



**CITY OF NEW FRANKLIN  
SUMMIT COUNTY**

**INITIAL AUDIT**

**FOR THE PERIOD MARCH 6, 2006 THROUGH DECEMBER 31, 2006**



**Mary Taylor, CPA**  
Auditor of State



**CITY OF NEW FRANKLIN  
SUMMIT COUNTY**

**TABLE OF CONTENTS**

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets .....	14
Statement of Activities.....	15
Fund Financial Statements:	
Balance Sheet	
Governmental Funds.....	16
Statement of Revenues, Expenditures and Changes in Fund Balance	
Governmental Funds.....	18
Statement of Revenues, Expenditures and Changes in Fund Balance	
Budget (Non-GAAP Basis) an Actual	
General Fund .....	20
Statement of Revenues, Expenditures, and Changes in Fund Balances	
Budget (Non-GAAP Basis) an Actual	
Street Maintenance and Repair .....	21
Statement of Revenues, Expenditures, and Changes in Fund Balances	
Budget (Non-GAAP Basis) an Actual	
Police District .....	22
Statement of Revenues, Expenditures, and Changes in Fund Balances	
Budget (Non-GAAP Basis) an Actual	
Fire District.....	23
Statement of Fund Net Assets	
Proprietary Funds.....	24
Statement of Revenues, Expenses and Changes in Fund Net Assets	
Proprietary Funds.....	25
Statement of Cash Flows	
Proprietary Funds.....	26
Statement of Fiduciary Net Assets	
Fiduciary Funds.....	27
Notes to the Basic Financial Statements.....	29
Independent Accountants' Report on Internal Control Over	
Financial Reporting and on Compliance and Other Matters	
Required by <i>Government Auditing Standards</i> .....	
	51
Schedule of Findings.....	53

**This page intentionally left blank.**



# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

City of New Franklin  
Summit County  
5611 Manchester Road  
Akron, Ohio 44319

To the City Council:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of New Franklin, Summit County, Ohio, (the City) as of and for the period March 6, 2006 through December 31, 2006, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of New Franklin, Summit County, Ohio, as of December 31, 2006, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparisons for the General, Street Maintenance and Repair, Police District, and Fire District funds for the period then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2007, 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.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

**Mary Taylor, CPA**  
Auditor of State

October 22, 2007

**City of New Franklin**  
**Summit County, Ohio**  
*Management's Discussion and Analysis*  
*For the Period March 6, 2006 through December 31, 2006*  
*(Unaudited)*

---

Our discussion and analysis of the City of New Franklin's (the City) financial performance provides an overview of the City's financial activities as of December 31, 2006. The City was created March 6, 2006 from the Village of New Franklin. Comparison information contained in this MD&A relates to the Village's financial information presented as of March 5, 2006 on the accrual basis of accounting.

Please read it in conjunction with the City's basic financial statements, which begin on page 14.

*Financial Highlights*

Key financial highlights for 2006 are as follows:

- The City's net assets increased \$1.1 million as a result of this year's operations, which is an increase of 25.6% over the previous period.
- General revenues accounted for \$4.0 million or 73.5% of total governmental activities revenue and program revenues accounted for \$1.5 million or 26.5% of total governmental activities revenue.
- The City's capital assets increased \$.3 million.

The Statement of Net Assets and the Statement of Activities (on pages 14 and 15) provide information about the activities of the City as a whole and present a long-term view of the City's finances. Fund financial statements begin on page 16. For governmental activities, these statements tell how these services were financed in the short-term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most financially significant funds.

*Reporting the City as a Whole*

*The Statement of Net Assets and the Statement of Activities*

Our analysis of the City as a whole begins on page 6. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. Accrual of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's *net assets* and changes in them. You can think of the City's net assets, the difference between assets, what the citizens own, and liabilities, what the citizens owe, as one way to measure the City's financial health, or *financial position*. Over time, *increases or decreases* in the City's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors; however, such as changes in the City's property tax base, income tax base, and the condition of the City's capital assets (land, roads, building, etc...) to assess the *overall health* of the City.

**City of New Franklin**  
**Summit County, Ohio**  
*Management's Discussion and Analysis*  
*For the Period March 6, 2006 through December 31, 2006*  
*(Unaudited)*

---

The Statement of Net Assets and the Statement of Activities consist of governmental activities.

- Governmental Activities - The City's basic services are reported here, including the police, fire, street and highway maintenance, capital improvement, vehicle acquisition, parks and recreation, and general administrative. Income taxes, property taxes, undivided local government, ambulance user fees and state and federal grants finance most of these activities.

*Reporting the City's Most Significant Funds*

*Fund Financial Statements*

The fund financial statements provide detailed information about the most significant funds, not the City as a whole. Some funds are required to be established by State law. However, City Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City's three kinds of funds, governmental, proprietary, and fiduciary, use different accounting approaches.

**Governmental Funds** - Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the City's general government operations and the basic services it provides. Governmental fund information helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation alongside the fund financial statements.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Street Maintenance and Repair, Police District and Fire District, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation.

The City adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

Our analysis of the City's major funds begins on page 16.



**City of New Franklin**  
**Summit County, Ohio**  
*Management's Discussion and Analysis*  
*For the Period March 6, 2006 through December 31, 2006*  
*(Unaudited)*

---

**Proprietary Funds** - When the City charges customers for the services it provides whether to outside customers or to other units of the City, these services are reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities.

The proprietary fund financial statements begin on page 24.

**Fiduciary Funds** - These funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting for the fiduciary funds is much like that used for proprietary funds.

The fiduciary fund financial statements begin on page 27.

**Notes to the Financial Statements** - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 29.

**City of New Franklin**  
**Summit County, Ohio**  
*Management's Discussion and Analysis*  
For the Period March 6, 2006 through December 31, 2006  
(Unaudited)

*The City as a Whole*

Recall that the Statement of Net Assets provides the perspective of the City as a whole.

Table 1 provides a summary of the City's net assets for December 31, 2006 compared to March 5, 2006:

**(Table 1)**  
**Net Assets**

	Governmental	
	Activities	
	December 31, 2006	March 5, 2006
<b>Assets</b>		
Current and Other Assets	\$ 6,611,095	\$ 6,198,405
Capital Assets, Net	2,901,428	2,570,227
<b>Total Assets</b>	<b>9,512,523</b>	<b>8,768,632</b>
<b>Liabilities</b>		
Current and Other Liabilities	3,348,156	3,824,011
Long Term Liabilities		
Due Within One Year	116,540	132,040
Due in More than One Year	555,978	440,490
<b>Total Liabilities</b>	<b>4,020,674</b>	<b>4,396,541</b>
<b>Net Assets</b>		
Invested in Capital		
Assets Net of Related Debt	2,725,622	2,168,596
Restricted		
Debt Service	2,183	2,183
Capital Outlay	0	71,259
Police Operating	136,268	227,312
Fire Operating	0	426,167
Street Maintenance and Repair	819,506	497,975
Other	302,304	634,243
Unrestricted (Deficit)	1,505,966	344,356
<b>Total Net Assets</b>	<b>\$ 5,491,849</b>	<b>\$ 4,372,091</b>

**City of New Franklin**  
**Summit County, Ohio**  
*Management's Discussion and Analysis*  
*For the Period March 6, 2006 through December 31, 2006*  
*(Unaudited)*

---

The City's net assets changed during the period, *increasing* from \$4.4 million to \$5.5, or 25.6%. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements increased from \$.3 million at March 5, 2006, to \$1.5 million at the end of 2006. Increases in intergovernmental receivables and decreases in accounts and intergovernmental payables have accounted for most of this change. Restricted net assets, those restricted mainly for debt service and special purposes such as street cleaning or maintenance, police and fire operating decreased by \$.6 million. The majority of this decrease is in the fire operating fund. The investments in capital assets, net of related debt category increased by \$.6 million which is due to acquisitions exceeding depreciation for the period.

Table 2 shows the changes in net assets for fiscal year 2006. Since this is the first year the City has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to the period ended March 5, 2006 are not available. This table will present two fiscal years in side-by-side comparisons in successive reporting years. This will enable the reader to draw further conclusion about the City's financial status and possibly project future problems.

