



Dave Yost • Auditor of State

NEWTON FALLS JOINT FIRE DISTRICT
TRUMBULL COUNTY

TABLE OF CONTENTS

<u>TITLE</u>	<u>PAGE</u>
Independent Auditor's Report	1
Prepared by Management:	
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Regulatory Cash Basis) - All Governmental Fund Types For the Year Ended December 31, 2015	3
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Regulatory Cash Basis) - All Governmental Fund Types For the Year Ended December 31, 2014.....	4
Notes to the Financial Statements.....	5
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	13
Schedule of Findings	15
Summary Schedule of Prior Audit Findings (Prepared by Management)	23

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Newton Falls Joint Fire District
Trumbull County
19 North Canal Street
Newton falls, OH 44444

To the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying financial statements of the cash balances, receipts and disbursements by fund type, and related notes of Newton Falls Joint Fire District, Trumbull County, (the District) as of and for the years ended December 31, 2015 and 2014.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements 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 District'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 District'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.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statements, the District prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D), which is an accounting basis other than accounting principles generally accepted in the United States of America (GAAP), to satisfy these requirements.

Although the effects on the financial statements of the variances between the regulatory accounting basis and GAAP are not reasonably determinable, we presume they are material.

Though the District does not intend these statements to conform to GAAP, auditing standards generally accepted in the United States of America require us to include an adverse opinion on GAAP. However, the adverse opinion does not imply the amounts reported are materially misstated under the accounting basis Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. Our opinion on this accounting basis is in the *Opinion on Regulatory Basis of Accounting* paragraph below.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the District as of December 31, 2015 and 2014, or changes in financial position thereof for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of Newton Falls Joint Fire District, Trumbull County as of December 31, 2015 and 2014, and its combined cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 12, 2017, on our consideration of the District'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 District's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

May 12, 2017

NEWTON FALLS JOINT FIRE DISTRICT
TRUMBULL COUNTY
*Combined Statement of Receipts, Disbursements and
Changes In Fund Balances (Regulatory Cash Basis)*
All Governmental Fund Types
For the Year Ended December 31, 2015

	All Fund Types		Totals (Memorandum Only)
	General	Special Revenue	
Cash Receipts			
Property and Other Local Taxes	\$95,411	\$301,398	\$396,809
Charges for Services		170,650	170,650
Intergovernmental	19,828	15,994	35,822
Village of Newton Falls	68,744		68,744
Newton Township	26,876		26,876
Donation	3,500	3,500	7,000
License Permits & Fees	20		20
Miscellaneous	3,761	9,100	12,861
<i>Total Cash Receipts</i>	<u>218,140</u>	<u>500,642</u>	<u>718,782</u>
Cash Disbursements			
Current Disbursements:			
Security of Persons and Property:			
Salaries	70,244	215,997	286,241
Fringe Benefits	13,139	29,935	43,074
Materials and Supplies	8,640	19,517	28,157
Other	40,625	72,479	113,104
Capital Outlay		147,495	147,495
Debt Service:			
Principal Retirement	11,320		11,320
Interest and Fiscal Charges	7,117		7,117
<i>Total Cash Disbursements</i>	<u>151,085</u>	<u>485,423</u>	<u>636,508</u>
<i>Excess Receipts Over Disbursements</i>	<u>67,055</u>	<u>15,219</u>	<u>82,274</u>
Other Financing Receipts (Disbursements)			
Proceeds of Debt		140,884	140,884
<i>Total Other Financing Receipts</i>		<u>140,884</u>	<u>140,884</u>
<i>Net Change in Fund Cash Balance</i>	67,055	156,103	223,158
<i>Fund Cash Balances, January 1</i>	<u>314,286</u>	<u>5,330</u>	<u>319,616</u>
Fund Cash Balances, December 31			
Restricted		161,433	161,433
Unassigned	381,341		381,341
<i>Fund Cash Balances, December 31</i>	<u>\$381,341</u>	<u>\$161,433</u>	<u>\$542,774</u>

