



Dave Yost • Auditor of State

**CITY OF NEWTON FALLS
TRUMBULL COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Newton Falls, Trumbull County, Ohio (the "City"), as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

Ohio Administrative Code § 117-2-03 (B) requires the City to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Newton Falls, Trumbull County, Ohio, as of December 31, 2010, and the respective changes in cash financial position, thereof and the respective budgetary comparison for the General, Home Improvement Loan, and Court Computerization funds thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 27, 2011, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's Discussion and Analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

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

May 27, 2011

City of Newton Falls, Trumbull County, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2010

Unaudited

This discussion and analysis of the City of Newton Falls financial performance provides an overall review of the City's financial activities for the year ended December 31, 2010, within the limitations of the City's cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the City's financial performance.

Highlights

Key highlights for 2010 are as follows:

- Net assets of governmental activities decreased due to a decrease in income taxes, property taxes and miscellaneous revenues. The fund most affected by the decrease in cash and cash equivalents was the general fund, which realized the greatest decrease in revenues in 2010.
- The City's governmental receipts are primarily income taxes and fines, licenses and permits. These receipts represent over half of the total cash received for governmental activities during the year.

Using the Basic Financial Statements

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the City's cash basis of accounting.

Report Components

The statement of net assets and the statement of activities provide information about the cash activities of the City as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the City as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The City has elected to present its financial statements on a cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the City's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

City of Newton Falls, Trumbull County, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2010

Unaudited

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

Reporting the City of Newton Falls as a Whole

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

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

The statement of net assets and the statement of activities reflect how the City did financially during 2010, within the limitations of cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental and business-type activities of the City at year end. The statement of activities compares cash disbursements with program receipts for each governmental program and business-type activity. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function or business-type activity draws from the City's general receipts.

These statements report the City's cash position and the changes in cash position. Keeping in mind the limitations of the cash basis of accounting, you can think of these changes as one way to measure the City's financial health. Over time, increases or decreases in the City's cash position is one indicator of whether the City's financial health is improving or deteriorating. When evaluating the City's financial condition, you should also consider other non-financial factors as well such as the City's property tax base, the condition of the City's capital assets and infrastructure, the extent of the City's debt obligations, the reliance on non-local financial resources for operations and the need for continued growth in the major local revenue sources such as property and income taxes.

In the statement of net assets and the statement of activities, we divide the City into two types of activities:

Governmental activities Most of the City's basic services are reported here, including police, fire, streets and parks. State and federal grants and income and property taxes finance most of these activities. Benefits provided through governmental activities are not necessarily paid for by the people receiving them.

City of Newton Falls, Trumbull County, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2010

Unaudited

Business-type activities The City has three business-type activities for the provision of water, sewer and electric. Business-type activities are financed by a fee charged to the customers receiving the service.

Reporting the City of Newton Falls Most Significant Funds

Fund financial statements provide detailed information about the City's major funds – not the City as a whole. The City establishes separate funds to better manage its many activities and to help demonstrate that money that is restricted as to how it may be used is being spent for the intended purpose. The funds of the City are split into three categories: governmental, proprietary and fiduciary.

Governmental Funds - Most of the City's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the City's governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the City's programs. The City's significant governmental funds are presented on the financial statements in separate columns. The information for non-major funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. The City's major governmental funds are the general fund and the home improvement and court computerization special revenue funds. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements. We describe this relationship in reconciliations presented with the governmental fund financial statements.

Proprietary Funds – When the City charges customers for the services it provides, these services are generally reported in proprietary funds. When the services are provided to the general public, the activity is reported as an enterprise fund. The City has three enterprise funds: the water fund, the sewer fund and the electric fund. When the services are provided to other departments of the City, the service is reported as an internal service fund. The City has two internal service 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 City. Fiduciary funds are not reflected on the government-wide financial statements because the resources of these funds are not available to support the City's programs.

City of Newton Falls, Trumbull County, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2010

Unaudited

The City of Newton Falls as a Whole

Table 1 provides a summary of the City's net assets for 2010 compared to 2009 on a cash basis.

(Table 1)
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Assets						
Cash and Cash Equivalents	\$1,789,565	\$2,110,657	\$2,073,031	\$2,781,511	\$3,862,596	\$4,892,168
Restricted Cash and Cash Equivalents	0	0	105,249	66,949	105,249	66,949
Internal Balances	(152,393)	(229,666)	152,393	229,666	0	0
<i>Total Assets</i>	<u>\$1,637,172</u>	<u>\$1,880,991</u>	<u>\$2,330,673</u>	<u>\$3,078,126</u>	<u>\$3,967,845</u>	<u>\$4,959,117</u>
Net Assets						
Restricted for:						
Capital Outlay	\$109,055	\$233,988	\$0	\$0	\$109,055	\$233,988
Other Purposes	775,395	537,255	0	0	775,395	537,255
Debt Service	0	0	105,249	66,949	105,249	66,949
Unrestricted	<u>752,722</u>	<u>1,109,748</u>	<u>2,225,424</u>	<u>3,011,177</u>	<u>2,978,146</u>	<u>4,120,925</u>
<i>Total Net Assets</i>	<u>\$1,637,172</u>	<u>\$1,880,991</u>	<u>\$2,330,673</u>	<u>\$3,078,126</u>	<u>\$3,967,845</u>	<u>\$4,959,117</u>

- Total governmental assets decreased from 2009 to 2010. The decrease in equity in pooled cash and cash equivalents is largely due to poor economic conditions.
- Net assets of business-type activities decreased from 2009 to 2010. This decrease is largely made up of increased expenses for construction and improvements to the infrastructure of the City and the continued pay down of outstanding debt obligations.

City of Newton Falls, Trumbull County, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2010

Unaudited

Table 2 reflects the changes in net assets for 2010 compared to 2009 on a cash basis.