**City of New Franklin**  
**Summit County, Ohio**  
*Management's Discussion and Analysis*  
*For the Period March 6, 2006 through December 31, 2006*  
*(Unaudited)*

---

**Table 2**  
**Change in Net Assets**  
**Governmental Activities**

	2006
<b>Revenues</b>	
<i>Program Revenues:</i>	
Charges for Services and Sales	\$ 351,162
Operating Grants and Entitlements	1,102,493
Total Program Revenues	1,453,655
 <i>General Revenue:</i>	
Property Taxes	1,936,908
City Income Taxes	841,492
Grants and Entitlements	1,150,747
Interest and Investment Earnings	70,043
Other	37,499
Total General Revenues	4,036,689
<i>Total Revenues</i>	5,490,344
 <b>Program Expenses</b>	
General Government	671,761
Security of Persons and Property	2,455,524
Public Health	117,413
Community Development	110,277
Transportation	987,019
Leisure Time	19,820
Interest and Fiscal Charges	8,772
<i>Total Expenses</i>	4,370,586
 <i>Change in Net Assets</i>	 \$ 1,119,758

**City of New Franklin**  
**Summit County, Ohio**  
*Management's Discussion and Analysis*  
For the Period March 6, 2006 through December 31, 2006  
(Unaudited)

**Governmental Activities**

Property taxes and the 1.0% income tax are the largest sources of revenue for the City. Property tax revenues are allocated based on City ordinance. Income tax and all costs of collecting the taxes and administering the provisions were paid into the General Fund.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements. Comparisons to the prior period have not been made since they are not available.

**Table 3**  
**Governmental Activities**

	2006	
	Total Cost	Net Cost
General Government	\$ 671,761	\$ 592,989
Security of Persons and Property	2,455,524	2,135,411
Public Health	117,413	96,913
Community Development	110,277	91,047
Transportation	987,019	(22,921)
Lesiure Time	19,820	14,720
Interest and Fiscal Charges	8,772	8,772
<i>Total Expenses</i>	\$ 4,370,586	\$ 2,916,931

The net cost shows the financial burden that was placed on the City's taxpayers by each of these functions. The unfunded balance in the net cost demonstrates the inability to recover the increased cost of the program under the current revenue policies.

When looking at sources of income to support governmental activities, it should be noted that the charges for services are only 6.4% of revenue. Revenues provided by sources other than city residents in the form of operating and capital grants comprise another 20.1%. The remaining revenues are primarily generated locally through property (35.3%), income taxes (15.3%) and grants and entitlements not restricted to specific programs (21.0%).

**City of New Franklin**  
**Summit County, Ohio**  
*Management's Discussion and Analysis*  
*For the Period March 6, 2006 through December 31, 2006*  
*(Unaudited)*

---

*The City's Funds*

**Governmental Funds**

Information about the City's major governmental funds begins on page 16. These funds are reported using the modified accrual basis of accounting. All Governmental funds had total revenues of \$5.1 million and expenditures of nearly \$5.0 million. The General Fund balance increased \$.8 million, the Street Maintenance and Repair Fund balance increased by \$.03 million, the Police District Fund decreased \$.09 million and the Fire District Fund decreased \$.3 million.

**Proprietary Fund**

The City's only proprietary fund is the Internal Service Fund which is rolled into in the government-wide financial statements.

Information about the City's proprietary fund begins on page 25.

*General Fund Budgeting Highlights*

The budgetary process is prescribed by provisions of the Ohio Revised Code and the Codified Ordinance of the City and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the Tax Budget, the Certificate of Estimated Resources and the Appropriation Ordinance: all are prepared on the budgetary basis of accounting. The Certificate of Estimated Resources and the Appropriations Ordinance are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control is at the object level. Any budgetary modifications at this level may only be made by resolution of City Council.

General Fund actual revenues were less than final estimated resources by \$.1 million and actual expenditures were less than final appropriations by \$.3 million. The estimated resources and appropriations were prepared for the calendar year ending December 31, 2006 and the actual revenues and expenditures cover the financial statement period March 6, 2006 through December 31, 2006.

**City of New Franklin**  
**Summit County, Ohio**  
*Management's Discussion and Analysis*  
*For the Period March 6, 2006 through December 31, 2006*  
*(Unaudited)*

---

**Capital Asset and Debt Administration**

*Capital Assets*

At the end of 2006, the City had \$2.9 million invested in police and fire equipment, land, buildings and improvements and vehicles (see below). This amount represents a net increase over last year. Table 4 shows December 31, 2006 balances compared with March 5, 2006.

**(Table 4)**  
**Capital Assets**  
**(Net of Depreciation)**

	Governmental Activities	
	December 31, 2006	March 5, 2006
Land	\$ 739,496	\$ 739,496
Buildings and Improvements	893,444	914,818
Furniture and Equipment	501,129	275,456
Vehicles	767,359	640,457
Totals	\$ 2,901,428	\$ 2,570,227

More detailed information about the City's capital assets is presented in Note 8 to the basic financial statements.

**City of New Franklin**  
**Summit County, Ohio**  
*Management's Discussion and Analysis*  
*For the Period March 6, 2006 through December 31, 2006*  
*(Unaudited)*

---

*Debt*

At December 31, 2006, the City had no outstanding long term debt obligations, other than capital leases and compensated absences. See Note 12 for additional information.

*Current Issues*

Effective March 6, 2006 the Village of New Franklin became the City of New Franklin. In addition, the City has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis", which creates new basic financial statements prepared on an accrual basis of accounting.

*Contacting the City's Financial Management*

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Director at 5611 Manchester Road, Akron, Ohio 44319.



*This page intentionally  
Left blank*

**City of New Franklin, Summit County**  
*Statement of Net Assets*  
*December 31, 2006*

		Governmental Activities
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$	2,116,717
Receivables:		
Accounts		26,078
Taxes		3,389,410
Intergovernmental		1,073,005
Special Assessments		5,885
Noncurrent Assets:		
Land		739,496
Other Capital Assets, Net of Depreciation		2,161,932
		9,512,523
<i>Total Assets</i>		
<b>Liabilities</b>		
Accounts Payable		34,069
Intergovernmental Payable		195,263
Accrued Wages		94,509
Deferred Revenue		2,975,746
Claims Payable		33,889
Matured Compensated Absences		14,680
Long Term Liabilities:		
Due Within One Year		116,540
Due In More Than One Year		555,978
		4,020,674
<i>Total Liabilities</i>		
<b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt		2,725,622
Restricted for:		
Debt Service		2,183
Police Operating		136,268
Street Maintenance and Repair		819,506
Other Purposes		302,304
Unrestricted		1,505,966
		5,491,849
<i>Total Net Assets</i>		
	\$	5,491,849

See accompanying notes to the basic financial statements.

**City of New Franklin, Summit County**  
*Statement of Activities*  
For the Period March 6, 2006 through December 31, 2006

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Total Governmental Activities
<b>Governmental Activities</b>				
Current:				
General Government	\$ 671,761	\$ 78,772	\$ 0	\$ (592,989)
Security of Persons and Property	2,455,524	236,175	83,938	(2,135,411)
Public Health	117,413	20,500	0	(96,913)
Community Development	110,277	10,615	8,615	(91,047)
Transportation	987,019	0	1,009,940	22,921
Lesiure Time	19,820	5,100	0	(14,720)
Interest and Fiscal Charges	8,772	0	0	(8,772)
<i>Total Governmental Activities</i>	<u>\$ 4,370,586</u>	<u>\$ 351,162</u>	<u>\$ 1,102,493</u>	<u>(2,916,931)</u>
<b>General Revenues:</b>				
Property Taxes Levied for:				
				157,384
				243,808
				1,535,716
Municipal Income Taxes Levied for				
				841,492
Grants and Entitlements not Restricted to				
				1,150,747
				70,043
				37,499
				<u>4,036,689</u>
				1,119,758
				<u>4,372,091</u>
				<u>\$ 5,491,849</u>

See accompanying notes to the basic financial statements.