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

NEWTON FALLS JOINT FIRE DISTRICT
TRUMBULL COUNTY
Combined Statement of Receipts, Disbursements and
Changes In Fund Balances (Regulatory Cash Basis)
All Governmental Fund Types
For the Year Ended December 31, 2014

	All Fund Types		Totals (Memorandum Only)
	General	Special Revenue	
Cash Receipts			
Property and Other Local Taxes	\$93,364	\$0	\$93,364
Charges for Services		156,906	156,906
Intergovernmental	16,824		16,824
Village of Newton Falls	68,744		68,744
Newton Township	53,752		53,752
Donation	1,500	1,500	3,000
License Permits & Fees	5		5
Miscellaneous	5,953	100	6,053
<i>Total Cash Receipts</i>	<u>240,142</u>	<u>158,506</u>	<u>398,648</u>
Cash Disbursements			
Current Disbursements:			
Security of Persons and Property:			
Salaries	79,921	159,840	239,761
Fringe Benefits	22,738	15,702	38,440
Materials and Supplies	7,070	18,372	25,442
Other	34,134	50,327	84,461
Capital Outlay		1,086	1,086
Debt Service:			
Principal Retirement	10,975		10,975
Interest and Fiscal Charges	7,462		7,462
<i>Total Cash Disbursements</i>	<u>162,300</u>	<u>245,327</u>	<u>407,627</u>
<i>Excess Receipts Over (Under) Disbursements</i>	<u>77,842</u>	<u>(86,821)</u>	<u>(8,979)</u>
<i>Fund Cash Balances, January 1</i>	<u>236,444</u>	<u>92,151</u>	<u>328,595</u>
Fund Cash Balances, December 31			
Restricted		5,330	5,330
Unassigned	314,286		314,286
<i>Fund Cash Balances, December 31</i>	<u>\$314,286</u>	<u>\$5,330</u>	<u>\$319,616</u>

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

NEWTON FALLS JOINT FIRE DISTRICT
TRUMBULL COUNTY
Notes to the Financial Statements
For the Year Ended December 31, 2015 and 2014

Note 1 – Reporting Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Newton Falls Joint Fire District, Trumbull County, (the District) as a body corporate and politic. A five-member Board of Trustees governs the District. The Board members for the District are appointed by the City Council and the Township Trustees. Each of the aforementioned political subdivisions selects one member from within their ranks to serve a one year term on the District Board. Each political subdivision also selects one resident from within their subdivision to serve a three year term on the District Board. The following member of the Board is also appointed by the political subdivisions to serve a three year term. The final member's selection alternates between a resident of the City and the Township. The District provides fire protection and rescue services within the District and by contract to areas outside the District. The Township and Village, per agreement, also provide funding to the District in the amounts of \$53,752 and \$68,744 respectively.

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

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation

The District's financial statements consist of a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all governmental fund types which is organized on a fund type basis.

Fund Accounting

The District 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 District are presented below:

General Fund The General Fund accounts for and reports all financial resources not accounted for and reported in another fund. The general fund balance is available to the District for any purpose provided it is expended or transferred according to the general laws of Ohio.

Special Revenue Funds These funds account for and report the proceeds of specific revenue sources that are restricted or committed to disbursements for specified purposes other than debt service or capital projects. The District had the following significant Special Revenue Funds: EMS Fund accounts for resources the District accumulates from emergency services. Resources constituting the EMS fund are restricted by Ohio Law to be used solely for expenses incurred in the operation of the District's emergency response services.

Basis of Accounting

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 (D). This basis is similar to the cash receipts and disbursements accounting basis. The Board recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

NEWTON FALLS JOINT FIRE DISTRICT
TRUMBULL COUNTY
Notes to the Financial Statements
For the Year Ended December 31, 2015 and 2014

Note 2 – Summary of Significant Accounting Policies – (Continued)

These statements include adequate disclosure of material matters, as the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 (D) permit.

Budgetary Process

The Ohio Revised Code requires that each fund be budgeted annually.

Appropriations Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The Board of Trustees must annually approve appropriation measures and subsequent amendments. Appropriations lapse at year end.

