



Dave Yost • Auditor of State

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**CITY OF NEW FRANKLIN
SUMMIT COUNTY**

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Dave Yost • 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 City of New Franklin, Summit County, Ohio, (the City), as of and for the year ended, December 31, 2011, 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 City of New Franklin, Summit County, Ohio, as of December 31, 2011, 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 year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2, the City restated its January 1, 2011 governmental fund balances/net assets due to change in fund structure as a result of implementing the provisions of the Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 7, 2012, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

Dave Yost
Auditor of State

September 7, 2012

City of New Franklin
Summit County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2011
(Unaudited)

The discussion and analysis of the City of New Franklin's (the City) financial performance provides an overall review of the City's financial activities for the year ended December 31, 2011. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

Key financial highlights for 2011 are as follows:

- The City's net assets increased \$.5 million over 2010, which is an increase of 5.6%.
- General revenues accounted for \$5.2 million or 73.1% of total governmental activities revenue and program revenues accounted for \$1.9 million or 26.9% of total governmental activities revenue of \$7.2 million. Program expenses amounted to \$6.7 million in 2011.
- The City received donations of property and a banquet facility in 2011. The City also purchased police vehicles and an ambulance, completed street resurfacing and began a street improvement project. Overall the City's capital assets increased \$1.0 million.

The Statement of Net Assets and the Statement of Activities (on pages 12 and 13, respectively) 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 14. For governmental funds, 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.

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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.

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 two kinds of funds are governmental and proprietary, which 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 fund, police district fund and fire district fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation.

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The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund, street maintenance and repair fund, police district fund and fire district fund to demonstrate compliance with this budget.

Our analysis of the City's major funds begins on page 9.

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 22.

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 25.

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City of New Franklin
Summit County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2011
(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 2011 compared to 2010.

Table 1
Net Assets
Governmental Activities

	<u>2011</u>	<u>Restated 2010</u>
Assets		
Current and Other Assets	\$ 7,205,003	\$ 7,842,065
Capital Assets, Net	<u>5,909,776</u>	<u>4,932,674</u>
 Total Assets	 <u>13,114,779</u>	 <u>12,774,739</u>
Liabilities		
Current and Other		
Liabilities	3,088,380	3,259,498
Long Term Liabilities:		
Due Within One Year	96,629	124,920
Due in More than One Year	<u>623,621</u>	<u>578,428</u>
 Total Liabilities	 <u>3,808,630</u>	 <u>3,962,846</u>
Net Assets		
Invested in Capital		
Assets Net of Debt	5,851,553	4,847,225
Restricted		
Debt Service	2,183	2,183
Capital Outlay	20,415	111,161
Police and Fire Operating	0	102,646
Street Maintenance and Repair	1,226,271	1,082,034
Other Purposes	637,394	653,186
Unrestricted	<u>1,568,333</u>	<u>2,013,458</u>
 Total Net Assets	 <u>\$ 9,306,149</u>	 <u>\$ 8,811,893</u>

The City's net assets changed during the period, *increasing* from \$8.8 million to \$9.3 million, or 5.6%. 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 decreased from

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\$2.0 million in 2010 to \$1.6 million in 2011. Restricted net assets, those restricted mainly for debt service, special purposes such as street cleaning or maintenance and repair and capital improvements decreased less than \$65,000. The police and fire operations had a negative net asset balance in 2011, therefore, it was classified as unrestricted. The investments in capital assets, net of related debt category had a \$1.0 million increase in 2011. There was a decrease in nearly all receivables and cash offset by an increase in capital assets for a net increase of in total assets of \$.3 million. Nearly all payables decreased with the exception of claims payable which increased \$.1 million due to the timing of the change in administrators. Total liabilities decreased \$.2 million.

Table 2 shows the changes in net assets for 2011 and 2010. This will enable readers to draw further conclusions about the City's financial status and possibly project future problems.