**City of New Franklin, Summit County**  
*Balance Sheet*  
*Governmental Funds*  
*December 31, 2006*

	General	Street Maintenance and Repair	Police District	Fire District	Other Governmental Funds
<b>Assets</b>					
Equity in Pooled Cash and Cash Equivalents	\$ 919,949	\$ 429,860	\$ 41,850	\$ 189,817	\$ 359,243
Receivables:					
Accounts	26,078	0	0	0	0
Taxes	391,796	415,617	781,366	1,800,631	0
Intergovernmental	458,359	421,453	44,769	107,010	41,414
Special Assessments	0	0	0	0	5,885
<i>Total Assets</i>	<u>\$ 1,796,182</u>	<u>\$ 1,266,930</u>	<u>\$ 867,985</u>	<u>\$ 2,097,458</u>	<u>\$ 406,542</u>
<b>Liabilities and Fund Balance</b>					
<b>Liabilities</b>					
Accounts Payable	\$ 8,069	\$ 26,000	\$ 0	\$ 0	\$ 0
Intergovernmental Payable	54,443	21,356	18,845	100,619	0
Accrued Wages	47,058	12,085	0	35,366	0
Deferred Revenue	562,242	759,357	826,135	1,907,641	32,093
Matured Compensated Absences	0	0	0	14,680	0
<i>Total Liabilities</i>	<u>671,812</u>	<u>818,798</u>	<u>844,980</u>	<u>2,058,306</u>	<u>32,093</u>
<b>Fund Balance</b>					
Reserved for Encumbrances	24,790	5,000	0	5,000	5,000
Unreserved:					
Undesignated, Reported In:					
General Fund	1,099,580	0	0	0	0
Special Revenue Funds	0	443,132	23,005	34,152	367,266
Debt Service Fund	0	0	0	0	2,183
<i>Total Fund Balances</i>	<u>1,124,370</u>	<u>448,132</u>	<u>23,005</u>	<u>39,152</u>	<u>374,449</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 1,796,182</u>	<u>\$ 1,266,930</u>	<u>\$ 867,985</u>	<u>\$ 2,097,458</u>	<u>\$ 406,542</u>

See accompanying notes to the basic financial statements.

**City of New Franklin, Summit County**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Assets Governmental Activities  
 December 31, 2006*

Total Governmental Funds	Total Governmental Fund Balances	\$	2,009,108
	<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
\$ 1,940,719	Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds		2,901,428
26,078			
3,389,410	Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds.		
1,073,005			
5,885			
\$ 6,435,097			
	Delinquent Property Taxes	\$ 191,195	
	Municipal Income Tax	89,492	
	Intergovernmental	825,150	
	Special Assessments	5,885	
	Total	<u>1,111,722</u>	1,111,722
\$ 34,069	An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		142,109
195,263			
94,509			
4,087,468			
14,680			
4,425,989	Long-term liabilities, including loans payable, are not due and payable in the current period and therefore are not reported in the funds.		
	Compensated Absences	(496,712)	
39,790	Capital Leases	(175,806)	
	Total	<u>(672,518)</u>	(672,518)
1,099,580			
867,555	<i>Net Assets of Governmental Activities</i>	<u>\$</u>	<u>5,491,849</u>
2,183			
2,009,108			
\$ 6,435,097			

See accompanying notes to the basic financial statements.

**City of New Franklin, Summit County**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Period March 6, 2006 through December 31, 2006*

	General	Street Maintenance and Repair	Police District	Fire District	Other Governmental Funds
<b>Revenues</b>					
Local Taxes	\$ 917,127	\$ 262,813	\$ 514,327	\$ 1,086,930	\$ 0
Intergovernmental Revenue	629,424	668,673	99,090	234,567	231,595
Fees, Licenses and Permits	78,772	0	0	0	295
Special Assessments	0	0	0	0	2,674
Charges for Services	194,778	0	51,717	0	25,600
Interest Income	60,538	14,161	0	0	9,505
Gifts and Donations	3,010	0	2,470	680	0
Miscellaneous	12,386	4,251	3,260	6,428	5,014
<i>Total Revenues</i>	<u>1,896,035</u>	<u>949,898</u>	<u>670,864</u>	<u>1,328,605</u>	<u>274,683</u>
<b>Expenditures</b>					
Current:					
General Government	677,082	0	0	0	3,063
Security of Persons and Property	290,885	0	753,425	1,666,967	0
Public Health	101,355	0	0	0	16,058
Community Development	70,073	0	0	0	26,842
Transportation	0	827,284	0	0	42,726
Lesiure Time	19,820	0	0	0	0
Capital Outlay	26,051	63,847	9,414	83,698	187,295
Debt Service:					
Principal Retirement	0	0	0	23,257	30,550
Interest and Fiscal Charges	0	0	784	3,461	4,527
<i>Total Expenditures</i>	<u>1,185,266</u>	<u>891,131</u>	<u>763,623</u>	<u>1,777,383</u>	<u>311,061</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	710,769	58,767	(92,759)	(448,778)	(36,378)
<b>Other Financing Sources (Uses)</b>					
Inception of Capital Lease	0	0	0	116,753	0
Transfers In	71,259	0	0	0	55,000
Transfers Out	(30,900)	(24,100)	0	0	(71,259)
<i>Total Other Financing Sources (Uses)</i>	<u>40,359</u>	<u>(24,100)</u>	<u>0</u>	<u>116,753</u>	<u>(16,259)</u>
<i>Net Change in Fund Balance</i>	751,128	34,667	(92,759)	(332,025)	(52,637)
<i>Fund Balance Beginning of Period</i> <i>(Restated, See Note 3)</i>	<u>373,242</u>	<u>413,465</u>	<u>115,764</u>	<u>371,177</u>	<u>427,086</u>
<i>Fund Balance End of Period</i>	<u>\$ 1,124,370</u>	<u>\$ 448,132</u>	<u>\$ 23,005</u>	<u>\$ 39,152</u>	<u>\$ 374,449</u>

See accompanying notes to the basic financial statements.

**City of New Franklin, Summit County**  
*Reconciliation of the Changes*  
*in Fund Balances of Governmental Funds to the Statement of Activities*  
*For the Period March 6, 2006 through December 31, 2006*

Total Governmental Funds	Net Change in Fund Balances - Total Governmental Funds	\$	308,374
	<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
\$ 2,781,197	Governmental funds report capital outlays as expenditures.		
1,863,349	However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
79,067	Capital Asset Additions	\$ 521,391	
2,674	Current Year Depreciation	(168,265)	
272,095	Total		353,126
84,204			
6,160			
31,339			
5,120,085	Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.		(21,925)
680,145			
2,711,277	Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
117,413	Delinquent Property Taxes	(92,289)	
96,915	Municipal Income Taxes	89,492	
870,010	Grants	(7,552)	
19,820	Intergovernmental	380,485	
370,305	Special Assessments	123	
53,807	Total		370,259
8,772			
4,928,464	Repayment of loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
191,621	Capital Leases		53,807
116,753			
126,259	Some expenses reported in the statement of activities do not use the current financial resources and therefore are not reported as expenditures in governmental funds.		
(126,259)	Capital Leases	(116,753)	
116,753	Compensated Absences	(37,042)	
	Total		(153,795)
308,374			
1,700,734	The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the city-wide statement of activities. The net revenue (expense) of internal service funds is reported with governmental activities.		209,912
\$ 2,009,108			
	Change in Net Assets of Governmental Activities	\$	<u>1,119,758</u>

See accompanying notes to the basic financial statements.

**City of New Franklin, Summit County**  
*Statement of Revenues, Expenditures, and Changes in Fund Balance -  
 Budget (Non-GAAP Basis) and Actual*  
 General Fund  
 For the Period March 6, 2006 through December 31, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Local Taxes	\$ 369,509	\$ 950,932	\$ 853,359	\$ (97,573)
Intergovernmental Revenue	686,630	686,630	587,882	(98,748)
Fees Licenses and Permits	91,800	67,700	49,131	(18,569)
Charges for Services	114,500	114,500	175,554	61,054
Interest Income	50,000	50,000	60,538	10,538
Gifts and Donations	5,000	5,000	3,010	(1,990)
Miscellaneous	2,174	2,174	12,386	10,212
<i>Total Revenues</i>	1,319,613	1,876,936	1,741,860	(135,076)
<b>Expenditures</b>				
Current:				
General Government	819,831	843,693	674,363	169,330
Security of Persons and Property	320,424	442,682	289,202	153,480
Public Health	101,355	101,355	101,355	0
Community Development	102,850	96,450	82,965	13,485
Lesiure Time	25,000	25,000	25,000	0
Capital Outlay	45,500	58,428	58,428	0
<i>Total Expenditures</i>	1,414,960	1,567,608	1,231,313	336,295
<i>Excess of Revenues Over (Under) Expenditures</i>	(95,347)	309,328	510,547	201,219
<b>Other Financing Sources (Uses)</b>				
Advances In	0	0	30,000	30,000
Advances Out	0	(30,000)	0	30,000
Transfers In	0	0	71,259	71,259
Transfers Out	(176,944)	(449,805)	(30,900)	418,905
<i>Total Other Financing Sources (Uses)</i>	(176,944)	(479,805)	70,359	550,164
<i>Net Change in Fund Balance</i>	(272,291)	(170,477)	580,906	751,383
<i>Fund Balance Beginning of Period</i>	218,544	218,544	218,544	0
Prior Year Encumbrances Appropriated	41,605	41,605	41,605	0
<i>Fund Balance End of Period</i>	\$ (12,142)	\$ 89,672	\$ 841,055	\$ 751,383

See accompanying notes to the basic financial statements.