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

Encumbrances The Ohio Revised Code requires the District to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year. The District did not use the encumbrance method of accounting.

A summary of 2015 and 2014 budgetary activity appears in Note 4

Deposits and Investments

The District's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

Capital Assets

The District records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the District must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

Nonspendable The District classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

NEWTON FALLS JOINT FIRE DISTRICT
TRUMBULL COUNTY
Notes to the Financial Statements
For the Year Ended December 31, 2015 and 2014

Note 2 – Summary of Significant Accounting Policies – (Continued)

Restricted Fund balance is *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.

Committed Trustees can *commit* amounts via formal action (resolution). The District must adhere to these commitments unless the Trustees amend the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

Assigned Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by District Trustees or a District official delegated that authority by resolution, or by State Statute.

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

The District 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.

Note 3 – Compliance

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the EMS fund by \$109,862 for the year ended December 31, 2015. Also contrary to Ohio law, appropriations were not filed timely for 2014 and not at all for 2015.

Note 4 – Budgetary Activity

Budgetary activity for the year ending December 31, 2015 and 2014 follows:

2015 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$231,506	\$218,140	(\$13,366)
Special Revenue	596,582	641,526	44,944
Total	\$828,088	\$859,666	\$31,578

NEWTON FALLS JOINT FIRE DISTRICT
TRUMBULL COUNTY
Notes to the Financial Statements
For the Year Ended December 31, 2015 and 2014

Note 4 – Budgetary Activity – (Continued)

2015 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$293,899	\$151,085	\$142,814
Special Revenue	375,561	485,423	(109,862)
Total	\$669,460	\$636,508	\$32,952

2014 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$230,440	\$240,142	\$9,702
Special Revenue	263,000	158,506	(104,494)
Total	\$493,440	\$398,648	(\$94,792)

2014 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$274,304	\$162,300	\$112,004
Special Revenue	263,600	245,327	18,273
Total	\$537,904	\$407,627	\$130,277

Note 5 – Deposits and Investments

The District maintains a deposit and investments pool all funds use. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of deposits and investments at December 31 was as follows:

	2015	2014
Demand deposits	\$542,774	\$319,616
Total deposits	542,774	319,616

Deposits

Deposits are insured by the Federal Depository Insurance Corporation; or collateralized by the financial institution's public entity deposit pool.

NEWTON FALLS JOINT FIRE DISTRICT
TRUMBULL COUNTY
Notes to the Financial Statements
For the Year Ended December 31, 2015 and 2014

Note 6 – Taxes

Property Taxes

Real property taxes become a lien on January 1 preceding the October 1 date for which the Trustees adopted tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The financial statements include homestead and rollback amounts the State pays as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half is due December 31. The second half payment is due the following June 20.

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

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

Note 7 – Risk Management

Commercial Insurance

The District has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles; and
- Errors and omissions.

Note 8 – Defined Benefit Pension Plans

Ohio Public Employees Retirement System

Some employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan's benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. OPERS members contributed 10%, of their gross salaries and the District contributed an amount equaling 14%, of participants' gross salaries. The District has paid all contributions required through December 31, 2015.

Social Security

Several District employees contributed to social Security. This plan provides retirement benefits, including survivor and disability benefits to participants.

Employees contributed 6.2 percent of their gross salaries. The District contributed an amount equal to 6.2 percent of participants' gross salaries. The District has not paid all contributions required through December 31, 2015.

NEWTON FALLS JOINT FIRE DISTRICT
TRUMBULL COUNTY
Notes to the Financial Statements
For the Year Ended December 31, 2015 and 2014

Note 9 - Postemployment Benefits

OPERS offers cost-sharing, multiple-employer defined benefit postemployment plans, which include multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. OPERS contributes 2 percent to fund these benefits.