Table 2
Change in Net Assets
Governmental Activities

	2011	2010
Revenues		
<i>Program Revenues:</i>		
Charges for Services and Sales	\$ 568,384	\$ 478,186
Operating Grants and Contributions	898,487	965,153
Capital Grants and Contributions	461,468	0
Total Program Revenues	1,928,339	1,443,339
<i>General Revenue:</i>		
Property Taxes	2,896,527	3,086,843
City Income Taxes	930,103	847,082
Grants and Entitlements	1,396,751	1,147,106
Interest and Investment Earnings	5,928	6,768
Other	20,362	80,195
Total General Revenues	5,249,671	5,167,994
Total Revenues	7,178,010	6,611,333
Program Expenses		
General Government	906,209	944,737
Security of Persons and Property	4,182,647	4,117,915
Public Health	124,424	127,998
Community Development	121,733	128,885
Transportation	1,314,175	1,050,457
Leisure Time	30,678	50,418
Interest and Fiscal Charges	3,888	5,073
Total Expenses	6,683,754	6,425,483
Change in Net Assets	\$ 494,256	\$ 185,850

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Capital grants and contributions increased \$.5 million over 2010 through a donation of the Tudor House facility and land. The \$.2 million increase in grants and entitlements can be partially attributed to ODOT funds received for the road improvement project the City began in 2011. Transportation expenses increased \$.3 million over 2010 due to non-capitalized road maintenance costs.

Governmental Activities

Property taxes, the 1.0% income tax and the grants and entitlements are the largest sources of revenue for the City. Income tax revenues are allocated based on City ordinance. The parks and recreation fund receives 5% of the collections and the balance goes to the general fund. General fund also pays all costs of collecting the taxes and administering and enforcing the provisions.

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.

Table 3
Governmental Activities

	2011		2010	
	Total Cost	Net Cost	Total Cost	Net Cost
General Government	\$ 906,209	\$ 307,577	\$ 514,231	\$ 416,241
Security of Persons and Property	4,182,647	3,806,434	4,117,915	3,635,846
Public Health	124,424	103,924	127,998	110,423
Community Development	121,733	109,849	128,885	118,475
Transportation	1,314,175	422,017	1,480,963	668,589
Leisure Time	30,678	1,726	50,418	27,497
Interest and Fiscal Charges	3,888	3,888	5,073	5,073
<i>Total Expenses</i>	\$ 6,683,754	\$ 4,755,415	\$ 6,425,483	\$ 4,982,144

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. In 2011, the City received a donation of a banquet facility which helped offset general government expenses.

When looking at sources of income to support governmental activities, it should be noted that the charges for services are only 7.9% of revenue. Revenues provided by sources other than city residents in the form of operating grants comprise another 12.5% and capital grants and contributions are 6.4%. The remaining revenues are primarily generated locally through property (40.3%), income taxes (13.0%) and grants and entitlements not restricted to specific programs (19.5%). Miscellaneous revenues and interest comprise approximately .4%.

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Summit County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2011
(Unaudited)

The City's Funds

Governmental Funds

Information about the City's major governmental funds begins on page 14. These funds are reported using the modified accrual basis of accounting. All Governmental funds had total revenues of \$6.7 million and expenditures of \$7.1 million. The general fund balance decreased \$.4 million, the street maintenance and repair fund balance increased \$.2 million, the police district fund increased \$.1 million and the fire district fund decreased \$.3 million.

The largest change was in the general fund with a \$.3 million increase in revenues and a \$.5 million decrease in expenditures. The timing of intergovernmental revenues to cover expenditures partially contributed to these changes.

The fund balance in the street maintenance and repair fund increased \$.2 million over 2010 mostly due to the timing of grant proceeds to cover road improvements. The police district fund increased less than \$.1 million over 2010 mainly due to transfers in from general fund to help defray costs. In 2011, the fire district fund purchased an ambulance and equipment contributing to a decrease of \$.3 million in fund balance from 2010.

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 22.

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 Alternative 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 \$.5 million less than original estimated revenues and less than final estimated revenues by \$10,200. Actual tax revenues were \$.9 million less than original estimates and intergovernmental revenues were \$.4 million more than originally estimated.

Actual expenditures were less than final appropriations by \$.1 million with no individually significant line item accounting for the difference. Actual expenditures were \$.3 million more than original appropriations. Actual transfers out were \$.3 million less than final appropriations.

City of New Franklin
Summit County, Ohio
Management's Discussion and Analysis
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(Unaudited)

Capital Asset and Debt Administration

Capital Assets

At the end of 2011, the City had \$5.9 million invested in land, construction in progress, buildings and improvements, furniture and equipment, vehicles and infrastructure (see below). This amount represents a net increase over last year. Table 4 shows 2011 balances compared with 2010.

Table 4
Capital Assets
(Net of Depreciation)
Governmental Activities

	2011	2010
Land	\$ 1,250,118	\$ 847,865
Construction in Progress	199,079	0
Buildings and Improvements	1,082,309	935,195
Furniture and Equipment	626,379	687,187
Vehicles	1,182,614	1,222,948
Infrastructure	1,569,277	1,239,479
Totals	\$5,909,776	\$4,932,674

This year's major capital asset activity included the following:

- Tudor House banquet facility donated to the City.
- Improvements to the Rt. 619/93 intersection began.
- Purchase of an ambulance and other vehicles.
- Purchased equipment for police and City maintenance.