(Table 2)
Changes in Net Assets

	Governmental Activities		Business Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Receipts:						
<i>Program Receipts</i>						
Charges for Services	\$1,105,591	\$905,233	\$6,868,033	\$6,236,015	\$7,973,624	\$7,141,248
Operating Grants	577,348	403,897	69,773	374,982	647,121	778,879
Capital Grants and Contributions	48,461	0	0	0	48,461	0
<i>Total Program Receipts</i>	<u>1,731,400</u>	<u>1,309,130</u>	<u>6,937,806</u>	<u>6,610,997</u>	<u>8,669,206</u>	<u>7,920,127</u>
<i>General Receipts:</i>						
Property Taxes	146,224	191,934	0	0	146,224	191,934
Income Taxes	686,848	733,209	0	0	686,848	733,209
Intergovernmental	230,799	464,004	0	0	230,799	464,004
Proceeds of Notes	0	0	2,895,000	2,995,000	2,895,000	2,995,000
Proceeds of OWDA Loans	0	0	92,085	0	92,085	0
Investment Earnings	168,813	214,156	0	0	168,813	214,156
Miscellaneous	757,849	907,995	63,390	38,015	821,239	946,010
<i>Total General Receipts</i>	<u>1,990,533</u>	<u>2,511,298</u>	<u>3,050,475</u>	<u>3,033,015</u>	<u>5,041,008</u>	<u>5,544,313</u>
<i>Total Receipts</i>	<u>3,721,933</u>	<u>3,820,428</u>	<u>9,988,281</u>	<u>9,644,012</u>	<u>13,710,214</u>	<u>13,464,440</u>
Disbursements:						
General Government	1,638,618	1,487,421	0	0	1,638,618	1,487,421
Security of Persons and Property	1,241,690	1,058,192	0	0	1,241,690	1,058,192
Leisure Time Activities	83,797	107,097	0	0	83,797	107,097
Community Environment	64,925	261,959	0	0	64,925	261,959
Transportation	580,450	532,752	0	0	580,450	532,752
Capital Outlay	262,869	215,310	0	0	262,869	215,310
Principal Retirement	78,307	81,042	0	0	78,307	81,042
Interest and Fiscal Charges	15,096	12,361	0	0	15,096	12,361
Water	0	0	1,410,687	1,540,562	1,410,687	1,540,562
Sewer	0	0	1,509,901	1,529,250	1,509,901	1,529,250
Electric	0	0	7,815,146	8,002,944	7,815,146	8,002,944
<i>Total Disbursements</i>	<u>3,965,752</u>	<u>3,756,134</u>	<u>10,735,734</u>	<u>11,072,756</u>	<u>14,701,486</u>	<u>14,828,890</u>
Increase (Decrease) in Net Assets	(243,819)	64,294	(747,453)	(1,428,744)	(991,272)	(1,364,450)
<i>Net Assets, Beginning of Year</i>	<u>1,880,991</u>	<u>1,816,697</u>	<u>3,078,126</u>	<u>4,506,870</u>	<u>4,959,117</u>	<u>6,323,567</u>
<i>Net Assets, End of Year</i>	<u>\$1,637,172</u>	<u>\$1,880,991</u>	<u>\$2,330,673</u>	<u>\$3,078,126</u>	<u>\$3,967,845</u>	<u>\$4,959,117</u>

Program revenues increased in 2010. The majority of the increase is due to greater charges for services collected in fines, licenses and permits by the City. General revenues decreased from 2009. The decrease in interest income was due to lower rates of return on the City's investments and less cash available for investments. Income taxes and intergovernmental revenues decreased as a result of the tough economic conditions.

City of Newton Falls, Trumbull County, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2010

Unaudited

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

Security of persons and property are the costs of police protection; leisure time activities are the costs of maintaining the parks and playing fields; transportation is the cost of maintaining the streets and community environment is the code enforcement officer.

Governmental and Business-Type Activities

If you look at the Statement of Activities on pages 12 and 13, you will see that the first column lists the major services provided by the City. The next column identifies the costs of providing these services. The major program disbursements for governmental activities are for general government and security of persons and property. Transportation also represents a significant cost. The next three columns of the Statement entitled Program Cash Receipts identify amounts paid by people who are directly charged for the service and grants received by the City that must be used to provide a specific service. The net Receipt (Disbursement) columns compare the program receipts for governmental and business-type activities to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local taxpayers. A comparison between the total cost of services and the net cost for governmental and business-type activities is presented in Table 3.

(Table 3)

	Governmental Activities		Business-Type Activities	
	Total Cost Of Services 2010	Net Cost of Services 2010	Total Cost Of Services 2010	Net Cost of Services 2010
General Government	\$1,638,618	\$1,156,497	\$0	\$0
Security of Persons and Property	1,241,690	793,679	0	0
Leisure Time Activities	83,797	68,895	0	0
Community Environment	64,925	(187,262)	0	0
Transportation	580,450	264,347	0	0
Capital Outlay	262,869	44,793	0	0
Principal Retirement	78,307	78,307	0	0
Interest and Fiscal Charges	15,096	15,096	0	0
Water	0	0	1,410,687	37,852
Sewer	0	0	1,509,901	329,115
Electric	0	0	7,815,146	3,430,961
<i>Total Expenses</i>	<u>\$3,965,752</u>	<u>\$2,234,352</u>	<u>\$10,735,734</u>	<u>\$3,797,928</u>

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

City of Newton Falls, Trumbull County, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2010

Unaudited

The City of Newton Falls Funds

Total governmental funds had receipts of \$3,721,933 and disbursements of \$3,823,374. The greatest change within governmental funds occurred within the general fund as the result of increased revenue from fines, licenses and permits from the City making a greater effort in collections to increase revenues.

General fund disbursements were greater than receipts indicating that the general fund is in a deficit spending situation. It was the recommendation of the finance committee and the administration that a reduction in disbursements was preferable to requesting additional funds from the taxpayers.

General Fund Budgeting Highlights

The City's budget is prepared according to Ohio law and is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the general fund.

The City's final budgeted receipts were more than actual receipts. The negative difference was due to lower than expected collections of general fund revenues.

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

Capital Assets and Debt Administration

Capital Assets

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

Debt

At December 31, 2010, the City's outstanding debt included:

Table 4
Outstanding Long-Term Obligations at Year End

	<u>2010</u>	<u>2009</u>
<i>Governmental -Type Debt:</i>		
Municipal Court Promissory Notes	\$111,118	\$161,428
Capital Lease	60,737	88,374
Police and Fire Pension Liability	15,719	16,079
Total	<u>\$187,574</u>	<u>\$265,881</u>
<i>Business-Type Debt:</i>		
Mortgage Revenue Bonds	\$7,024,000	\$7,096,000
OWDA Loans	2,174,375	2,347,867
OPWC Loans	339,282	363,441
Line of Credit	2,895,000	2,995,000
Capital Lease	85,817	111,752
Total	<u>\$12,518,474</u>	<u>\$12,914,060</u>

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

City of Newton Falls, Trumbull County, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2010

Unaudited

Current Issues

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

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

Contacting the City's Financial Management

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

City of Newton Falls, Ohio
Statement of Net Assets - Cash Basis
December 31, 2010

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$1,789,565	\$2,073,031	\$3,862,596
Restricted Equity in Pooled Cash and Cash Equivalents	0	105,249	105,249
Internal Balances	(152,393)	152,393	0
<i>Total Assets</i>	<u>\$1,637,172</u>	<u>\$2,330,673</u>	<u>\$3,967,845</u>
Net Assets			
Restricted for:			
Capital Projects	\$109,055	\$0	\$109,055
Other Purposes	775,395	0	775,395
Debt Service	0	105,249	105,249
Unrestricted	<u>752,722</u>	<u>2,225,424</u>	<u>2,978,146</u>
<i>Total Net Assets</i>	<u>\$1,637,172</u>	<u>\$2,330,673</u>	<u>\$3,967,845</u>

See accompanying notes to the basic financial statements

City of Newton Falls, Ohio
Statement of Activities - Cash Basis
For the Year Ended December 31, 2010