Note 10 – Debt

Debt outstanding at December 31, 2015 was as follows:

	Principal	Interest Rate
Building Loan with Township	\$5,000	0%
Middlefield Bank Loan	150,691	4.5%
EMS Vehicle Acquisition Note	140,884	2.4%
Total	\$296,575	

In 2011, the District purchased the property at 45 E Broad Street from Newton Township for \$50,000. The District paid the Township a down payment of \$25,000 on the property, with the balance to be paid in equal installments of \$5,000 over the next five years. The District also procured a loan from The Middlefield Banking Company in the amount of \$175,000 in order to complete the necessary renovations of the property acquired from Newton Township. The terms of the loan are as follows: interest will accrue on the outstanding principal at the rate of 4.5% per year beginning on December 07, 2011 until June 07, 2022.

In 2015, the District issued an EMS Vehicle Acquisition Note in the amount of \$140,884 for the purchase of a new ambulance.

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

Year ending	Building Loan	Bank Loan	EMS Note
December 31:			
2017	\$5,000	\$13,437	\$48,810
2018		13,437	48,810
2019		13,437	48,810
2020		13,437	
2021		13,437	
2022-2026		121,233	
Total	\$5,000	\$188,418	\$146,430

In 2015, the District entered into a 36 month lease purchase agreement with Physio-Control Inc. in the amount \$48,942 for two LifePak Units. The interest rate on the financing is 1.75% with monthly payments of \$1,394 beginning in January 2016.

NEWTON FALLS JOINT FIRE DISTRICT
TRUMBULL COUNTY
Notes to the Financial Statements
For the Year Ended December 31, 2015 and 2014

Note 11 – Contingent Liabilities

Amounts grantor agencies pay to the District are subject to audit and adjustment by the grantor. The grantor may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

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

Newton Falls Joint Fire District
Trumbull County
19 North Canal Street
Newton falls, OH 44444

To the Board of Trustees:

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 cash balances, receipts, and disbursements by fund type of the Newton Falls Joint Fire District, Trumbull County, (the District) as of and for the year ended December 31, 2015 and 2014, and the related notes to the financial statements and have issued our report thereon dated May 12, 2017, wherein we noted the District followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the District'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 District's internal control. Accordingly, we have not opined on it.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses and a significant deficiency.

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 a 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 District's financial statements. We consider findings 2015-005 and 2015-006 described in the accompanying schedule of findings to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of internal control deficiencies less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2015-007 and 2015-008 described in the accompanying schedule of findings to be significant deficiencies.

Compliance and Other Matters

As part of reasonably assuring whether the District'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 instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2015-001 through 2015-004.

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 District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the District'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, flowing style.

Dave Yost
Auditor of State
Columbus, Ohio

May 12, 2017

**NEWTON FALLS JOINT FIRE DISTRICT
TRUMBULL COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2015 AND 2014**

1. Destruction of Records

<i>Finding Number</i>	2015-001
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NONCOMPLIANCE

Ohio Rev. Code §149.351 requires that all records are the property of the public office and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by Ohio Rev. Code §149.38 through §149.42.

In 2014 and 2015, the District reconciled its bank balances to its accounting system balances monthly. These reconciliations were completed in the District's accounting system and copies were provided to the Board. However, the District did not maintain copies of their reconciliations and they could not be retrieved from their accounting system. The District had to recreate monthly reconciliations for December 2014 and December 2015 for audit purposes. In addition, the District did not maintain validated bank deposit slips. Lastly, the District did not maintain a record of payroll direct deposit EFT transmittals (employee, routing number, account number, net pay) to the bank.

In 2014, the District did not maintain the Board approved pay rates for work performed by the fire fighters on a per call basis. The District did not provide the direct deposit authorization forms for 26 out of 28 transactions selected for review.

In 2015, the District did not provide the direct deposit authorization forms for 19 out of 23 transactions selected for review.

The District did not provide the minutes of the Board for the meetings of May 2014, October 2014, and February 2015. The District did not provide amended appropriation resolutions 2015-07 and 2015-08.

The District lacked the adequate controls to make sure records were properly maintained.

The District should maintain all records created in accordance with the above Ohio Revised Code section. The District should also use an accounting system that can access past information or implement procedures to help ensure the necessary information is available.