**City of New Franklin, Summit County**  
*Statement of Revenues, Expenditures, and Changes in Fund Balance -  
 Budget (Non-GAAP Basis) and Actual  
 Street Maintenance and Repair  
 For the Period March 6, 2006 through December 31, 2006*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Local Taxes	\$ 406,387	\$ 406,387	\$ 262,813	\$ (143,574)
Intergovernmental Revenue	634,631	730,981	722,335	(8,646)
Interest Income	16,200	16,200	14,161	(2,039)
Miscellaneous	27,901	27,901	4,251	(23,650)
<i>Total Revenues</i>	<u>1,085,119</u>	<u>1,181,469</u>	<u>1,003,560</u>	<u>(177,909)</u>
<b>Expenditures</b>				
Current:				
Transportation	1,295,579	1,298,737	866,910	431,827
Capital Outlay	119,892	119,892	108,961	10,931
<i>Total Expenditures</i>	<u>1,415,471</u>	<u>1,418,629</u>	<u>975,871</u>	<u>442,758</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	(330,352)	(237,160)	27,689	264,849
<b>Other Financing Sources (Uses)</b>				
Transfers Out	0	(24,100)	(24,100)	0
<i>Total Other Financing Sources (Uses)</i>	<u>0</u>	<u>(24,100)</u>	<u>(24,100)</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	(330,352)	(261,260)	3,589	264,849
<i>Fund Balance Beginning of Period</i>	395,271	395,271	395,271	0
Prior Year Encumbrances Appropriated	136,411	136,411	136,411	0
<i>Fund Balance End of Period</i>	<u>\$ 201,330</u>	<u>\$ 270,422</u>	<u>\$ 535,271</u>	<u>\$ 264,849</u>

See accompanying notes to the basic financial statements.

**City of New Franklin, Summit County**  
*Statement of Revenues, Expenditures, and Changes in Fund Balance -  
 Budget (Non-GAAP Basis) and Actual*  
 Police District  
 For the Period March 6, 2006 through December 31, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Local Taxes	\$ 766,147	\$ 766,147	\$ 514,327	\$ (251,820)
Intergovernmental Revenue	99,010	99,010	99,090	80
Charges for Services	56,419	56,419	51,717	(4,702)
Gifts and Donations	7,500	7,500	2,470	(5,030)
Miscellaneous	157	157	3,260	3,103
<i>Total Revenues</i>	<u>929,233</u>	<u>929,233</u>	<u>670,864</u>	<u>(258,369)</u>
<b>Expenditures</b>				
Current:				
Security of Persons and Property	937,249	937,249	822,836	114,413
Capital Outlay	15,000	15,000	26,326	(11,326)
<i>Total Expenditures</i>	<u>952,249</u>	<u>952,249</u>	<u>849,162</u>	<u>103,087</u>
<i>Net Change in Fund Balance</i>	(23,016)	(23,016)	(178,298)	(155,282)
<i>Fund Balance Beginning of Period</i>	220,148	220,148	220,148	0
Prior Year Encumbrances Appropriated	20,031	20,031	20,031	0
<i>Fund Balance End of Period</i>	<u>\$ 217,163</u>	<u>\$ 217,163</u>	<u>\$ 61,881</u>	<u>\$ (155,282)</u>

See accompanying notes to the basic financial statements.

**City of New Franklin, Summit County**  
*Statement of Revenues, Expenditures, and Changes in Fund Balance -  
 Budget (Non-GAAP Basis) and Actual*  
 Fire District  
 For the Period March 6, 2006 through December 31, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Local Taxes	\$ 1,760,016	\$ 1,760,016	\$ 1,086,930	\$ (673,086)
Intergovernmental Revenue	234,367	234,367	234,567	200
Charges for Services	10,000	10,000	0	(10,000)
Gifts and Donations	1,000	1,000	680	(320)
Miscellaneous	12,210	12,210	6,428	(5,782)
<i>Total Revenues</i>	<u>2,017,593</u>	<u>2,017,593</u>	<u>1,328,605</u>	<u>(688,988)</u>
<b>Expenditures</b>				
Current:				
Security of Persons and Property	1,937,660	1,973,733	1,610,213	363,520
Capital Outlay	101,000	119,168	100,610	18,558
<i>Total Expenditures</i>	<u>2,038,660</u>	<u>2,092,901</u>	<u>1,710,823</u>	<u>382,078</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	(21,067)	(75,308)	(382,218)	(306,910)
<b>Other Financing Sources (Uses)</b>				
Advances Out	(30,000)	(30,000)	(30,000)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(30,000)</u>	<u>(30,000)</u>	<u>(30,000)</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	(51,067)	(105,308)	(412,218)	(306,910)
<i>Fund Balance Beginning of Period</i>	597,035	597,035	597,035	0
Prior Year Encumbrances Appropriated	54,241	54,241	54,241	0
<i>Fund Balance End of Period</i>	<u>\$ 600,209</u>	<u>\$ 545,968</u>	<u>\$ 239,058</u>	<u>\$ (306,910)</u>

See accompanying notes to the basic financial statements.

**City of New Franklin, Summit County**  
*Statement of Fund Net Assets*  
*Proprietary Funds*  
*December 31, 2006*

	<b>Governmental Activities - Internal Service Fund</b>
<b>Assets</b>	
Current Assets	
Equity in Pooled Cash and Investments	\$ 175,998
<i>Total Assets</i>	175,998
<b>Liabilities</b>	
Current Liabilities	
Claims Payable	33,889
<i>Total Liabilities</i>	33,889
<b>Net Assets</b>	
Unrestricted	142,109
<i>Total Net Assets</i>	\$ 142,109

See accompanying notes to the basic financial statements.

**City of New Franklin, Summit County**  
*Statement of Revenues, Expenses and Changes in Fund Net Assets*  
*Proprietary Funds*  
*For the Period March 6, 2006 through December 31, 2006*

	<b>Governmental Activities - Internal Service Fund</b>
<b>Operating Revenues</b>	
Charges for Services	\$ 756,625
<i>Total Operating Revenues</i>	<i>756,625</i>
<b>Operating Expenses</b>	
Contractual Service	225,266
Claims	321,447
<i>Total Operating Expenses</i>	<i>546,713</i>
<i>Change in Net Assets</i>	<i>209,912</i>
<i>Net Assets at Beginning of Period (Restated, See Note 3)</i>	<i>(67,803)</i>
<i>Net Assets and the End of the Period</i>	<i>\$ 142,109</i>

See accompanying notes to the basic financial statements.

**City of New Franklin, Summit County**  
*Statement of Cash Flows*  
*Proprietary Funds*  
For the Period March 6, 2006 through December 31, 2006

	<b>Governmental Activities - Internal Service Fund</b>
<hr/>	
<b>Cash Flows From Operating Activities</b>	
Cash Received from Customers	\$ 756,625
Cash Paid for Goods and Services	(225,266)
Cash Paid for Claims	(386,941)
	<hr/>
<i>Net Cash Provided By (Used For) Operating Activities</i>	144,418
	<hr/>
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	144,418
	<hr/>
<i>Cash and Cash Equivalents at Beginning of Period</i>	31,580
	<hr/>
<i>Cash and Cash Equivalents at End of Period</i>	\$ 175,998
	<hr/> <hr/>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities</b>	
Operating Income (Loss)	\$ 209,912
Adjustments:	
Increase (Decrease) in Liabilities:	
Claims Payable	(65,494)
	<hr/>
<i>Total Adjustments</i>	(65,494)
	<hr/>
<i>Net Cash Provided By (Used For) Operating Activities</i>	\$ 144,418
	<hr/> <hr/>

See accompanying notes to the basic financial statements.

**City of New Franklin, Summit County**  
*Statement of Fiduciary Net Assets*  
*Fiduciary Funds*  
*December 31, 2006*

---

---

	<u>Agency</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 25,259</u>
<i>Total Assets</i>	<u><u>\$ 25,259</u></u>
<b>Liabilities</b>	
Undistributed Monies	<u>\$ 25,259</u>
<i>Total Liabilities</i>	<u><u>\$ 25,259</u></u>

See accompanying notes to the basic financial statements.