	Program Cash Receipts			
	Cash Disbursements	Charges for Services	Operating Grants	Capital Grants and Contributions
Governmental Activities				
General Government	\$1,638,618	\$482,121	\$0	\$0
Security of Persons and Property	1,241,690	423,951	24,060	0
Leisure Time Activities	83,797	14,402	500	0
Community Environment	64,925	10,187	242,000	0
Transportation	580,450	5,315	310,788	0
Capital Outlay	262,869	169,615	0	48,461
Principal Retirement	78,307	0	0	0
Interest and Fiscal Charges	15,096	0	0	0
<i>Total Governmental Activities</i>	<u>3,965,752</u>	<u>1,105,591</u>	<u>577,348</u>	<u>48,461</u>
Business-Type Activities				
Water	1,410,687	1,372,835	0	0
Sewer	1,509,901	1,111,013	69,773	0
Electric	7,815,146	4,384,185	0	0
<i>Total Business-Type Activities</i>	<u>10,735,734</u>	<u>6,868,033</u>	<u>69,773</u>	<u>0</u>
<i>Total</i>	<u>\$14,701,486</u>	<u>\$7,973,624</u>	<u>\$647,121</u>	<u>\$48,461</u>

General Receipts

Property Taxes Levied for:

 General Purposes

 Police Pension

Municipal Income Taxes Levied for:

 General Purposes

 Street, Construction, Maintenance and Repair

 Parks and Recreation

 Capital Improvements

Grants and Entitlements not Restricted to Specific Programs

Proceeds of Notes

Proceeds of OWDA Loans

Investment Earnings

Miscellaneous

Total General Receipts

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

See accompanying notes to the basic financial statements

Net (Disbursements) Receipts and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(\$1,156,497)	\$0	(\$1,156,497)
(793,679)	0	(793,679)
(68,895)	0	(68,895)
187,262	0	187,262
(264,347)	0	(264,347)
(44,793)	0	(44,793)
(78,307)	0	(78,307)
(15,096)	0	(15,096)
<u>(2,234,352)</u>	<u>0</u>	<u>(2,234,352)</u>
0	(37,852)	(37,852)
0	(329,115)	(329,115)
0	(3,430,961)	(3,430,961)
<u>0</u>	<u>(3,797,928)</u>	<u>(3,797,928)</u>
<u>(2,234,352)</u>	<u>(3,797,928)</u>	<u>(6,032,280)</u>
128,677	0	128,677
17,547	0	17,547
502,485	0	502,485
52,675	0	52,675
52,675	0	52,675
79,013	0	79,013
230,799	0	230,799
0	2,895,000	2,895,000
0	92,085	92,085
168,813	0	168,813
757,849	63,390	821,239
<u>1,990,533</u>	<u>3,050,475</u>	<u>5,041,008</u>
(243,819)	(747,453)	(991,272)
<u>1,880,991</u>	<u>3,078,126</u>	<u>4,959,117</u>
<u>\$1,637,172</u>	<u>\$2,330,673</u>	<u>\$3,967,845</u>

City of Newton Falls, Ohio
Statement of Cash Basis Assets and Fund Balances
Governmental Funds
December 31, 2010

	General	Home Improvement Loan	Court Computerization	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$471,935	\$213,784	\$179,584	\$491,082	\$1,356,385
Fund Balances					
Reserved for Encumbrances	\$55,368	\$39,885	\$11,230	\$125,554	\$232,037
Unreserved, Undesignated, Reported in:					
General Fund	416,567	0	0	0	416,567
Special Revenue Funds	0	173,899	168,354	346,338	688,591
Capital Projects Funds	0	0	0	19,190	19,190
<i>Total Fund Balances</i>	<u>\$471,935</u>	<u>\$213,784</u>	<u>\$179,584</u>	<u>\$491,082</u>	<u>\$1,356,385</u>

See accompanying notes to the basic financial statements

City of Newton Falls, Ohio
*Reconciliation of Cash Basis Assets and Fund Balances to
 Net Assets of Governmental Activities
 December 31, 2010*

Total Governmental Funds Balances	\$1,356,385
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
 The internal service fund is used by management to charge the costs of insurance to individual funds. The assets of the internal service fund are included in the statement of net assets:	
Net Assets	433,180
Internal Balances	<u>(152,393)</u>
Total	<u>280,787</u>
 <i>Net Assets of Governmental Activities</i>	 <u><u>\$1,637,172</u></u>

See accompanying notes to the basic financial statements

City of Newton Falls, Ohio
Statement of Cash Receipts, Disbursements and Changes in Cash Basis Fund Balances
Governmental Funds
For the Year Ended December 31, 2010

	General	Home Improvement Loan	Court Computerization	Other Governmental Funds	Total Governmental Funds
Receipts					
Property Taxes	\$128,677	\$0	\$0	\$17,547	\$146,224
Municipal Income Taxes	502,485	0	0	184,363	686,848
Intergovernmental	230,799	242,000	0	383,809	856,608
Charges for Services	17,932	0	0	19,717	37,649
Fines, Licenses and Permits	854,930	0	70,013	142,999	1,067,942
Investment Earnings	168,020	0	0	793	168,813
Miscellaneous	746,847	0	6,639	4,363	757,849
<i>Total Receipts</i>	<u>2,649,690</u>	<u>242,000</u>	<u>76,652</u>	<u>753,591</u>	<u>3,721,933</u>
Disbursements					
Current:					
General Government	1,553,126	0	0	12,458	1,565,584
Security of Persons and Property	1,148,974	0	0	43,756	1,192,730
Leisure Time Activities	0	0	0	83,797	83,797
Community Environment	29,810	35,115	0	0	64,925
Transportation	0	0	0	560,066	560,066
Capital Outlay	0	0	28,931	233,938	262,869
Debt Service:					
Principal Retirement	0	0	0	78,307	78,307
Interest and Fiscal Charges	0	0	0	15,096	15,096
<i>Total Disbursements</i>	<u>2,731,910</u>	<u>35,115</u>	<u>28,931</u>	<u>1,027,418</u>	<u>3,823,374</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(82,220)</u>	<u>206,885</u>	<u>47,721</u>	<u>(273,827)</u>	<u>(101,441)</u>
Other Financing Sources (Uses)					
Transfers In	0	0	0	132,428	132,428
Transfers Out	(132,428)	0	0	0	(132,428)
<i>Total Other Financing Sources (Uses)</i>	<u>(132,428)</u>	<u>0</u>	<u>0</u>	<u>132,428</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	(214,648)	206,885	47,721	(141,399)	(101,441)
<i>Fund Balances Beginning of Year</i>	<u>686,583</u>	<u>6,899</u>	<u>131,863</u>	<u>632,481</u>	<u>1,457,826</u>
<i>Fund Balances End of Year</i>	<u>\$471,935</u>	<u>\$213,784</u>	<u>\$179,584</u>	<u>\$491,082</u>	<u>\$1,356,385</u>