More detailed information about the City's capital assets is presented in Note 7 to the basic financial statements.

City of New Franklin
Summit County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2011
(Unaudited)

Debt

At December 31, 2011, the City had no outstanding long term debt obligations, other than a capital lease and compensated absences. See Note 10 and 11 for additional information.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, 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.

City of New Franklin, Summit County

Statement of Net Assets

December 31, 2011

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 3,197,658
Receivables:	
Accounts	101,490
Interest	2,913
Taxes	3,023,640
Intergovernmental	879,302
Noncurrent Assets:	
Non Depreciable Capital Assets	1,449,197
Depreciable Capital Assets (Net of Depreciation)	<u>4,460,579</u>
<i>Total Assets</i>	<u>13,114,779</u>
Liabilities	
Accounts Payable	43,156
Contracts Payable	5,993
Intergovernmental Payable	163,403
Accrued Wages	49,127
Deferred Revenue	2,647,726
Claims Payable	178,975
Long Term Liabilities:	
Due Within One Year	96,629
Due In More Than One Year	<u>623,621</u>
<i>Total Liabilities</i>	<u>3,808,630</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	5,851,553
Restricted for:	
Debt Service	2,183
Capital Projects	20,415
Street Maintenance and Repair	1,226,271
Other Purposes	637,394
Unrestricted	<u>1,568,333</u>
<i>Total Net Assets</i>	<u>\$ 9,306,149</u>

See accompanying notes to the basic financial statements.

City of New Franklin, Summit County
Statement of Activities
For the Year Ended December 31, 2011

	Expenses	Program Revenues			Net (Expense)
		Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Revenue and Change in Net Assets
					Governmental Activities
Governmental Activities					
General Government	\$ 906,209	\$ 137,164	\$ 0	\$ 461,468	\$ (307,577)
Security of Persons and Property	4,182,647	370,296	5,917	0	(3,806,434)
Public Health	124,424	20,500	0	0	(103,924)
Community Development	121,733	11,884	0	0	(109,849)
Transportation	1,314,175	0	892,158	0	(422,017)
Leisure Time	30,678	28,540	412	0	(1,726)
Interest and Fiscal Charges	3,888	0	0	0	(3,888)
<i>Total Governmental Activities</i>	<u>6,683,754</u>	<u>568,384</u>	<u>898,487</u>	<u>461,468</u>	<u>(4,755,415)</u>
<i>Totals</i>	<u>\$ 6,683,754</u>	<u>\$ 568,384</u>	<u>\$ 898,487</u>	<u>\$ 461,468</u>	<u>(4,755,415)</u>
General Revenues:					
Property Taxes Levied for:					
					174,850
					377,930
					2,343,747
Municipal Income Taxes Levied for:					
					899,593
					30,510
Grants and Entitlements not Restricted to					
					1,396,751
					5,928
					20,362
<i>Total General Revenues</i>					<u>5,249,671</u>
<i>Change in Net Assets</i>					494,256
<i>Net Assets Beginning of Year</i>					8,811,893
<i>(Restated, See Note 2)</i>					<u>8,811,893</u>
<i>Net Assets End of Year</i>					<u>\$ 9,306,149</u>

See accompanying notes to the basic financial statements.

City of New Franklin, Summit County
 Balance Sheet
 Governmental Funds
 December 31, 2011

