Cash and Cash Equivalents	0	181,849	0
Total Assets	\$667,590	\$798,008	\$602,640
Net Position			
Restricted for Debt Service	\$0	\$181,849	\$0
Unrestricted	667,590	616,159	602,640
Total Net Position	\$667,590	\$798,008	\$602,640

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

Net position of business-type activities:

See accompanying notes to the basic financial statements

Funds

Total	Internal Service
\$1,886,389	\$29,579
181,849	0
\$2,068,238	\$29,579
\$181,849	\$0
1,886,389	29,579
2,068,238	\$29,579
10,406	
\$2,078,644	

Village of Newton Falls, Ohio
*Statement of Cash Receipts,
Disbursements and Changes in Fund Net Position - Cash Basis
Proprietary Funds
For the Year Ended December 31, 2012*

	Enterprise		
	Water	Sewer	Electric
Operating Receipts			
Charges for Services	\$1,636,832	\$1,320,046	\$4,188,357
Intergovernmental	149,073	57,399	0
Miscellaneous	8,450	472	20,582
<i>Total Operating Receipts</i>	<u>1,794,355</u>	<u>1,377,917</u>	<u>4,208,939</u>
Operating Disbursements			
Personal Services	673,126	411,101	317,128
Travel and Transportation	556	50	8,279
Contractual Services	185,971	180,178	3,317,556
Materials and Supplies	134,861	36,993	36,190
Claims	0	0	0
Capital Outlay	247,635	15,778	14,246
Miscellaneous	220,674	220,673	379,864
<i>Total Operating Disbursements</i>	<u>1,462,823</u>	<u>864,773</u>	<u>4,073,263</u>
<i>Operating Income (Loss)</i>	<u>331,532</u>	<u>513,144</u>	<u>135,676</u>
Non-Operating Receipts (Disbursements)			
Redemption of Principal	(164,392)	(90,911)	(2,773,583)
Interest and Fiscal Charges	(39,395)	(304,651)	(62,637)
Bond Anticipation Notes Issued	0	0	2,595,000
<i>Total Non-Operating Receipts (Disbursements)</i>	<u>(203,787)</u>	<u>(395,562)</u>	<u>(241,220)</u>
<i>Change in Net Position</i>	127,745	117,582	(105,544)
<i>Net Position Beginning of Year</i>	<u>539,845</u>	<u>680,426</u>	<u>708,184</u>
<i>Net Position End of Year</i>	<u>\$667,590</u>	<u>\$798,008</u>	<u>\$602,640</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 position of business-type activities:

See accompanying notes to the basic financial statements

Funds

Total	Internal Service
\$7,145,235	\$662,742
206,472	0
29,504	0
7,381,211	662,742
1,401,355	0
8,885	0
3,683,705	0
208,044	0
0	910,293
277,659	0
821,211	0
6,400,859	910,293
980,352	(247,551)
(3,028,886)	0
(406,683)	0
2,595,000	0
(840,569)	0
139,783	(247,551)
	277,130
	\$29,579
(87,088)	
\$52,695	

Village of Newton Falls, Ohio
Statement of Fiduciary Assets and Liabilities - Cash Basis
Fiduciary Fund
December 31, 2012

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$189,748
Cash and Cash Equivalents:	
In Segregated Accounts	<u>15,007</u>
<i>Total Assets</i>	<u><u>\$204,755</u></u>
Liabilities	
Deposits Held and Due to Others	<u><u>\$204,755</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, 2012

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. Following are the more significant of the Villages accounting policies.

Basis of Presentation

The Village's basic financial statements consist of government-wide financial statements, including a statement of net position 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 position and the statement of activities display information about the Village as a whole. These statements include the financial activities of the

Village of Newton Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

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

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.

Village of Newton Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

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 position and changes in net position. 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.

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.