See accompanying notes to the financial statements

City of Newton Falls, Ohio

*Reconciliation of the Statement of Cash Receipts, Disbursements and Changes
in Cash Basis Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2010*

Net Change in Fund Balance - Total Governmental Funds (\$101,441)

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

The internal service fund used by management is not reported in the City-wide statement of activities. Governmental fund disbursements and related internal service fund receipts are eliminated. The net receipts (disbursements) of the internal service fund is allocated among the different governmental activities:

Change in Net Assets	(219,651)
Internal Balances	<u>77,273</u>

Total	<u>(142,378)</u>
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Change in Net Assets of Governmental Activities (\$243,819)

See accompanying notes to the basic financial statements

City of Newton Falls, Ohio
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Year Ended December 31, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts				
Property Taxes	\$148,624	\$148,903	\$128,677	(\$20,226)
Municipal Income Taxes	580,378	581,469	502,485	(78,984)
Intergovernmental	266,577	267,078	230,799	(36,279)
Charges for Services	20,712	20,751	17,932	(2,819)
Fines, Licenses and Permits	987,459	989,314	854,930	(134,384)
Investment Earnings	194,066	194,431	168,020	(26,411)
Miscellaneous	862,622	864,242	746,847	(117,395)
<i>Total Receipts</i>	3,060,438	3,066,188	2,649,690	(416,498)
Disbursements				
Current:				
General Government	1,793,194	1,785,826	1,584,603	201,223
Security of Persons and Property	1,326,571	1,321,120	1,172,260	148,860
Community Environment	34,417	34,276	30,415	3,861
<i>Total Disbursements</i>	3,154,182	3,141,222	2,787,278	353,944
<i>Excess of Receipts Under Disbursements</i>	(93,744)	(75,034)	(137,588)	(62,554)
Other Financing Uses				
Transfers Out	(149,998)	(149,382)	(132,428)	16,954
<i>Net Change in Fund Balance</i>	(243,742)	(224,416)	(270,016)	(45,600)
<i>Fund Balance Beginning of Year</i>	493,533	493,533	493,533	0
Prior Year Encumbrances Appropriated	193,050	193,050	193,050	0
<i>Fund Balance End of Year</i>	\$442,841	\$462,167	\$416,567	(\$45,600)

See accompanying notes to the basic financial statements

City of Newton Falls, Ohio
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual (Budget Basis)
Home Improvement Loan Fund
For the Year Ended December 31, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts				
Intergovernmental	\$225,000	\$225,000	\$242,000	\$17,000
Disbursements				
Current:				
Community Environment	225,000	75,000	75,000	0
<i>Net Change in Fund Balance</i>	0	150,000	167,000	17,000
<i>Fund Balance Beginning of Year</i>	6,899	6,899	6,899	0
<i>Fund Balance End of Year</i>	<u>\$6,899</u>	<u>\$156,899</u>	<u>\$173,899</u>	<u>\$17,000</u>

See accompanying notes to the basic financial statements

City of Newton Falls, Ohio
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual (Budget Basis)
Court Computerization Fund
For the Year Ended December 31, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts				
Fines, Licenses and Permits	\$45,669	\$45,669	\$70,013	\$24,344
Miscellaneous	4,331	4,331	6,639	2,308
<i>Total Receipts</i>	50,000	50,000	76,652	26,652
Disbursements				
Current:				
Capital Outlay	50,000	40,000	40,161	(161)
<i>Net Change in Fund Balance</i>	0	10,000	36,491	26,491
<i>Fund Balance Beginning of Year</i>	130,738	130,738	130,738	0
Prior Year Encumbrances Appropriated	1,125	1,125	1,125	0
<i>Fund Balance End of Year</i>	<u>\$131,863</u>	<u>\$141,863</u>	<u>\$168,354</u>	<u>\$26,491</u>

See accompanying notes to the basic financial statements

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City of Newton Falls, Ohio
Statement of Fund Net Assets - Cash Basis
Proprietary Funds
December 31, 2010

	Enterprise		
	Water	Sewer	Electric
Assets			
Equity in Pooled Cash and Cash Equivalents	\$302,161	\$578,383	\$1,192,487
Restricted Equity in Pooled Cash and Cash Equivalents	0	105,249	0
Total Assets	<u>\$302,161</u>	<u>\$683,632</u>	<u>\$1,192,487</u>
Net Assets			
Restricted for:			
Debt Service	\$0	\$105,249	\$0
Unrestricted	302,161	578,383	1,192,487
Total Net Assets	<u>\$302,161</u>	<u>\$683,632</u>	<u>\$1,192,487</u>

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

Net assets of business-type activities:

See accompanying notes to the basic financial statements

<u>Funds</u>	
<u>Total</u>	<u>Internal Service</u>
\$2,073,031	\$433,180
105,249	0
<u>\$2,178,280</u>	<u>\$433,180</u>
105,249	\$0
2,073,031	<u>433,180</u>
	<u>\$433,180</u>
<u>152,393</u>	
<u>\$2,330,673</u>	

City of Newton Falls, Ohio
*Statement of Cash Receipts,
Disbursements and Changes in Fund Net Assets - Cash Basis
Proprietary Funds
For the Year Ended December 31, 2010*

	Enterprise		
	Water	Sewer	Electric
Operating Receipts			
Charges for Services	\$1,372,835	\$1,111,013	\$4,384,185
Miscellaneous	3,977	114	59,299
<i>Total Operating Receipts</i>	<u>1,376,812</u>	<u>1,111,127</u>	<u>4,443,484</u>
Operating Disbursements			
Personal Services	603,532	388,195	263,703
Travel and Transportation	848	0	6,269
Contractual Services	165,294	162,174	3,459,057
Materials and Supplies	148,770	36,657	44,230
Claims	0	0	0
Capital Outlay	14,247	142,907	483,875
Miscellaneous	241,920	241,920	406,452
<i>Total Operating Disbursements</i>	<u>1,174,611</u>	<u>971,853</u>	<u>4,663,586</u>
<i>Operating Income (Loss)</i>	<u>202,201</u>	<u>139,274</u>	<u>(220,102)</u>
Non-Operating Receipts (Disbursements)			
Redemption of Principal	(158,555)	(203,181)	(3,020,935)
Interest and Fiscal Charges	(45,232)	(311,804)	(108,704)
Operating Grants	0	69,773	0
Proceeds of Notes	0	0	2,895,000
Proceeds of OWDA Loans	0	92,085	0
<i>Total Non-Operating Receipts (Disbursements)</i>	<u>(203,787)</u>	<u>(353,127)</u>	<u>(234,639)</u>
<i>Change in Net Assets</i>	(1,586)	(213,853)	(454,741)
<i>Net Assets Beginning of Year</i>	<u>303,747</u>	<u>897,485</u>	<u>1,647,228</u>
<i>Net Assets End of Year</i>	<u>\$302,161</u>	<u>\$683,632</u>	<u>\$1,192,487</u>