*This page intentionally  
Left blank*



**City of New Franklin, Summit County**  
*Notes to the Basic Financial Statements*  
*For the Period March 6, 2006 through December 31, 2006*

---

**Note 1 – Description of the City and Reporting Entity**

On January 1, 2005, the Village of New Franklin and New Franklin Township merged into one entity ("Village of New Franklin"). On March 6, 2006, the Village of New Franklin became the City of New Franklin (the "City") as a political body and corporation established for the purpose of exercising the rights and privileges conveyed to it by the constitution of the State of Ohio. The City operates under a charter as a home-rule municipal corporation under the laws of the State of Ohio. The City provides police and fire protection, emergency medical, parks and recreation, planning, zoning, street maintenance and repair, and general administrative services to the citizens of the City.

***Reporting Entity***

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that financial statements are not misleading. A primary government consists of all funds, departments, boards and agencies that are not legally separate from the City. The primary government of the City includes City departments and agencies that provide the following services: police protection, fire fighting and prevention, street maintenance and repairs, building inspection, parks and recreation.

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 organization's 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 organizations. Component units may also include organizations for which the City authorizes the issuance of debt or the levying of taxes, or determines the budget. The City has no component units.

The City participates in one public entity risk pool. This organization, Public Entities Pool of Ohio (PEP) is presented in Note 14 to the basic financial statements.

Management believes the financial statements included in this report represent all of the funds of the City over which the City has the ability to exercise direct operating control.

**Note 2 – Summary of Significant Accounting Policies**

The basic financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities and its proprietary fund provided they do not conflict with or contradict GASB pronouncements.

**City of New Franklin, Summit County**  
*Notes to the Basic Financial Statements*  
*For the Period March 6, 2006 through December 31, 2006*

---

***Basis of Presentation***

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

***Government-wide Financial Statements***

The Statement of Net Assets and the Statement of Activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is also eliminated to avoid "doubling up" revenues and expenses.

The statement of net assets presents the financial condition of the governmental activities of the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limitations. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the City.

***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 proprietary 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.

***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 typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

**City of New Franklin, Summit County**  
*Notes to the Basic Financial Statements*  
*For the Period March 6, 2006 through December 31, 2006*

---

*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.

*Street Maintenance & Repair Fund* – The Street Maintenance and Repair Fund accounts for financial resources whose use is restricted to constructing, maintaining and repairing roads and bridges.

*Police District Fund* – The Police special revenue fund accounts for financial resources whose use is restricted to police department expenditures. These resources are primarily generated through property tax.

*Fire District Fund* – The Fire District special revenue fund accounts for financial resources whose use is restricted to fire department expenditures. These resources are primarily generated through special levy tax money.

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

***Proprietary Fund Type*** Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. The following is the City's only proprietary fund type:

***Internal Service Fund*** The Internal Service Fund accounts 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 only internal service fund accounts for a self-insurance program for employee medical, dental, and prescription drug benefits.

***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 agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's agency fund accounts for the operations of the Franklin Park Civic Center.

***Measurement Focus***

***Government-wide Financial Statements***

The government-wide financial statements are prepared using the economic resources measurement focus. All non fiduciary assets and liabilities associated with the operation of the City are included on the Statement of Net Assets.

**City of New Franklin, Summit County**  
*Notes to the Basic Financial Statements*  
*For the Period March 6, 2006 through December 31, 2006*

---

***Fund Financial Statements***

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, the internal service fund is accounted for on a flow of economic resources measurement focus. All assets and liabilities associated with the operation of this fund is included on the statement of fund net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary fund activities.

Agency funds do not report a measurement focus as they do not report operations.

***Basis of Accounting***

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

***Revenues - Exchange and Non-exchange Transactions***

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within sixty days of year-end. Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 7). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized. Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year end: income tax, state-levied locally shared taxes (including gasoline tax), fines and forfeitures, interest, grants, fees and rentals.

**City of New Franklin, Summit County**  
*Notes to the Basic Financial Statements*  
*For the Period March 6, 2006 through December 31, 2006*

---

***Deferred Revenue***

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of December 31, 2006, but which were levied to finance year 2007 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue on modified accrual only. On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

***Expenses/Expenditures***

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

***Budgetary Data***

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriation ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations ordinance are subject to amendment throughout the year with the legal restriction that the appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are required to be budgeted and appropriated. The legal level of budgetary control is at the object level for all funds. Budgetary modifications may only be made by resolution of the City Council at the legal level of control.

***Tax Budget*** – During the first Council meeting in July, the Mayor presents the annual operating budget for the following year to City Council for consideration and passage. The adopted budget is submitted to the County Fiscal Officer, as Secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year.

***Estimated Resources*** – The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by October 1. As part of this certification the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include unencumbered cash balances at December 31 of the preceding year. The certificate may be further amended during the year if the Finance Director determines, and the Budget Commission agrees, that an estimate needs to be either increased or decreased. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 2006. The actual figures represent the period March 6, 2006 through December 31, 2006.

**City of New Franklin, Summit County**  
*Notes to the Basic Financial Statements*  
*For the Period March 6, 2006 through December 31, 2006*

---

***Appropriations*** – A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation ordinance must be passed by April 1 of each year, for the period January 1 to December 31. The appropriation ordinance fixes spending authority at the object level. The appropriation ordinance may be amended during the year by action of Council, as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. The allocation of appropriations among departments and objects within a fund may be modified during the year by an ordinance of council. During the year, several supplemental appropriation measures were passed, some of which were significant. The budget figures, which appear in the statements of budgetary comparisons, represent the final appropriation amounts, including all amendments and modifications for the 12 month period. The actual figures represent the period March 6, 2006 through December 31, 2006.

***Lapsing of Appropriations*** – At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and is not re-appropriated.

***Cash and Cash Equivalents***

To improve cash management, cash received by the City is pooled. Monies for all funds, including proprietary and fiduciary funds are maintained in this pool. Individual fund integrity is maintained through the City's records.

During 2006, investments included a repurchase agreement.

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 are reported at cost.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the General Fund during 2006 amounted to \$60,538, which includes \$36,855, assigned from other city funds.

For purposes of the statement of cash flows and for presentation on the statement of net assets/balance sheet, investments with an original maturity of three months or less and investments of the cash management pool are considered to be cash equivalents.

***Capital Assets***

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of four thousand dollars. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

**City of New Franklin, Summit County**  
*Notes to the Basic Financial Statements*  
*For the Period March 6, 2006 through December 31, 2006*

---

All reported capital assets are required to be depreciated except for land. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Description	Governmental Activities Estimated Lives
Land	N/A
Buildings and Improvements	10 - 50 Years
Furniture and Equipment	5 - 20 Years
Vehicles	5 - 16 Years

***Interfund Balances***

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities column of the statement of net assets.

***Compensated Absences***

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are eligible to receive termination benefits and those the City had identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the City's termination policy.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental funds, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the account "matured compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported.

***Accrued Liabilities and Long-Term Obligations***

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases and long-term loans are recognized as a liability on the fund financial statements when due.

**City of New Franklin, Summit County**  
*Notes to the Basic Financial Statements*  
*For the Period March 6, 2006 through December 31, 2006*

---

***Fund Balance Reserves***

The City reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent expendable resources and therefore are not available for appropriation or expenditure. As a result, encumbrances are recorded as a reservation of fund balance.

***Net Assets***

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes primarily include amounts to operate special programs including recreation, cemetery, drug prevention and other neighborhood programs.

The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

***Operating Revenues and Expenses***

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the City, these revenues include charges for services for self-insurance programs. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating.

***Interfund Activity***

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses. Interfund transfers are eliminated when reported in the entity wide financial statements. Transactions that constitute reimbursements to a fund for expenditures or expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund, and as a reduction of expenditures/expenses in the fund that is reimbursed.

***Extraordinary and Special Items***

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2006.



**City of New Franklin, Summit County**  
*Notes to the Basic Financial Statements*  
*For the Period March 6, 2006 through December 31, 2006*

**Estimates**

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**Note 3 – Restatement of Fund Balance/Net Assets**

The following describes the transition from a village using cash basis to a city reporting using the accrual basis.

	General Fund	Street Maintenance & Repair	Police District	Fire District	Other Governmental	Governmental Activities
Fund Cash Balances, March 5, 2006	\$ 260,136	\$ 395,271	\$ 220,148	\$ 597,035	\$ 634,579	\$ 2,107,169
Modified Accrual Adjustments	<u>113,106</u>	<u>18,194</u>	<u>(104,384)</u>	<u>(225,858)</u>	<u>(207,493)</u>	<u>(406,435)</u>
Restated Fund Balances, March 5, 2006	<u>\$ 373,242</u>	<u>\$ 413,465</u>	<u>\$ 115,764</u>	<u>\$ 371,177</u>	<u>\$ 427,086</u>	1,700,734
GASB 34 Adjustments:						
Capital Assets						2,570,227
Compensated Absences						(459,670)
Long Term (Deferred) Assets						741,463
Long Term Liabilities						(112,860)
Internal Service Fund						<u>(67,803)</u>
Governmental Activities Net Assets, March 5, 2006						<u>\$ 4,372,091</u>

**Note 4 – Deposits and Investments**

State statutes classify monies held by the City into three categories.