2. Finding for Recovery - Penalties on Late Payments

<i>Finding Number</i>	2015-002
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NONCOMPLIANCE

The District's Fiscal Officer was responsible for withholding and remitting the required income taxes and pension contributions from District employee earnings. During the audit period, the Fiscal Officer withheld, as required, federal income tax, Medicare, state income tax, local income tax, and Ohio Public Employees Retirement System (OPERS) contributions from the earnings of each District employee. However, the Fiscal Officer failed to transmit all required funds to the appropriate entity, agency, or system in a timely manner. As a result, the District incurred penalties, late fees, and interest that were paid by the Fiscal Officer as follows:

**Finding Number 2015-002
(Continued)**

- In 2014, the District paid a total of \$583.69 to the Internal Revenue Service (IRS) and a total of \$23.05 to OPERS for failing to remit withholdings in a timely manner.
- In 2015, the District paid a total of \$4,626.04 to the IRS, a total of \$108.41 to OPERS, and \$5.36 to the State of Ohio Income Tax department for failing to remit withholdings in a timely manner.

The penalties and interest incurred by the District serve no proper public purpose and could have been avoided had the funds been remitted as required by law.

State ex rel. McClure v. Hagerman, 155 Ohio St. 320 (1951), provides that expenditures made by a governmental unit should serve a public purpose. Typically the determination of what constitutes a "proper public purpose" rests with the judgment of the governmental entity, unless such determination is arbitrary or unreasonable. Even if a purchase is reasonable, Ohio Attorney General Opinion 82-006 indicates that it must be memorialized by a duly enacted ordinance or resolution and may have a prospective effect only. Auditor of State Bulletin 2003-005 Expenditure of Public Funds/Proper Public Purpose states that the Auditor of State's Office will only question expenditures where the legislative determination of a public purpose is manifestly arbitrary and incorrect.

The law requires that employers withhold taxes from employees' paychecks and remit those taxes to the government. The United States Internal Revenue Code, for example, requires employers to deduct from wages paid to employees the employees' share of FICA taxes and individual income taxes. See 26 U.S.C. 3102(a) and 3402(a). Those withholdings are considered to be held in "a special fund in trust for the United States." 26 U.S.C. 7501(a). The employer is liable for the withheld portion of the employee's wages and must pay over the full amount to the government each quarter. See United States v. Farr, 536 F.3d 1174, 1176 (10th Circ. 2008). In addition, under Ohio law, employers are required to withhold state income taxes from employees' wages and transmit the funds to the state, according to Ohio Rev. Code § 5747.06. Under Ohio Rev. Code § 5747.07(E)(2), each employer required to withhold any tax is liable for the payment of the amount required to be withheld and the amount shall be deemed to be a special fund in trust for the general revenue fund. The same rule applies with respect to municipal income taxes in Ohio. See Ohio Rev. Code § 718.03.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code § 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Joseph Sosnowski, the former Fiscal Officer, and VFIS, the District's insurance company, jointly and severally, and in favor of the Newton Falls Joint Fire District General Fund in the amount of \$1,424 and the Special revenue Fund in the amount of \$3,923.

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is strictly liable for the amount of the expenditure. Seward v. National Surety Corp., 120 Ohio St. 47 (1929); 1980 Op. Atty. Gen. No. 80-074; Ohio Rev. Code § 9.39; State ex rel. Village of Linndale v. Masten, 18 Ohio St. 3d 228 (1985). Public officials controlling public funds or property are liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property. See 1980 Op. Atty. Gen. No. 80-074.

**Finding Number 2015-002
(Continued)**

Joseph Sosnowski, former Fiscal Officer, and VFIS will be liable, jointly and severally, in the amount of \$5,347, and in favor of the Newton Falls Joint Fire District.

The District should be making timely payments on all obligations. Failing to make timely payments, could result in unnecessary and excessive disbursements.