Some amounts reported for business-type activities in the statement of activities are different because a portion of the net disbursements of the internal service funds is reported with business-type activities:

Change in net assets of business-type activities:

See accompanying notes to the basic financial statements

<u>Funds</u>	
<u>Total</u>	<u>Internal Service</u>
\$6,868,033	\$480,869
<u>63,390</u>	<u>0</u>
6,931,423	480,869
<u>1,255,430</u>	<u>0</u>
7,117	0
3,786,525	0
229,657	0
0	700,520
641,029	0
<u>890,292</u>	<u>0</u>
6,810,050	700,520
<u>121,373</u>	<u>(219,651)</u>
(3,382,671)	0
(465,740)	0
69,773	0
2,895,000	0
<u>92,085</u>	<u>0</u>
(791,553)	0
(670,180)	(219,651)
	<u>652,831</u>
	<u>\$433,180</u>
<u>(77,273)</u>	
<u>(\$747,453)</u>	

City of Newton Falls, Ohio
Statement of Fiduciary Net Assets - Cash Basis
Fiduciary Funds
December 31, 2010

	Private Purpose Trust	
	Unclaimed Monies	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$9,163	\$190,201
Cash and Cash Equivalents:		
In Segregated Accounts	0	10,877
<i>Total Assets</i>	9,163	\$201,078
Liabilities		
Deposits Held and Due to Others	0	\$201,078
Net Assets		
Held in Trust for Unclaimed Monies	\$9,163	

See accompanying notes to the basic financial statements

City of Newton Falls, Ohio
Statement of Changes in Fiduciary Net Assets
Private Purpose Trust Fund
For the Year Ended December 31, 2010

	Unclaimed Monies
Additions	
Miscellaneous	\$292
Deductions	
	0
<i>Change in Net Assets</i>	292
<i>Net Assets Beginning of Year</i>	8,871
<i>Net Assets End of Year</i>	\$9,163

See accompanying notes to the basic financial statements

City of Newton Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

Note 1 - Reporting Entity

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

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

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

Note 2 - Summary of Significant Accounting Policies

As discussed further in Note 2, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The City does not apply FASB statements issued after November 30, 1989, to its business-type activities and to its enterprise funds. Following are the more significant of the City's accounting policies.

Basis of Presentation

The City's basic financial statements consist of a government-wide statement of net assets and a statement of activities and fund financial statements providing a more detailed level of financial information.

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type.

The government-wide statement of net assets presents the cash balance of the governmental and business-type activities of the City at year end. The government-wide statement of activities compares disbursements with program receipts for each function or program of the City's governmental activities and for the business-type activities of the City. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the government is responsible. Program receipts include charges paid by the recipient of the program's goods or services and grants and

City of Newton Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each business segment or governmental function is self-financing on a cash basis or draws from the City's general receipts.

Fund Financial Statements During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

Proprietary fund statements distinguish operating transactions from nonoperating transactions. Operating receipts generally result from exchange transactions such as charges for services directly relating to the funds' principal services. Operating disbursements include costs of sales and services and administrative costs. The fund statements report all other receipts and disbursements as nonoperating.

Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

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

General Fund The general fund accounts for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the City for any purpose provided it is expended or transferred according to the general laws of Ohio.

Home Improvement Loan Fund The special revenue fund accounts for monies received from the federal government via the Ohio Department of Development. The funding received is to directly benefit low and moderate-income persons in the community. Projects include housing rehabilitation, maintenance, and planning and administrative costs that meet the programs national objectives.

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

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

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

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

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

City of Newton Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

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 City and also customers located outside City limits. The costs of providing these services are financed primarily through user charges.

Internal Service Funds – The internal service funds account for the financing of services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis. The City's internal service funds report on City departments' self insurance programs for employee medical benefits and utilities.

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City's private-purpose trust fund accounts for unclaimed monies. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency fund accounts for the amounts collected by the municipal court that are paid to other governments.

Basis of Accounting

The City's financial statements are prepared using the cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the City's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the City are described in the appropriate section in the notes.

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

Cash and Cash Equivalents

To improve cash management, cash received by the City is pooled and invested. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through City records. Interest in the pool is presented as "equity in pooled cash and cash equivalents".

During 2010, 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

City of Newton Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act to 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 2010.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2010 amounted to \$168,020, which includes \$148,910 assigned from other City funds.

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

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

Restricted Assets

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

Inventory and Prepaid Items

On the cash-basis of accounting, inventories of supplies and food service items are reported as disbursements when purchased. These items are not reflected as assets in the accompanying financial statements.

Capital Assets

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

Accumulated Leave

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

Long-term Obligations

The City's cash basis financial statements do not report liabilities for bonds and other long-term obligations. These statements report proceeds of debt when cash is received and debt service disbursements for debt principal and interest payments are reported when paid.

Fund Balance Reserves

The City reserves any portion of fund balances legally segregated for a specific future use or which are not available for appropriation or disbursement. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances.

City of Newton Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions, enabling legislation (adopted by the City) or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes include parks and recreation, law library and court computerization.

The City first applies restricted resources when incurring a disbursement for which it may use either restricted or unrestricted resources.

Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues. Transfers between governmental activities are eliminated on the government-wide financial statements. Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the Statement of Activities. Interfund payments for services provided and used are not eliminated.

The statements report exchange transactions between funds as receipts in the seller funds and as disbursements in the purchasing funds. Nonexchange flows of cash from one fund to another are reported as interfund transfers. Governmental funds report interfund transfers as other financing sources/uses; proprietary funds report transfers after nonoperating receipts and disbursements. The statements do not report repayments from funds responsible for particular disbursements to the funds initially paying the costs.

Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriations ordinance, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the City Council may appropriate. The appropriations ordinance is the City Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the City Council. The legal level of control has been established by the City Council at the object level for all funds. Any budgetary modifications at this level may only be made by ordinance of the City Council.

The certificate of estimated resources may be amended during the year if the City Finance Director projects increases or decreases in receipts. The amounts reported as the original and final budget in the budgetary statements reflect the amounts in the amended certificate of estimated resources in effect at the time the original and final appropriations ordinance were passed by City Council.

The City Council may amend appropriations throughout the year with the restriction that appropriations may not exceed estimated resources. The amounts reported as the original budget reflect the first appropriation ordinance for a fund covering the entire year, including amounts automatically carried over from prior years. The amounts reported as the final budget represent the final appropriation ordinance the City Council passed during the year.

Note 3 – Change in Accounting Principles

For 2010, the City implemented Governmental Accounting Standard Board (GASB) Statement No. 51, "Accounting and Reporting for Intangible Assets." GASB Statement No. 51 establishes accounting and

City of Newton Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

financial reporting of such assets to reduce inconsistencies thereby enhancing the comparability of accounting and financial reporting of such assets among state and local governments. The implementation of this statement did not result in any change to the City's financial statements.