Active deposits are public deposits necessary to meet current demands on 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 5-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 New Franklin, Summit County**  
*Notes to the Basic Financial Statements*  
*For the Period March 6, 2006 through December 31, 2006*

---

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds with the City Finance Director by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Interim monies may be invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, 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, the 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 the securities listed above provided that the market value of the securities subject to the repurchase agreements must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio and political subdivisions;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAROhio)

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. Bonds of any municipal corporation, village, county, township or other political subdivision of this State, as to which there is no default of principal, interest or coupons; and
3. Obligations of the City.

Effective September 27, 1996, investments in stripped principal or interest obligations are no longer allowed to be purchased. Reverse repurchase agreements and derivatives are also 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 New Franklin, Summit County**  
*Notes to the Basic Financial Statements*  
*For the Period March 6, 2006 through December 31, 2006*

---

**Deposits:** The carrying value of the City's deposits totaled \$(50,344) and the bank balances of the deposits totaled \$41,503. Of the bank balance \$41,503 was covered by depository insurance.

**Investments**

Investments are reported at fair value. As of December 31, 2006, the City had the following investments:

Standard & Poor's	Investment	Fair Value	Investment Maturity Less than One Year	Total Investments
N/A *	Repurchase Agreement	\$2,192,320	\$ 2,192,320	100.0%

\* Underlying securities exempt.

**Interest Rate Risk:** Interest rate risk is the possibility that changes in interest rate will adversely affect the fair value of an investment. The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. The City's policy indicates that the investments must mature within five years, unless matched to a specific obligation or debt of the City.

**Credit Risk:** The City's investments credit ratings are summarized above.

**Concentration of Credit Risk:** The City places no limit on the amount the City may invest in any one issuer. The investment percentages are listed above.

Custodial credit risk is the risk that in the event of 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 City's \$2,192,320 investment in repurchase agreements is to be secured by the specific government securities upon which the repurchase agreements are based. These securities, held by the counterparty and not in the City's name, must be obligations of or guaranteed by the United States and mature or be redeemable within five years of the date of the related purchase agreement. The City's policy is to invest money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

**Note 5 – Budgetary Basis of Accounting**

While the City is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual presented for the General Fund and major Special Revenue Funds is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

1. Revenues and other sources are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).

**City of New Franklin, Summit County**  
*Notes to the Basic Financial Statements*  
For the Period March 6, 2006 through December 31, 2006

2. Expenditures/expenses and other uses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
4. Unreported cash (cash on hand) represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statement.

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund, Street Maintenance and Repair Fund, Police Fund, Fire District Fund.

	Net Change in Fund Balance			
	General	Street Maintenance and Repair	Police District	Fire District
GAAP Basis (as reported)	\$ 751,128	\$ 34,667	\$ (92,759)	\$ (332,025)
Adjustments:				
Net adjustment for revenue accruals	(154,175)	53,662	0	0
Other financing sources	30,000	0	0	(116,753)
Net adjustment for expenditure accruals	32,860	(53,740)	(85,539)	71,560
Other financing uses	0	0	0	(30,000)
Encumbrances	<u>(78,907)</u>	<u>(31,000)</u>	<u>0</u>	<u>(5,000)</u>
Budget basis	<u>\$ 580,906</u>	<u>\$ 3,589</u>	<u>\$ (178,298)</u>	<u>\$ (412,218)</u>

**Note 6 – Transfers and Interfund Balances**

Transfers are used to move resources from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; to segregate money for anticipated capital projects; to provide additional resources for current operations or debt service; and to return money to the fund from which it was originally provided once a project is completed.

Interfund transfers for the year ended December 31, 2006, consisted of the following:

<u>Transfer Out</u>	<u>Transfer In</u>	<u>Amount</u>
General Fund	Other Governmental	\$ 30,900
Other Governmental	General Fund	71,259
Street Maintenance and Repair	Other Governmental	24,100
		<u>\$ 126,259</u>

**City of New Franklin, Summit County**  
*Notes to the Basic Financial Statements*  
*For the Period March 6, 2006 through December 31, 2006*

---

The construction fund was closed out and transferred the residual to the General Fund and the Street Maintenance and Repair Fund transferred money to a new fund created for a road project.

**Note 7 – Receivables**

Receivables at December 31, 2006, consisted of taxes, special assessments, accounts and intergovernmental receivables.

No allowances for doubtful accounts have been recorded because uncollectible amounts are expected to be insignificant.

***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 2006 for real and public utility property taxes represents collections of the 2005 taxes. Property tax payments received during 2006 for tangible personal property (other than public utility property) is for 2006 taxes.

2006 real property taxes are levied after October 1, 2006, on the assessed value as of January 1, 2006, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2006 real property taxes are collected in and intended to finance 2007.

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. 2006 public utility property taxes became a lien December 31, 2005, are levied after October 1, 2006, and are collected in 2007 with real property taxes.

2006 tangible personal property taxes are levied after October 1, 2005, on the value as of December 31, 2005. Collections are made in 2006. Tangible personal property assessments are 25 percent of true value for capital assets and 23 percent for inventory.

The full tax rate for all City operations for the year ended December 31, 2006 was \$14.65 per \$1,000 of assessed value. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$9.86 per \$1,000 of assessed valuation for real property classified as residential/agricultural and \$11.08 per \$1,000 of assessed valuation for all other real property. Real property owners' tax bills are further reduced by homestead and rollback deductions, when applicable. The amount of these homestead and rollback reductions is reimbursed to the City by the State of Ohio.

The assessed values of real and tangible personal property upon which 2006 property tax receipts were based are as follows:

**City of New Franklin, Summit County**  
*Notes to the Basic Financial Statements*  
*For the Period March 6, 2006 through December 31, 2006*

---

Real Property - 2006 Valuation

Residential/agricultural	\$ 298,717,960	94.65%
Commercial/industrial	16,891,600	5.35%
	\$ 315,609,560	100.00%

Tangible Personal Property - 2005 Valuation

General and public utilities	\$ 14,830,758
------------------------------	---------------

Real property taxes are payable annually or semiannually. If paid annually, the payment is due by December 31; if paid semiannually, 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.

Tangible personal property taxes 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 at September 20. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2006 is 18.75%. This will be reduced to 12.5% for 2007, 6.25% for 2008 and zero for 2009.

The Summit County Fiscal Officer collects property taxes on behalf of all taxing districts in the county. The County Fiscal Officer periodically remits to the City its portion of the taxes. Property taxes receivable represent real and tangible personal property taxes, public utility taxes and outstanding delinquencies, which are measurable as of December 31, 2006. Although total property tax collections for the next year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31, nor are they intended to finance 2006 operations. The receivable is offset by deferred revenue.

***Income Taxes***

The City levies a municipal income tax on all salaries, wages, commissions and other compensation, and net profits earned within the City as well as incomes of residents earned outside of the City. Effective March 3, 2006, the income tax rate was 1.0%. The Central Collection Agency (CCA) is the City's agent for administering income tax collecting and accounting.

Employers within the City are required to withhold income tax on work done or services performed in the City by both residents and non-residents of the City. All individuals who work or conduct business in the City and do not have income tax withheld must file estimated tax returns using the 1.0% rate for 2006 and remit the tax to the City either monthly or quarterly, as required. All businesses located in or doing business in the City must file a net profit estimate for 2007 using the 1.0% rate.

All residents, 16 years of age and over, working outside the City are subject to the 1.0% tax less the credit allowed for taxes paid to another taxing community. Residents are given full credit for taxes paid to another community up to the 1.0%.

Income tax revenues are allocated based on City ordinance. In 2006, all costs of collecting the taxes and administering and enforcing the provisions was paid into the General Fund.