Village of Newton Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

Cash and Cash Equivalents

To improve cash management, cash received by the Village is pooled and invested. Individual fund integrity is maintained through Village records. Interest in the pool is presented as "equity in pooled cash and cash equivalents".

During 2012, 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 net asset value per share, which is the price the investment could be sold for on December 31, 2012.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2012 amounted to \$116,825, which includes \$98,454 assigned from other Village funds.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenues), respectively. 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 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

The Village reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

Village of Newton Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

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 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, as both are equally binding) 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, as both are

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equally binding) 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. These amounts are assigned by Village Council. 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. State statute authorizes the finance director to assign fund balance for purchases on order provided such amounts have been lawfully appropriated.

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 Position

Net position is 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 position 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 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.

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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

For 2012, the Village has implemented Governmental Accounting Standard Board (GASB) Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements," Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements," Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position," Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53," Statement No. 65, "Items Previously Reported as Assets and Liabilities" and Statement No. 66, "Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62."

GASB Statement No. 60 improves financial reporting by addressing issues related to service concession arrangements, which are a type of public-private or public-public partnership. The implementation of this statement did not result in any change in the Village's financial statements.

GASB Statement No. 62 incorporates into GASB's authoritative literature certain FASB and AICPA pronouncements issued on or before November 30, 1989. The implementation of this statement did not result in any change in the Village's financial statements.

GASB Statement No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related note disclosures. These changes were incorporated in the Village's 2012 financial statements; however, there was no effect on beginning net position/fund balance.

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GASB Statement No. 64 clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The implementation of this statement did not result in any change in the Village's financial statements.

GASB Statement No. 65 properly classifies certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognizes certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). The implementation of this statement did not result in any change in the Village's financial statements.

GASB Statement No. 66 resolves conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports. The implementation of this statement did not result in any change in the Village's financial statements.

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 government funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balances	General	Court Computerization	Capital Improvement	Nonmajor Governmental Funds	Total
<i>Nonspendable</i>					
Unclaimed Monies	\$9,298	\$0	\$0	\$0	\$9,298
<i>Restricted for</i>					
Recreation	0	0	0	37,003	37,003
Public Safety	0	0	0	112,730	112,730
Street Maintenance	0	0	0	128,051	128,051
Enforcement and Education	0	264,063	0	165,370	429,433
Community Development	255	0	0	6,321	6,576
Capital Improvements	0	0	229,423	692	230,115
<i>Total Restricted</i>	255	264,063	229,423	450,167	943,908
<i>Assigned to</i>					
Purchases on Order	56,117	0	0	0	56,117
<i>Unassigned</i>	108,374	0	0	0	108,374
<i>Total Fund Balances</i>	\$174,044	\$264,063	\$229,423	\$450,167	\$1,117,697

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 and court computerization special revenue 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 cash disbursements (budgetary basis) rather than as restricted, committed or

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assigned of fund balance (cash basis). The general fund encumbrances outstanding at year end (budgetary basis) amounted to \$34,307 and the court computerization special revenue fund encumbrances outstanding at year end (budgetary basis) amounted to \$543.

Note 6 – Deposits and Investments

Monies held by the Village are classified by State statute 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 provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;

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7. The State Treasurer's investment pool (STAR Ohio); and.
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.

Investments

Investments are reported at fair value. As of December 31, 2012, the Village had the following investments:

	Fair Value	Maturity	Standard & Poor's	Percent of Total Investments
Mutual Funds	\$1,319,864	Daily	AA+	60.40%
Taxable Bonds	860,899	Greater than five years	AA+	39.40
STAR Ohio	4,409	Average 57 Days	AAAm	N/A
<i>Totals</i>	<u>\$2,185,172</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 AAAm 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 – Taxes

Property Taxes

Property taxes include amounts levied against all real and public utility property located in the Village. Property tax revenue received during 2012 for real and public utility property taxes represents collections of 2011 taxes.