Note 4 – Compliance

Ohio Administrative Code, section 117-2-03 (B), requires the City to prepare its annual financial report in accordance with generally accepted accounting principles. However, the City prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net assets/fund balances, and disclosures that, while material, cannot be determined at this time. The City can be fined and various other administrative remedies may be taken against the City.

Note 5 – Budgetary Basis of Accounting

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budget Basis for the general fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the cash basis is that outstanding year end encumbrances are treated as expenditures (budgetary basis) rather than as a reservation of fund balance (cash basis). The general fund encumbrances outstanding at year end (budgetary basis) amounted to \$55,368.

Note 6 – Deposits and Investments

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

Active monies are public monies determined to be necessary to meet current demands upon the City treasury. Active monies must be maintained either as cash in the City treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that Council has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts, including passbook accounts.

City of Newton Falls, Ohio
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Interim monies held by the City can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in securities listed above;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, and
7. The State Treasurer's investment pool (STAR Ohio).
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.

The City may also invest any monies not required to be used for a period of six months or more in the following:

1. Bonds of the State of Ohio;
2. Bond of any municipal corporation, village, county, township or other political subdivision of this State, as to which there is not default of principal, interest, or coupons; and,
3. Obligations of the City.

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by collateral pledged to the City by the financial institution or by a collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity.

City of Newton Falls, Ohio
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Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the City or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian. The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements".

Investments

Investments are reported at fair value. As of December 31, 2010, the City had the following investments:

	Fair Value	Maturity	Standard & Poor's	Percent of Total Investments
Mutual Funds	\$1,354,738	Daily	AA+	58.52%
Taxable Bonds	955,767	Greater than five years	AA+	41.29%
STAR Ohio	4,403	Average 58 Days	AAAm	N/A
<i>Totals</i>	<u>\$2,314,908</u>			

Interest Rate Risk As a means of limiting its exposure to fair value losses caused by rising interest rates, the City's investment policy requires that operating funds be invested primarily in short-term investments maturing within five years from the date of purchase, unless they are matched to a specific obligation or debt of the City, and that the City's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments. The stated intent of the policy is to avoid the need to sell securities prior to maturity.

Credit Risk The United States taxable bonds carry a rating of 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 City has no investment policy that addresses credit risk.

Custodial Credit Risk For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The underlying securities of the repurchase agreement are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty. The City has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

Concentration of Credit Risk The City places no limit on the amount it may invest in any one issuer.

City of Newton Falls, Ohio
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For the Year Ended December 31, 2010

Note 7 – Receivables

Property Taxes

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2010 for real and public utility property taxes represents collections of the 2009 taxes. Property tax payments received during 2010 for tangible personal property (other than public utility property) is for 2010 taxes.

2010 real property taxes are levied after October 1, 2010, on the assessed value as of January 1, 2010, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2010 real property taxes are collected in and intended to finance 2011.

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

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2010 public utility property taxes which became a lien December 31, 2009, are levied after October 1, 2010, and are collected in 2011 with real property taxes.

Tangible personal property tax revenue received during 2010 (other than public utility property tax) represents the collection of 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. Tangible personal property taxes received from telephone companies in 2010 were levied after October 1, 2009, on the value as of December 31, 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The full tax rate for all City operations for the year ended December 31, 2010 was \$2.50 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2010 property tax receipts were based are as follows:

Real Property	
Residential/Agricultural	\$44,803,450
Other Real Estate	14,529,870
Public Utility Personal Property	401,690
Tangible Personal Property	80,450
Total	<u><u>\$59,815,460</u></u>

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

City of Newton Falls, Ohio
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For the Year Ended December 31, 2010

Income Tax

The City levies and collects an income tax of 1.0 percent on all income earned within the City as well as on income of residents earned outside the City. In the latter case, the City allows a credit of 100 percent of the tax paid to another municipality, not to exceed the amount owed. Employers within the City are required to withhold income tax on employee earnings and remit the tax to the City either monthly or quarterly as required. Corporations and other individual taxpayers are also required to pay their estimated tax at least quarterly and file a final return annually. In 2010, 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 City receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or any other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2010.

Litigation

The City of Newton Falls is a party to legal proceedings. The City management is of the opinion that ultimate disposition of these claims and legal proceedings will not have a material effect, if any, on the financial condition of the City.

Note 9 - Risk Management

The City of Newton Falls is exposed to various risks of loss to torts; thefts of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disaster. During 2010, the City contracted with Ohio Plan Insurance for various types of insurance coverage as follows:

<u>Type</u>	<u>Coverage</u>	<u>Deductible</u>
Inland Marine	\$1,039,921	\$1,000
Property	35,543,207	2,500
Electronic Data Processing	101,500	500
Fleet Vehicle		
Physical Damage	50,000	0
Liability	5,000,000	500

The City has elected to provide medical benefits through a self insured program. The maintenance of these benefits is accounted for in the self-funded hospitalization internal service fund. An excess coverage insurance (stop loss) policy covers annual claims in excess of \$45,000 per individual.

City of Newton Falls, Ohio
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For the Year Ended December 31, 2010

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

Note 10 - Defined Benefit Pension Plans

Ohio Public Employees Retirement System

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

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

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions and currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units and 18.1 percent of covered payroll for law and public safety employer units. Member contribution rates, as set in the Ohio Revised Code, are not to exceed 10 percent. For the year ended December 31, 2010, members in state and local classifications contributed 10 percent of covered payroll while public safety and law enforcement members contributed 10.5 percent and 11.1 percent, respectively. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Pension Plan. For 2010, member and employer contribution rates were consistent across all three plans.

The City's 2010 contribution rate was 14.0 percent, except for those plan members in law enforcement or public safety, for whom the City's contribution was 17.87 percent of covered payroll. The portion of employer contributions used to fund pension benefits is net of post-employment health care benefits. The portion of employer contribution allocated to health care for members in the Traditional Plan was 5.5 percent from January 1 through February 28, 2010, and 5 percent from March 1 through December 31, 2010. The portion of employer contributions allocated to health care for members in the Combined Plan was 4.73 percent from January 1 through February 28, 2010, and 4.23 percent from March 1 through December 31, 2010. Employer contribution rates are actuarially determined.

The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2010, 2009 and 2008 were \$203,851, \$185,025 and \$153,113, respectively; 92.18 percent has been contributed for 2010 and 100 percent for 2009 and 2008. There were no contributions to the Member-Directed Plan for 2010.

City of Newton Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

Ohio Police Pension Fund

Plan Description – The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy – 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 City's contributions to OP&F for police was \$48,178 for the year ended December 31, 2010, \$41,831 for the year ended December 31, 2009, and \$34,081 for the year ended December 31, 2008. 72.50 percent for police has been contributed for 2010. The full amount has been contributed for 2009 and 2008.