3. Appropriations Limited by Estimated Revenue

<i>Finding Number</i>	2015-003
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NONCOMPLIANCE

Ohio Rev. Code §5705.39 states the total appropriations from each fund shall not exceed the total of the estimated revenue available for expenditure therefrom, as certified by the budget commission, or in case of appeal, by the board of tax appeals. No appropriation measure shall become effective until the county auditor files with the appropriating authority a certificate that the total appropriations from each fund, taken together with all other outstanding appropriations, do not exceed such official estimate or amended official estimate. When the appropriation does not exceed such official estimate, the county auditor shall give such certificate forthwith upon receiving from the appropriating authority a certified copy of the appropriation measure. Appropriations shall be made from each fund only for the purposes for which such fund is established.

The District did not submit the 2014 appropriations with the County Auditor until November 14, 2014.

The District did not submit the 2015 appropriations to the County Auditor.

The District lacked the adequate controls to make sure appropriations were submitted timely.

The District should submit a certified copy of the annual appropriation resolution and any applicable amendments to the County Auditor in a timely manner.

4. Actual Expenditures Exceeded Appropriations

<i>Finding Number</i>	2015-004
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NONCOMPLIANCE

Ohio Rev. Code § 5705.41(B) provides that no subdivision or taxing unit is to expend money unless it has been appropriated.

At the end of 2015, the District's expenditures exceeded appropriations in the EMS Fund in the amount of \$109,862.

**Finding Number 2015-004
 (Continued)**

The District's control procedures failed to prevent this non-compliance.

The District should amend the budget as needed to help ensure expenditures do not exceed appropriations.

5. Improper Posting of Receipts, Disbursements, Fund Balances, and Note Disclosures

<i>Finding Number</i>	2015-005
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MATERIAL WEAKNESS

Ohio Administrative Code Chapter 117-2-01 provides that all public officials are responsible for the design and operation of a system of internal control that is adequate to provide reasonable assurance regarding the achievement of objectives for their respective public offices in certain categories.

“Internal control” means a process effected by an entity’s governing board, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives for reliability of financial reporting;

The control procedures over the review of receipt transactions, fund balance classifications, and financial statement note disclosures failed to recognize the following errors because the District's procedures were inadequate. The District has made all required adjustments to their financial statements for the following material errors:

- In 2014, the District recorded State homestead and rollback receipts in the amount of \$15,270 as property taxes instead of intergovernmental.
- In 2014, the District classified the EMS Fund cash balance as unassigned in the amount of \$5,330. This amount should have been classified as restricted.
- In 2015, the District recorded State homestead and rollback receipts in the amount of \$15,738 as property tax instead of intergovernmental.
- In 2015, the District classified the EMS Fund cash balance as unassigned in the amount of \$161,433. This amount should have been classified as restricted.
- In 2015, the District entered into a lease purchase agreement with a local bank for the financing of two Physio Lifepak equipment units with equipment, interest, and maintenance costs of \$48,942, \$1,255, and \$11,107 respectively. The District did not disclose the lease agreement in the notes to the financial statements.

The control procedures over the review of receipt and disbursement transactions failed to recognize the following errors because the District's procedures were inadequate. The following immaterial errors were not adjusted on the District's financial statements:

- In 2015, the District recorded the first and second half manufactured home property tax settlements in an amount totaling \$1,108 to the General Fund (net of County Auditor deductions). The District should have recorded gross tax receipts (and deductions) to the General Fund and Special Revenue EMS Fund in the amount of \$304 (\$58) and \$1,004 (\$143) respectively. The error in posting caused the General Fund to be overstated in the amount of \$862 and the Special Revenue EMS Fund to be understated by \$862.
- In 2015, the District recorded a State grant in the amount of \$672 as General Fund property tax. The amount should have been classified as intergovernmental.

**Finding Number 2015-005
 (Continued)**

- In 2015, the District recorded State homestead & rollback receipts to the General Fund and Special Revenue EMS Fund in the amounts of \$15,738 and \$15,994 respectively. The District did not properly allocate the receipts based on the County statements of semiannual apportionment of taxes. The District should have posted \$15,232 and \$16,500 to the General Fund and Special Revenue EMS Fund respectively. The error in posting caused the General Fund to be overstated by \$506 and the Special Revenue EMS Fund to be understated by \$506. In addition to the error in fund posting, the District also posted the \$15,994 receipt as property tax instead of intergovernmental revenue.