2012 real property taxes were levied after October 1, 2012, on the assessed value as of January 1, 2012, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2012 real property taxes are collected in and intended to finance 2013.

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. 2012 public utility property taxes which became a lien December 31, 2011, are levied after October 1, 2012, and are collected in 2013 with real property taxes.

The full tax rate for all Village operations for the year ended December 31, 2012 was \$2.50 per \$1,000 of assessed value. The assessed values of real property and public utility tangible property upon which 2012 property tax receipts were based are as follows:

Real Property	
Residential/Agricultural	\$44,288,610
Other Real Estate	15,293,930
Public Utility Personal Property	<u>465,060</u>
Total	<u><u>\$60,047,600</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. On January 23, 2012, Council approved Ordinance 2012-02 which repealed the credit for tax paid to another municipality in the Tax Code. Employers within the Village are required to withhold income tax on employee earnings and remit the tax to the Village either

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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 2012, 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, 2012.

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 2012, 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	\$1,100,921	\$1,000
Property	38,839,023	2,500
Electronic Data Processing	101,500	500
Fleet Vehicle		
Physical Damage	50,000	1,000
Liability	5,000,000	N/A

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.

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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 visiting <https://www.opers.org/investments/cafr.shtml>, 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. Member contribution rates, as set forth in the Ohio Revised Code, are not to exceed 10 percent of covered payroll for members in State and local divisions. For the year ended December 31, 2012, members in state and local divisions contributed 10 percent of covered payroll. Members in the state and local divisions may participate in all three plans. For 2012, member and employer contribution rates were consistent across all three plans.

The Village's 2012 contribution rate was 14.0 percent. 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 Plan was 4.00 percent for 2012. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent for 2012. 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, 2012, 2011 and 2010 were \$225,336, \$229,991 and \$203,851, respectively; 92.58 percent has been contributed for 2012 and 100 percent for 2011 and 2010. There were no contributions to the Member-Directed Plan for 2012.

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 information for the plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

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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 for the years ended December 31, 2012, 2011 and 2010 were \$44,328, \$45,987 and \$48,178, respectively; 76.29 percent has been contributed for 2012 and 100 percent for 2011 and 2010.

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, 2012, the unfunded liability of the Village was \$14,951 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 visiting <https://www.opers.org/investments/cafr.shtml>, 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.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2012, state and local employers contributed at a rate of 14.0 percent of covered payroll. These are the maximum employer contribution rates permitted by the Ohio Revised Code.

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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 Plan was 4.0 percent for 2012. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent for 2012. Effective January 1, 2013, the portion of employer contributions allocated to healthcare was lowered to 1 percent for both plans, as recommended by the OPERS Actuary.

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, 2012, 2011 and 2010 were \$90,135, \$91,996 and \$116,095 respectively; 92.58 percent has been contributed for 2012 and 100 percent for 2011 and 2010.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4 percent of the employer contributions toward the health care fund after the end of the transition period.

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. That report is also available of OP&F's website at www.op-f.org.

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 employers. 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, 2012, 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 for the years ended December 31, 2012, 2011 and 2010 were \$23,468, \$24,346 and \$25,506 respectively; 76.29 percent has been contributed for 2012 and 100 percent for 2011 and 2010.

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	2012
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
Water Treatment Plant Improvements	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
Water Main Valve Replacement	0.00	43,187	2025
Electric System Bond Anticipation Note	1.75	2,595,000	2013