In addition to current contributions, the City pays installments on the accrued liability incurred when the State of Ohio established the statewide pension system for police in 1967. As of December 31, 2010, the unfunded liability of the City was \$15,719 payable in semi-annual payments through the year 2035. This is an accounting liability of the City 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.

City of Newton Falls, Ohio
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Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy – The post-employment health care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care through contributions to OPERS. A portion of each employer’s contribution to OPERS is set aside for the funding of post-retirement health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2010, state and local employers contributed at a rate of 14.0 percent of covered payroll, and public safety and law enforcement employers contributed at 17.87 percent. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units and 18.1 percent of covered payroll for law and public safety employer units.

Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 5.5 percent from January 1 through February 28, 2010, and 5 percent from March 1 through December 31, 2010. The portion of employer contributions allocated to health care for members in the Combined Plan was 4.73 percent from January 1 through February 28, 2010, and 4.23 percent from March 1 through December 31, 2010.

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

The City’s contributions allocated to fund post-employment health care benefits for the years ended December 31, 2010, 2009 and 2008 were \$116,095, \$133,827 and \$153,113 respectively; 92.18 percent has been contributed for 2010 and 100 percent for 2009 and 2008.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased on January 1 of each year from 2006 to 2008. Rates for law and public safety employers increased over a six year period beginning on January 1, 2006, with a final rate increase on January 1, 2011. These rate increases allowed additional funds to be allocated to the health care plan.

Ohio Police Pension Fund

Plan Description – The City contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored health care program, a cost-sharing multiple-employer defined post-employment health care plan administered by OP&F. OP&F provides health care benefits including coverage for medical, prescription drugs, dental, vision, Medicare Part B Premium 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.

City of Newton Falls, Ohio
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The Ohio Revised Code allows, but does not mandate OP&F to provide OPEB benefits. Authority for the OP&F Board of Trustees to provide health care coverage to eligible participants and to establish and amend benefits is codified in Chapter 742 of the Ohio Revised Code.

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

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

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, 2010, the employer contribution allocated to the health care plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

The OP&F Board of Trustees also is authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions to OP&F which were allocated to fund post-employment health care benefits for police were \$25,506 for the year ended December 31, 2010, \$22,146 for the year ended December 31, 2009, and \$18,043 for the year ended December 31, 2008. 72.50 percent has been contributed for police for 2010. The full amount has been contributed for 2009 and 2008.

City of Newton Falls, Ohio
Notes to the Basic Financial Statements
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Note 12 - Long-Term Obligations

Original issue amounts and interest rates of the City's debt issues were as follows:

Debt Issue	Interest Rate	Original Issue	Year of Maturity
<i>Governmental-Type Debt:</i>			
Municipal Court Renovation Promissory Note	6.03%	\$580,000	2015
Ohio Police Pension	4.25%	N/A	2035
<i>Business-Type Debt</i>			
Mortgage Revenue Bonds Series A	4.38%	4,960,000	2048
Mortgage Revenue Bonds Series B	4.38%	2,205,000	2048
<i>OWDA Loans</i>			
Wastewater Treatment Plant and Sewer Improvements	2.00%	1,005,976	2011
Warren Avenue Combined Sewer Separation	1.00%	N/A	N/A
OWDA #3806	2.00%	3,102,133	2024
<i>OPWC Loans</i>			
Broad Street Water Distribution	0.00%	253,463	2025
Broad Street Storm Water	0.00%	186,493	2025
OPWC #CF28G	0.00%	43,187	2025
Electric System Line of Credit	N/A	2,895,000	2011

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

	Balance 12/31/09	Additions	Reductions	Balance 12/31/10	Amounts Due in One Year
Governmental Activities					
<i>Promissory Note</i>					
Municipal Court Renovation	\$161,428	\$0	(\$50,310)	\$111,118	\$45,435
<i>Capital Lease</i>	88,374	0	(27,637)	60,737	29,420
<i>Other</i>					
Ohio Police Pension	16,079	0	(360)	15,719	366
Total Governmental Activities	\$265,881	\$0	(\$78,307)	\$187,574	\$75,221

City of Newton Falls, Ohio
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For the Year Ended December 31, 2010

	Balance 12/31/09	Additions	Reductions	Balance 12/31/10	Amounts Due in One Year
Business-Type Activities					
<i>Mortgage Revenue Bonds</i>					
Series A	\$4,912,200	\$0	(\$49,800)	\$4,862,400	\$52,000
Series B	2,183,800	0	(22,200)	2,161,600	23,100
<i>Total Mortgage Revenue Bonds</i>	<u>7,096,000</u>	<u>0</u>	<u>(72,000)</u>	<u>7,024,000</u>	<u>75,100</u>
<i>OWDA Loans</i>					
Wastewater Treatment Plant and Sewer Improvements	50,516	0	(50,516)	0	0
Warren Avenue Combined Sewer Separation	0	92,085	(71,338)	20,747	0
OWDA #3806	2,297,351	0	(143,723)	2,153,628	146,611
<i>Total OWDA Loans</i>	<u>2,347,867</u>	<u>92,085</u>	<u>(265,577)</u>	<u>2,174,375</u>	<u>146,611</u>
<i>OPWC Loans</i>					
Broad Street Water Distribution	190,098	0	(12,673)	177,425	12,674
Broad Street Storm Water	139,872	0	(9,327)	130,545	9,324
OPWC #CF28G	33,471	0	(2,159)	31,312	2,160
<i>Total OPWC Loans</i>	<u>363,441</u>	<u>0</u>	<u>(24,159)</u>	<u>339,282</u>	<u>24,158</u>
<i>Bond Anticipation Notes</i>					
Electric System	2,995,000	0	(2,995,000)	0	0
<i>Line of Credit</i>					
Electric System	0	2,895,000	0	2,895,000	2,895,000
<i>Capital Lease</i>					
	111,752	0	(25,935)	85,817	27,227
<i>Total Business-Type Activities</i>	<u><u>\$12,914,060</u></u>	<u><u>\$2,987,085</u></u>	<u><u>(\$3,382,671)</u></u>	<u><u>\$12,518,474</u></u>	<u><u>\$3,168,096</u></u>

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

During 2008, the City entered into a five year capital lease with Kansas State Bank of Manhattan for an electric bucket truck for the principal amount of \$137,912. The lease will be paid from the electric enterprise fund.

During 2009, the City entered into a four year capital lease with Ford Motor Credit for police cruisers for the principal amount of \$121,711. The lease will be paid from the capital improvements fund.

During 2010, the City of Newton Falls issued a line of credit for \$2,895,000 payable at a variable rate 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.

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

Mortgage Revenue bonds of the City of Newton Falls are obligations of the City secured by a mortgage upon all assets of the sewer system. These bonds are payable solely from gross revenues of the sewer system after provisions for operating and maintenance expenses. These bond indentures have certain restrictive covenants and principally require that bond reserve funds be maintained and charges for services to customers in sufficient amounts to satisfy the annual obligation under the indenture agreement. In addition, special provisions exist regarding covenant violations, redemptions of principal, payment of interest, establishing renewal and replacement accounts and maintenance of properties.