The District lacked the adequate controls to make sure transactions were recorded properly.

The District should improve its control procedures to help ensure all amounts are properly recorded in the accounting system and related financial statements.

6. Integrated Budgetary Accounting System

<i>Finding Number</i>	2015-006
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MATERIAL WEAKNESS

The District should have internal controls in place to reasonably assure that budgetary accounts are integrated into the financial accounting system. This means designing an accounting system to provide ongoing information on budgetary receipts and disbursements.

The District enters budgetary data for estimated receipts and disbursements. However, the amounts entered do not agree with the approved appropriations. This can lead to decisions being made on faulty budgetary data and can lead to overspending and creating a negative fund balance if not monitored.

In 2014, the District did not update their accounting system for the Board approved 2014 appropriation resolutions. General Fund accounting system appropriations were understated by \$106,100. Total appropriations approved by Board Resolution #2014-02 were \$274,304, whereas, total appropriations in the accounting system at December 31, 2014 were \$168,204.

In 2015, the District did not update their accounting system for the Board approved 2015 appropriation resolutions. General Fund accounting system appropriations were understated by \$140,884 and EMS Fund accounting system appropriations were overstated by \$140,884. General Fund and EMS Fund appropriations approved by Board Resolution #2015-04 and May 25, 2015 Board Motion were \$293,899 and \$375,561 respectively, whereas, total appropriations in the accounting system at December 31, 2015 were \$153,015 and \$516,445 respectively. The District approved additional appropriation amendments 2015-07 and 2015-08 which were requested from the Fiscal Officer on 11/10/2016 and 12/1/2016. These amendments were not provided and could not be taking into consideration during our review.

The controls over the budgetary process failed to recognize errors related to posting appropriation balances since the District lacked proper procedures.

**Finding Number 2015-006
 (Continued)**

The District should post the approved appropriations and Official Certificate of Estimated Resources to the accounting system by the first of the year. Any amendments to those official documents should be promptly posted to the accounting system upon approval. This may help ensure correct budgetary information and District decisions can be based on more accurate data.

7. Bank versus Accounting System Reconciliations

<i>Finding Number</i>	2015-007
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SIGNIFICANT DEFICIENCY

In 2014 and 2015, the District asserted to us they reconciled the bank balances to the accounting system balances monthly. These reconciliations were completed in the District's accounting system and copies were provided to the Board. However, the District did not maintain copies of their reconciliations and they could not be retrieved from their accounting system. The District had to recreate monthly reconciliations for December 2014 and December 2015 in order for us to complete the audit.

The District's accounting system is not on a cash basis; however, the District prepares its financial statements on a cash basis.

The following differences were noted when reviewing the December 2014 bank to book reconciliations and the financial statements:

- Total bank balances were \$319,665.75. Total accounting system balances were \$320,216.48. Total fund balances on the financial statements were \$319,617.
- We also noted two checks totaling \$413.90 on the December 2014 outstanding check list were voided in the accounting system. Therefore they should not have been on the outstanding check list. As a result, the bank balance should have been \$320,079.65.

The following differences were noted when reviewing the December 2015 bank to book reconciliation and financial statements:

- Total bank balances were \$542,236.87. Total accounting system balances were \$550,372.32. Total fund balances on the financial statements were \$542,774.
- We also noted in 2015 the District paid a penalty to the IRS in the amount of \$3,203 via EFT. However, there was no evidence of the related posting in the accounting system. This error would understate General Fund other cash disbursements and overstated fund cash balance at December 31 in the amount of \$3,203.
- The District sold an ambulance to another Township for \$4,500 in 2015. The District posted receipts in the amount of \$9,000 instead of \$4,500. This error would overstate EMS miscellaneous receipts and fund cash balance at December 31 in the amount of \$4,500.
- We also noted the District received various EMS receipts totaling \$13,248. These receipts were deposited in the bank; however there was no evidence of their related posting in the accounting system. This error would understate EMS charges for services revenue and fund cash balance at December 31 in the amount of \$13,248.