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

	Balance 12/31/11	Additions	Reductions	Balance 12/31/12	Amounts Due in One Year
Governmental Activities					
<i>Promissory Note</i>					
Municipal Court Renovation	\$57,665	\$0	(\$57,665)	\$0	\$0
<i>Capital Lease</i>					
	31,317	0	(31,317)	0	0
<i>Other</i>					
Ohio Police Pension	15,343	0	(392)	14,951	409
<i>Total Governmental Activities</i>	<u>\$104,325</u>	<u>\$0</u>	<u>(\$89,374)</u>	<u>\$14,951</u>	<u>\$409</u>
Business-Type Activities					
<i>Mortgage Revenue Bonds</i>					
Series A	\$4,810,400	\$0	(\$54,300)	\$4,756,100	\$56,700
Series B	2,138,500	0	(24,100)	2,114,400	25,200
<i>Total Mortgage Revenue Bonds</i>	<u>6,948,900</u>	<u>0</u>	<u>(78,400)</u>	<u>6,870,500</u>	<u>81,900</u>
<i>OWDA Loans</i>					
Warren Avenue Combined Sewer Separation	17,592	28,589	(3,186)	42,995	0
Water Treatment Plant Improvements	2,007,017	0	(149,558)	1,857,459	152,564
<i>Total OWDA Loans</i>	<u>2,024,609</u>	<u>28,589</u>	<u>(152,744)</u>	<u>1,900,454</u>	<u>152,564</u>
<i>OPWC Loans</i>					
Broad Street Water Distribution	164,752	0	(12,674)	152,078	12,674
Broad Street Storm Water	121,221	0	(9,325)	111,896	9,324
Water Main Valve Replacement	29,152	0	(2,160)	26,992	2,160
<i>Total OPWC Loans</i>	<u>315,125</u>	<u>0</u>	<u>(24,159)</u>	<u>290,966</u>	<u>24,158</u>
<i>Bond Anticipation Notes</i>					
Electric System	2,745,000	2,595,000	(2,745,000)	2,595,000	2,595,000
<i>Capital Lease</i>					
	58,590	0	(28,583)	30,007	30,007
<i>Total Business-Type Activities</i>	<u>\$12,092,224</u>	<u>\$2,623,589</u>	<u>(\$3,028,886)</u>	<u>\$11,686,927</u>	<u>\$2,883,629</u>

The municipal court renovation promissory note was 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.

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.

Village of Newton Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

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 was 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 was repaid on June 30, 2012.

During 2012, the Village of Newton Falls issued a bond anticipation note for \$2,595,000 payable at a rate of 1.25 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 27, 2013.

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. Until a final repayment schedule is available, the Village is paying based on estimates.

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, 2012 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, 2012, restricted the Village's Sewer fund assets in the amount of \$181,849 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 \$111,896. Principal paid for the current year and total net revenues were \$9,325 and \$117,582 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 \$179,070. Principal paid for the current year and total net revenues were \$14,834 and \$127,745 respectively.

Village of Newton Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

The Village's overall legal debt margin was \$6,304,998 with an unvoted debt margin of \$3,302,618 at December 31, 2012. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2012 are as follows:

Governmental-Type Activities		
Ohio Police Pension Liability		
	Principal	Interest
2013	\$409	\$648
2014	426	614
2015	445	595
2016	463	576
2017	484	566
2018 - 2022	2,749	2,487
2023 - 2027	3,392	1,808
2028 - 2032	4,185	1,014
2033 - 2035	2,398	153
Total	<u>\$14,951</u>	<u>\$8,461</u>

Business-Type Activities						
	OWDA Loans		OPWC Loans		Mortgage Revenue Bonds	
	Principal	Interest	Principal	Principal	Interest	
2013	\$152,564	\$36,391	\$24,158	\$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	165,206	23,750	24,156	97,200	285,289	
2018 - 2022	877,192	67,581	120,780	553,400	1,358,840	
2023 - 2027	186,156	2,797	49,404	685,500	1,226,715	
2028 - 2032	0	0	0	849,200	1,063,051	
2033 - 2037	0	0	0	1,052,000	860,300	
2038 - 2042	0	0	0	1,303,000	609,153	
2043 - 2047	0	0	0	1,614,100	298,060	
2048	0	0	0	366,500	16,034	
Total	<u>\$1,857,459</u>	<u>\$221,043</u>	<u>\$290,966</u>	<u>\$6,870,500</u>	<u>\$6,897,650</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