As of December 31, 2010 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, 2010, restricted the City's Sewer fund assets in the amount of \$105,249 for operation and maintenance.

The City has pledged future revenues, net of operating expenses, to repay OPWC loans in the sewer enterprise fund. The debt is payable solely from net revenues and are payable through 2025. Annual principal payments on the debt issues are expected to require 12.13 percent of net revenues. The total principal remaining to be paid on the debt is \$161,857. Principal paid for the current year and total net revenues were \$11,486 and \$139,274 respectively.

The City has pledged future revenues, net of operating expenses, to repay OPWC loans in the water enterprise fund. The debt is payable solely from net revenues and are payable through 2025. Annual principal payments on the debt issues are expected to require 15.96 percent of net revenues. The total principal remaining to be paid on the debt is \$177,425. Principal paid for the current year and total net revenues were \$12,673 and \$202,201 respectively.

The City's overall legal debt margin was \$6,280,623 with an unvoted debt margin of \$3,289,850 at December 31, 2010. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2010 are as follows:

	Governmental-Type Activities			
	Municipal Court Renovation Promissory Note		Ohio Police Pension Liability	
	Principal	Interest	Principal	Interest
2011	\$45,435	\$13,592	\$366	\$674
2012	48,237	10,789	381	659
2013	17,446	7,814	396	644
2014	0	0	413	627
2015	0	0	431	609
2016 - 2020	0	0	2,470	2,730
2021 - 2025	0	0	3,094	2,106
2026 - 2030	0	0	3,786	1,414
2031 - 2035	0	0	4,382	794
Total	\$111,118	\$32,195	\$15,719	\$10,257

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Business-Type Activities						
	OWDA		OPWC		Mortgage	
	Loans		Loans		Revenue Bonds	
	Principal	Interest	Principal	Principal	Interest	
2011	\$146,611	\$42,343	\$24,158	\$75,100	\$307,300	
2012	149,558	39,396	24,156	78,400	304,014	
2013	152,565	36,391	24,156	81,900	300,584	
2014	155,631	33,324	24,156	85,400	297,001	
2015	158,760	30,196	24,156	89,300	293,265	
2016 - 2020	842,964	101,810	120,780	507,900	1,404,257	
2021 - 2025	547,539	19,322	97,720	629,300	1,282,982	
2026 - 2030	0	0	0	779,400	1,132,744	
2031 - 2035	0	0	0	965,700	946,645	
2036 - 2040	0	0	0	1,196,100	716,100	
2041 - 2045	0	0	0	1,481,700	430,544	
2046 - 2048	0	0	0	1,053,800	93,530	
Total	\$2,153,628	\$302,782	\$339,282	\$7,024,000	\$7,508,966	

Note 13 – Joint Ventures

Ohio Municipal Electric Generation Agency Joint Venture (JV1)

The City's Electrical Enterprise Fund participates in a joint venture agreement with 20 other municipal electric systems who have formed the Ohio Municipal Electric Generation Agency Joint Venture 1 (OMEGA JV1) for the purpose of providing electric power and energy to its participants on a cooperative basis. The electric generating facilities of OMEGA JV1, known as the Engle Units, are located in the City of Cuyahoga Falls. Title to these six diesel-powered generating units was transferred to the twenty-one municipal electric systems from American Municipal Power, Incorporated (AMP, Inc.), a non-profit trade association and wholesale power supplier for most of Ohio's eighty-five municipal electrical systems. Omega JV1 is managed by AMP, Inc. who acts as the joint venture's agent. Each member has a contract which provides for AMP, Inc. to purchase the right to each participant's share of power and energy that is made available through the joint venture contract. JV1 does not have any debt outstanding. In the event of a shortfall, the JV participants would be billed for the respective shares of the estimated shortfall. The City's net investment in JV1 was \$11,979 at December 31, 2010. Financial information for JV1 may be obtained from AMP, Inc., 2600 Airport Drive, Columbus, Ohio 43219.

City of Newton Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

Note 14 – Interfund Transfers

During 2010, the following transfers were made:

Transfers In	Transfers Out
	General
<i>Other Governmental Activities:</i>	
Special Revenue Fund:	
Street Construction, Maintenance and Repair	\$111,248
Senior Van	18,580
Capital Projects Funds:	
Roads, Buildings and Equipment	2,600
<i>Total Transfers</i>	\$132,428

The general fund transfers to the street construction, maintenance and repair and senior van special revenue funds are to provide additional operating costs per the budget. The general fund transfer to the roads, buildings and equipment capital projects fund was per City ordinance.

Note 15 – Capital Lease

The City has entered into capitalized leases for police cruisers and an electric bucket. These leases meet the criteria for a capital lease as defined by the Statement of Financial Accounting Standards No. 13 “Accounting for Lease” and have been recorded on the statements. The original amounts capitalized for the capital leases and the book value as of December 31, 2010 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	16,228	27,582	43,810
Current Book Value	\$105,483	\$110,330	\$215,813

City of Newton Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of December 31, 2010.

	Governmental Activities	Business-Type Activities	Total
2011	\$33,337	\$31,502	\$64,839
2012	33,337	31,502	64,839
2013	0	31,502	31,502
Total Minimum Lease Payments	66,674	94,506	161,180
Less: Amount Representing Interest	(5,937)	(8,689)	(14,626)
Present Value of Minimum Lease Payments	<u>\$60,737</u>	<u>\$85,817</u>	<u>\$146,554</u>

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Dave Yost • Auditor of State

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

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

To the City Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Newton Falls, Trumbull County, Ohio, (the "City") as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 27, 2011, wherein we noted the City uses a comprehensive accounting basis other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the City's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the City's internal control over financial reporting.

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

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

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2010-001.

We also noted certain matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated May 27, 2011.

The City's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the City's response and, accordingly, we express no opinion on it.

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

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

Dave Yost
Auditor of State

May 27, 2011

CITY OF NEWTON FALLS
TRUMBULL COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2010

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

FINDING NUMBER 2010-001

Material Noncompliance Citation

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

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

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

Official's Response: The City recognizes the need to prepare financial reports in accordance with accounting principles generally accepted in the United States. However, it would be a very time consuming and costly task to undertake. Based on the 2010 census, Newton Falls will be dropping from a City to a Village. Once that has been certified, we will no longer be required to file a financial report on a GAAP basis. Newton Falls has made the determination to not undertake the project at this time due to its lack of necessity and cost considerations.

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**CITY OF NEWTON FALLS
TRUMBULL COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2010**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2009-001	Failure to prepare annual financial report in accordance with generally accepted accounting principles.	No	Not Corrected, see current year finding number 2010-001.
2009-002	Failure to prepare annual financial report in accordance with generally accepted accounting principles as required by grant agreement.	Yes	Finding no longer valid.

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CITY OF NEWTON FALLS

TRUMBULL COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 12, 2011**