**City of New Franklin, Summit County**  
*Notes to the Basic Financial Statements*  
*For the Period March 6, 2006 through December 31, 2006*

---

***Intergovernmental Receivables***

A summary of intergovernmental receivables follows:

	<u>Amount</u>
<b>Governmental Activities:</b>	
Homestead/Rollback	\$ 186,870
Estate Tax	76,207
Auto Registration	51,031
Gasoline Tax	378,005
Permissive Tax	8,905
Local Government	<u>371,987</u>
Total	<u><u>\$ 1,073,005</u></u>

***Taxes Receivable***

A summary of taxes receivables follows:

	<u>Amount</u>
<b>Governmental Activities:</b>	
Real Estate and Personal Property Tax	\$ 3,166,940
Municipal Income Tax	<u>222,470</u>
Total	<u><u>\$ 3,389,410</u></u>

**City of New Franklin, Summit County**  
*Notes to the Basic Financial Statements*  
For the Period March 6, 2006 through December 31, 2006

**Note 8 – Capital Assets**

Capital asset activity for the year ended December 31, 2006, was as follows:

	Balance 03/05/06	Additions	Reductions	Balance 12/31/06
<b>Governmental Activities</b>				
<i>Capital Assets, not being depreciated:</i>				
Land	\$ 739,496	\$ 0	\$ 0	\$ 739,496
Total Capital Assets, not being depreciated	<u>739,496</u>	<u>0</u>	<u>0</u>	<u>739,496</u>
<i>Capital Assets, being depreciated:</i>				
Buildings and Improvements	1,030,463	0	0	1,030,463
Furniture and Equipment	730,749	267,298	0	998,047
Vehicles	1,849,401	254,093	(101,483)	2,002,011
Total Capital Assets, being depreciated	<u>3,610,613</u>	<u>521,391</u>	<u>(101,483)</u>	<u>4,030,521</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(115,645)	(21,374)	0	(137,019)
Furniture and Equipment	(455,293)	(41,625)	0	(496,918)
Vehicles	(1,208,944)	(105,266)	79,558	(1,234,652)
Total Accumulated Depreciation	<u>(1,779,882)</u>	<u>(168,265)</u>	<u>79,558</u>	<u>(1,868,589)</u>
Total Capital Assets being depreciated, net	<u>1,830,731</u>	<u>353,126</u>	<u>(21,925)</u>	<u>2,161,932</u>
Governmental Activities Capital Assets, Net	<u>\$ 2,570,227</u>	<u>\$ 353,126</u>	<u>\$ (21,925)</u>	<u>\$ 2,901,428</u>

Depreciation expense was charged to programs as follows:

<i>Governmental Activities:</i>	
General Government	\$ 14,247
Transportation	44,184
Security of Persons	<u>109,834</u>
Total	<u>\$ 168,265</u>



**City of New Franklin, Summit County**  
*Notes to the Basic Financial Statements*  
*For the Period March 6, 2006 through December 31, 2006*

---

**Note 9 – Defined Benefit Pension Plans**

All City full-time employees, other than Police and Firemen, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans: The Traditional Pension Plan (TP), a cost sharing multiple-employer defined benefit pension plan; the Member-Directed Plan (MD) – a defined contribution plan; and the Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS provides retirement, disability, survivor and post-retirement health care benefits to qualifying members of both the Traditional and Combined plans; however, health care benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

Benefits are established by Chapter 145 of the Ohio Revised Code. OPERS issues a standalone financial report which may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 1-800-222-7377.

Plan members were required to contribute 9.0% of their annual covered salary to fund pension obligations and the City is required to contribute 13.0% for the year 2006. Contributions are authorized by State statute. The contribution rates are determined actuarially. The City's required contributions to OPERS were \$204,304 for December 31, 2006, 79.39% has been contributed for 2006.

The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost sharing multiple employer public employee retirement system administered by the OP&F's Board of Trustees. The 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 by Chapter 742 of the Ohio Revised Code. The OP&F issues a publicly available financial report that includes financial information and required supplementary information. That report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Police and firefighters are required to contribute 10% of their annual covered salary to fund pension obligations and for 2006 the City was required to contribute 19.5% for police and 24.0% for firefighters. Contributions are authorized by State statute. The City's contributions to the OP&F for police and firefighters were \$3,461 and \$185,956 for the year ended December 31, 2006.

**Note 10 – Postemployment Benefits**

***Ohio Public Employees Retirement System***

In addition to providing pension benefits through Ohio Public Employee Retirement System ("System"), the System provides post retirement health care coverage to age and service retirees with ten or more years of qualifying Ohio Service Credit. Health care coverage for disability recipients and primary service recipients is also available. The Ohio revised code provides statutory authority for employee and employer contributions to the System. For 2006, member and employer contribution rates for all three plans for local government employer units were 13.70% of covered payroll; 4.5% was the portion that was used to fund health care for the year, which amounted to \$67,114.

**City of New Franklin, Summit County**  
*Notes to the Basic Financial Statements*  
*For the Period March 6, 2006 through December 31, 2006*

---

The Other Post-Employment Benefit (OPEB) is a standardized disclosure measure of the present value of OPEB adjusted for the effects of payroll increases and health care premium increases. The measure, which is an actuarial present value of credited projected benefits, is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due. The system does not make separate measurements of assets and OPEB for individual employers.

The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used were \$31.3 billion and \$20.2 billion, respectively. As of December 31, 2005 (the latest information available), the actuarial value of the Retirement System's net assets available for future OPEB payments were \$11.1 billion. The number of statewide benefit recipients eligible for OPEB at December 31, 2006 was 369,214.

The Ohio Police and Fire Pension Fund (OP&F) provides post-retirement health care coverage to any person who receives or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22 if attending school full-time or on a 2/3 basis.

The health care coverage provided by the retirement system is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the Ohio Police and Fire Pension Fund shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution is 19.5% of covered payroll and the total firefighter employer contribution rate is 24% of covered payroll, of which 7.75% of covered payroll was applied to the post-employment health care program during 2006. In addition, since July 1, 1992, most retirees and survivors were required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The Ohio Revised Code provides the statutory authority allowing the Fund's Board of Trustees to provide health care coverage to all eligible individuals.

The City's actual contributions for 2006 that were used to fund post-employment benefits were \$1,374 for police and \$60,064 for fire. The OP&F's total health care expense for the year ended December 31, 2005 (the latest information available) was \$108,039,449, which was net of member contributions of \$55,271,881. The number of OP&F participants eligible to receive health care benefits as of December 31, 2005, was 13,922 for police and 10,537 for firefighters.

**Note 11 – Compensated Absences**

The criteria for determining vacation and sick leave components are derived from negotiated contracts, City ordinances and State laws. Employees earn two to five weeks of vacation per year, depending upon length of service. Annual vacation eligibility is as of the date of hire and must be used in the year following the year earned.

**City of New Franklin, Summit County**  
*Notes to the Basic Financial Statements*  
For the Period March 6, 2006 through December 31, 2006

Employees earn sick leave at the rate of 1-1/4 hours for each calendar month of service. Currently, the maximum sick leave accumulation for firefighters is 4,134 hours, for patrolmen is 50% of their accumulation up to 200 hours and for non union employees it is 66% of their accumulation up to 240 hours. Sick leave is paid out at retirement not at termination except for patrolmen with at least 10 years of service who will be paid 20% of their accumulation.

Employees may elect to receive compensatory time off in lieu of overtime. Currently the maximum balance is 360 hours for firefighters, 400 hours for patrolmen and 240 hours for non union employees.

**Note 12 –Short Term and Long Term Obligations**

Short and long term liability activity for the year ended December 31, 2006 was as follows:

	Balance 3/5/06	Additions	Reductions	Balance 12/31/06	Due Within One Year
<i>Short Term Obligation</i>					
Loan Payable	\$ 147,706	\$ 0	\$ 147,706	\$ 0	\$ 0
<i>Long Term Obligations</i>					
Capital Lease	112,860	116,753	53,807	175,806	53,799
Compensated Absences	459,670	102,658	65,616	496,712	62,741
Total Long Term Obligations	\$ 572,530	\$ 219,411	\$ 119,423	\$ 672,518	\$ 116,540

**Note 13 - Capitalized Leases**

Capital lease obligations relate to equipment which is leased under a long-term agreement. These leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standard No. 13 "Accounting for Leases". Capital lease payments in the governmental funds have been reclassified and are reflected as debt service in the basic financial statements for the fire district and permissive motor vehicle funds. These expenditures are reflected as program/function expenditures on a budgetary basis. The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2006.

Year	Amount
2007	\$ 107,598
2008	112,252
2009	82,028
2010	49,734
Total Minimum Lease Payments	351,612
Less Amount Representing Interest	175,806
Present Value of Minimum Lease Payments	\$ 175,806

**City of New Franklin, Summit County**  
*Notes to the Basic Financial Statements*  
*For the Period March 6, 2006 through December 31, 2006*

---

The assets being acquired have been capitalized in the governmental activities in the amount of \$806,486, which is the present value of the minimum lease payments at the inception of each lease.