Village of Newton Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

systems from American Municipal Power, Incorporated (AMP, Inc.), a non-profit trade association and wholesale power supplier for most of Ohio's eighty-five municipal electrical systems. Omega JV1 is managed by AMP, Inc. who acts as the joint venture's agent. Each member has a contract which provides for AMP, Inc. to purchase the right to each participant's share of power and energy that is made available through the joint venture contract. JV1 does not have any debt outstanding. In the event of a shortfall, the JV participants would be billed for the respective shares of the estimated shortfall. The Village's net investment in JV1 was \$10,713 at December 31, 2012. Financial information for JV1 may be obtained from AMP, Inc., 2600 Airport Drive, Columbus, Ohio 43219.

Note 14 – Interfund Transfers

During 2012, the following transfers were made:

Transfers In	Transfers Out		
	General	Other Governmental Funds	Total
General Fund	\$0	\$39,242	\$39,242
<i>Other Governmental Activities:</i>			
Street Construction, Maintenance and Repair	63,034	0	63,034
Senior Van	19,717	0	19,717
<i>Total Transfers</i>	<u>\$82,751</u>	<u>\$39,242</u>	<u>\$121,993</u>

The general fund transfers to the street construction, maintenance and repair and senior van special revenue funds are to provide additional operating costs per the budget. The court special general projects special revenue fund transfer to the general fund was to help pay for municipal court related expenses.

Note 15 – Capital Lease

The Village has entered into capitalized leases for police cruisers and an electric bucket truck. These leases meet the criteria for a capital lease and have been recorded on the statements. The original amounts capitalized for the capital leases and the book value as of December 31, 2012 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	32,456	45,971	78,427
Current Book Value	<u>\$89,255</u>	<u>\$91,941</u>	<u>\$181,196</u>

Village of Newton Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

The following is a schedule of the future minimum leases payments required under the capital lease and the present value of the minimum lease payments as of December 31, 2012.

	Business-Type Activities
2013	\$31,502
Less: Amount Representing Interest	(1,495)
Present Value of Minimum Lease Payments	\$30,007

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% 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, 2012, 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, 2012 AMP has a regulatory asset of \$96,544,650 for the recovery of these abandoned construction costs. AMP is currently working with the AMPGS project participants to establish a formal plan for the recovery on a participant by participant basis.

Village of Newton Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

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, 2012 the Village of Newton Falls has a potential stranded cost obligation of \$1,219,303 for the AMPGS Project. The Village of Newton Falls does not have any payments on deposit with AMP at December 31, 2012.

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 (please see attached Amended Minutes of May 3, 2011). 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, 2012.

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. 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 the Village believes it would have violated its covenant obligations for its Electric Fund.

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 management.

Village of Newton Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

Note 17 – Significant Commitments

Encumbrances

Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At year end the amount of encumbrances expected to be honored upon performance by the vendor in the next fiscal year were as follows:

General fund	\$34,357
Other Governmental funds	58,519
Total Governmental Funds	<u>92,876</u>
Water fund	109,348
Sewer fund	57,966
Electric fund	50,908
Total	<u><u>\$311,098</u></u>

Note 18 – Subsequent Events

On June 17, 2013, the Village of Newton Falls retired \$2,595,000 on the electric bond anticipation note and reissued the note for \$2,495,000 payable at a rate of 1.25 percent.

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S 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, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, 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, 2012, and the related notes to the financial statements, which collectively comprise the Village's basic financial statements and have issued our report thereon dated January 6, 2014 wherein we noted that the Village uses a special purpose framework other than generally accepted accounting principles.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Village's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Village's internal control. Accordingly, we have not opined on it.

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 a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Village's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

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, opining 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*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Village's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Village's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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
Columbus, Ohio

January 6, 2014



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
FEBRUARY 25, 2014**