**Finding Number 2015-007
 (Continued)**

There should not be unexplained differences between bank, accounting system, and financial statement balances. If unexplained differences continue in the future, possible findings for recoveries could be made for such differences. The District's accounting system and financial statements have not been adjusted for the above errors.

The District's outstanding check list reflected stale dated checks for the audit period. Such checks could increase the possibility that errors may occur and not be detected in a timely manner. Outstanding checks of six months or more should be deleted from the outstanding check list; a stop payment order should be issued; and the amount of the check should be reentered into an unclaimed money fund. A historical record of these checks should be maintained as adequate record of any subsequent claims. Removing the checks from the outstanding check list may increase the efficiency and help ensure the accuracy of the reconciliation process. Further, policies and procedures for the disposition of these old outstanding checks should be established and implemented pursuant to Ohio Rev. Code Section 9.39 (Auditor of State Management Advisory Service bulletin 91-011).

The District should reconcile all accounts to a zero variance each month. Since the District's accounting system is not on a cash basis, which is the basis the District's financial statements are prepared, the District should also prepare December reconciliations on a cash basis. The District should make sure the accounting system, bank balances, and financial statements are all reconciled to a zero variance. In addition, the District should adopt policies and procedures for stale dated checks.

8. Ohio Billing

<i>Finding Number</i>	2015-008
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SIGNIFICANT DEFICIENCY

The District contracts with Ohio Billing which acts as an outside processing service organization. Ohio Billing processes the District's ambulance and EMS billings and maintains the accounts receivable balances. Ohio Billing provides an annual SSAE No. 16 SOC 1 report with Complimentary Entity User Control Considerations. Ohio Billing recommends the following control procedures:

- Ensuring that only authorized and properly trained personnel are allowed physical and logical access to patient information;
- Review of the annually prepared Client Profile Update and notifying Ohio Billing of any changes in a timely manner;
- Notifying Ohio Billing of changes in the authorized contacts list;
- Accuracy and completeness of the data submitted for billing;
- Reviewing the reports produced by Ohio Billing after initial account setup, which provides a listing of each services billing rate, to ensure that service billing rate information has been processed completely and accurately;
- Submitting billing data in accordance with the mutually agreed upon schedule;
- The completeness and accuracy of client-specified procedures;
- Reviewing the completeness and accuracy of the accounts receivable reports that are produced by Ohio Billing;
- The timely depositing of funds upon receipt from service recipients;
- If applicable, reviewing collection status and providing instructions on collection process to initiate;

**Finding Number 2015-008
(Continued)**

- Reconciling Ohio Billing monthly reports to internal accounting records on a timely basis each month.

The District did not perform a monthly review over the completeness and accuracy of Ohio Billing Accounts Receivable reports or perform a reconciliation of the monthly reports to internal accounting records as recommended.

The District should review the annual Standards for Attestation Engagements No. 16 SOC 1 report for Ohio Billing. The District should implement policies and procedures that address the applicable SOC 1 Report Complimentary Entity User Control Considerations. The District should perform monthly reviews of Ohio Billing reports to help ensure all billings are complete and accurate. The District should also reconcile the monthly reports to internal accounting records.

Official's Responses: The District did not provide any responses.

**NEWTON FALLS JOINT FIRE DISTRICT
TRUMBULL COUNTY**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2015 AND 2014**

Finding Number	Finding Summary	Status	Additional Information
2013-001	Certifying the Availability of Funds (initially occurred 2007)	Not Corrected	Purchase orders were not issued properly
2013-002	Permanent Appropriation Measures (initially occurred 2007)	Not Corrected	Appropriations were not filed with the County Auditor. Appropriations were not approved and accounted for accurately

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Dave Yost • Auditor of State

NEWTON FALLS FIRE DISTRICT

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
JUNE 22, 2017**