**Note 14 – Risk Management**

The City is exposed to various risks of property and casualty losses and injuries to employees.

The City insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

***Risk Pool Membership***

The City belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. PEP is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

***Casualty Coverage***

For an occurrence prior to January 1, 2006 PEP retains casualty risks up to \$250,000 per occurrence, including claim adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$10,000,000 in the aggregate year. For an occurrence on or subsequent to January 1, 2006, the Pool retains casualty risk up to \$350,000 per occurrence, including loss adjustment expenses. Claims exceeding \$350,000 are reinsured with APEEP in an amount not to exceed \$2,650,000 for each claim and \$10,000,000 in the aggregate year. Governments can elect up to \$10,000,000 in additional coverage with the General Reinsurance Corporation, through contracts with PEP.

If losses exhaust PEP's retained earnings, APEEP provides excess of funds available coverage up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000 (for claims prior to January 1, 2006) or \$3,000,000 (for claims on or after January 1, 2006) as noted above.

***Property Coverage***

Through 2004, PEP retained property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsured losses exceeding \$100,000 up to \$500 million per occurrence.

Beginning in 2005, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable values. If the stop loss is reached by payment of losses between \$100,000 and \$250,000, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2006 was \$1,901,127.

The aforementioned casualty and property reinsurance agreements do not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

Property and casualty settlements did not exceed insurance coverage for the past three fiscal years.

**City of New Franklin, Summit County**  
*Notes to the Basic Financial Statements*  
For the Period March 6, 2006 through December 31, 2006

---

***Financial Position***

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2006 and 2005:

	2006		2005	
	Casualty Coverage	Property Coverage	Casualty Coverage	Property Coverage
Assets	\$ 30,997,868	\$ 5,125,326	\$ 29,719,675	\$ 4,443,332
Liabilities	<u>15,875,741</u>	<u>863,163</u>	<u>15,994,168</u>	<u>1,068,245</u>
Retained Earnings	<u>\$ 15,122,127</u>	<u>\$ 4,262,163</u>	<u>\$ 13,725,507</u>	<u>\$ 3,375,087</u>

At December 31, 2006 and 2005, respectively, casualty coverage liabilities noted above include approximately \$14.4 million and \$14.3 million of estimated incurred claims payable. The Casualty Coverage assets and retained earnings above also include approximately \$14.4 million and \$14.3 million of unpaid claims to be billed to approximately 447 member governments in the future, as of December 31, 2006 and 2005, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The City's share of these unpaid claims collectible in future years is approximately \$156,150. This payable includes the subsequent year's contribution due if the City terminates participation, as described in the last paragraph below.

Based on discussions with PEP, the expected rates PEP charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to PEP for each year of membership.

Year	Contributions to PEP
2005	\$ 73,281
2006	78,075

After completing one year of membership, members may withdraw on each anniversary of the date they joined PEP provided they give written notice to PEP 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's budgetary contribution. Withdrawing members have no other future obligation to the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

**City of New Franklin, Summit County**  
*Notes to the Basic Financial Statements*  
*For the Period March 6, 2006 through December 31, 2006*

---

***Medical***

The City is self-insured for its medical insurance, dental insurance, prescription drug program, and life insurance. Premiums are paid into the Self-Insurance Fund by all other funds and are available to pay claims, claim reserves and administrative costs of the program. During the period ending December 31, 2006, a total expense of \$546,713 was incurred in benefits and administrative costs. An excess coverage insurance policy covers individual claims in excess of \$75,000. The liability for unpaid claims cost of \$33,889 reported in the fund at December 31, 2006 is based on the requirements of Governmental Accounting Standards Board Statement No. 10 which requires that a liability for unpaid claims cost, including estimates of costs relating to incurred but not reported claims, be reported. Interfund premiums are based primarily upon the insured funds' claims experience and are reported as charges for services to other funds.

Changes in the fund's claims liability amount in 2006 was:

		<u>Balance</u> <u>March 5, 2006</u>	<u>Current Year</u> <u>Claims</u>	<u>Claim</u> <u>Payments</u>		<u>Balance at</u> <u>December 31, 2006</u>
2006	\$	99,383	321,447	386,941	\$	33,889

All information necessary to report the amounts for 2005 are not available.

**Note 15 – Contingencies**

Amounts received from grantor agencies are subject to audit and adjustment by the grantor, principally the federal government. Any disallowed costs may require refunding to the grantor. Amounts which may be disallowed, if any, are not presently determinable. However, based on prior experience, management believes such refunds, if any, would not be material.



# Mary Taylor, CPA

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 New Franklin  
Summit County  
5611 Manchester Road  
Akron, Ohio 44319

To the City Council:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of New Franklin, Summit County, Ohio, (the City) as of and for the period March 6, 2006 through December 31, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 22, 2007. 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 expressing our opinion on the financial statements, but not to opine 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the City's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiency described in the accompanying Schedule of Findings to be a significant deficiency in internal control over financial reporting: 2006-001.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the City's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that is also material weaknesses. However, we believe the significant deficiency described above, Finding number 2006-001 is also a material weakness.

We noted certain matters that we reported to the City's management in a separate letter dated October 22, 2007.

#### **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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note certain noncompliance or other matters that we reported to the City's management in a separate letter dated October 22, 2007.

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 and City Council. We intend it for no one other than these specified parties.



**Mary Taylor, CPA**  
Auditor of State

October 22, 2007



**CITY OF NEW FRANKLIN  
SUMMIT COUNTY**

**SCHEDULE OF FINDINGS  
MARCH 6, 2006 THROUGH DECEMBER 31, 2006**

<b>1. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
---

**FINDING NUMBER 2006-001**

**Material Weakness - Capital Assets**

During testing of capital assets the following deficiencies were noted:

- 100% of land and building assets tested (3 land and 5 buildings) were originally recorded on the Capital Asset Listing at 2006 values as appraised by the Summit County Fiscal Office and not the actual cost as of the date acquired.
- For 100% of buildings tested, depreciation was miscalculated because the building values included the cost of land and/or land improvements, which resulted in the land and land improvement portions of each asset being improperly depreciated.
- A City-owned vehicle sold in 2006 was not recorded as a deletion since it was never included on the capital asset system.
- The City did not utilize capital asset tags and the capital asset master listing did not always include identifying information such as a serial number or VIN number.
- 46% of depreciable assets tested were fully depreciated according to the City's useful life practice; however, these assets were still in use.
- 29% of recorded capital asset additions were recorded at an estimated cost.
- Multiple accumulated depreciation errors occurred as a result of a software problem with the City's capital asset management system. As result the accumulated depreciation was understated by \$78,298 and the current year depreciation expense was overstated by \$11,939.
- The City's capital asset policy does not address group purchases, estimated useful lives, or the treatment of infrastructure.
- The Capital Asset Listing and depreciation schedule were not reviewed after they were received from the GAAP Conversion team.
- A 2007 capital asset purchase was included on the 2006 additions listing.
- 15 assets used by the City were not included in the Capital Asset Listing.

To help improve the accountability and reporting of the capital assets, the City should:

- Ensure all assets held by the City are initially recorded at the actual cost.
- Ensure buildings, land improvements and land are recorded in the capital asset system as separate assets to facilitate proper depreciation practices.
- Ensure all City-owned assets are capitalized when purchased.
- Assign and affix asset tag numbers to all capital assets and ensure all assets are recorded in the capital asset master listing with the respective tag number and identifying information.
- Re-evaluate capital asset useful lives if they are still being used after the time the practice dictates.
- Obtain the actual cost of assets acquired during the year to ensure correct book values are maintained.
- Communicate and follow-up with the computer software vendor to resolve the incorrect calculation relating to the asset management system.
- The City should establish a Capital Asset Policy that includes information relating to group purchases, asset useful lives and infrastructure.

**FINDING NUMBER 2006-001 (Continued)**

- The Fiscal Officer or her representative should review the capital asset listing and depreciation schedule to ensure completeness and accuracy of data.
- Ensure capital asset purchases are included on the additions listing for the proper year.
- Ensure all City owned assets are recorded and capitalized.

**Officials' Response:** We will get some policies in effect addressing our Capital Assets. Software Solutions will be notified to resolve our calculations relating to capital assets. The appropriate staff will also be trained on fixed asset depreciation and report.



**Mary Taylor, CPA**  
Auditor of State

**CITY OF NEW FRANKLIN**

**SUMMIT 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  
DECEMBER 27, 2007**