	General	Street Maintenance and Repair	Police District	Fire District	Other Governmental Funds	Total Governmental Funds
Assets						
Equity in Pooled Cash and Cash Equivalents	\$ 754,576	\$ 1,016,596	\$ 77,340	\$ 275,633	\$ 869,618	\$ 2,993,763
Receivables:						
Accounts	89,761	0	0	0	11,165	100,926
Interest	2,913	0	0	0	0	2,913
Taxes	429,428	361,873	653,434	1,578,905	0	3,023,640
Intergovernmental	274,244	366,894	68,296	138,997	30,871	879,302
Advances to Other Funds	150,000	0	0	0	0	150,000
Total Assets	\$ 1,700,922	\$ 1,745,363	\$ 799,070	\$ 1,993,535	\$ 911,654	\$ 7,150,544
Liabilities and Fund Balance						
Liabilities:						
Accounts Payable	\$ 19,136	\$ 23,955	\$ 0	\$ 0	\$ 65	\$ 43,156
Contracts Payable	5,993	0	0	0	0	5,993
Intergovernmental Payable	14,423	11,132	46,025	91,823	0	163,403
Accrued Wages	9,920	6,802	16,219	16,186	0	49,127
Advances From Other Funds	0	0	0	150,000	0	150,000
Deferred Revenue	490,968	600,787	708,449	1,717,902	16,589	3,534,695
Total Liabilities	540,440	642,676	770,693	1,975,911	16,654	3,946,374
Fund Balance:						
Restricted	0	1,102,687	28,377	17,624	643,403	1,792,091
Committed	0	0	0	0	251,597	251,597
Assigned	38,426	0	0	0	0	38,426
Unassigned	1,122,056	0	0	0	0	1,122,056
Total Fund Balances (Deficit)	1,160,482	1,102,687	28,377	17,624	895,000	3,204,170
Total Liabilities and Fund Balances	\$ 1,700,922	\$ 1,745,363	\$ 799,070	\$ 1,993,535	\$ 911,654	\$ 7,150,544

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, 2011*

Total Governmental Fund Balances	\$	3,204,170
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds		5,909,776
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Delinquent Property Taxes	\$ 93,917	
Municipal Income Tax	159,855	
Intergovernmental	633,197	
Total	886,969	886,969
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.		25,484
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Compensated Absences	(662,027)	
Capital Leases	(58,223)	
Total	(720,250)	(720,250)
 <i>Net Assets of Governmental Activities</i>	 \$	 <u><u>9,306,149</u></u>

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 Year Ended December 31, 2011

	General	Street Maintenance and Repair	Police District	Fire District	Other Governmental Funds	Total Governmental Funds
Revenues						
Local Taxes	\$ 988,414	\$ 371,820	\$ 671,144	\$ 1,621,902	\$ 45,087	\$ 3,698,367
Intergovernmental Revenue	976,725	775,747	178,861	353,301	172,854	2,457,488
Fees, Licenses and Permits	122,592	0	0	0	0	122,592
Fines and Forfeitures	1,034	0	1,268	0	898	3,200
Charges for Services	235,059	0	57,752	8,358	112,883	414,052
Interest Income	2,533	0	0	0	22	2,555
Rentals	34,451	0	0	0	0	34,451
Gifts and Donations	286	0	208	1,340	600	2,434
Miscellaneous	626	6,908	5,859	1,184	0	14,577
<i>Total Revenues</i>	<u>2,361,720</u>	<u>1,154,475</u>	<u>915,092</u>	<u>1,986,085</u>	<u>332,344</u>	<u>6,749,716</u>
Expenditures						
Current:						
General Government	861,728	0	0	0	519	862,247
Security of Persons and Property	303,320	0	1,481,069	2,062,263	65	3,846,717
Public Health	109,792	0	0	0	14,632	124,424
Community Development	120,583	0	0	0	0	120,583
Transportation	593,957	988,564	0	0	144,416	1,726,937
Leisure Time	19,810	0	0	0	8,467	28,277
Capital Outlay	32,765	1,142	77,229	227,669	19,862	358,667
Debt Service:						
Principal Retirement	0	0	0	27,226	0	27,226
Interest and Fiscal Charges	0	0	0	3,888	0	3,888
<i>Total Expenditures</i>	<u>2,041,955</u>	<u>989,706</u>	<u>1,558,298</u>	<u>2,321,046</u>	<u>187,961</u>	<u>7,098,966</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	319,765	164,769	(643,206)	(334,961)	144,383	(349,250)
Other Financing Sources (Uses)						
Proceeds from Sale of Capital Assets	0	5,525	0	3,925	0	9,450
Insurance Recoveries	0	0	10,585	0	0	10,585
Transfers In	0	0	725,000	0	8,609	733,609
Transfers Out	(733,609)	0	0	0	0	(733,609)
<i>Total Other Financing Sources (Uses)</i>	<u>(733,609)</u>	<u>5,525</u>	<u>735,585</u>	<u>3,925</u>	<u>8,609</u>	<u>20,035</u>
<i>Net Change in Fund Balance</i>	(413,844)	170,294	92,379	(331,036)	152,992	(329,215)
<i>Fund Balance Beginning of Year (Restated, See Note 2)</i>	<u>1,574,326</u>	<u>932,393</u>	<u>(64,002)</u>	<u>348,660</u>	<u>742,008</u>	<u>3,533,385</u>
<i>Fund Balance End of Year</i>	<u>\$ 1,160,482</u>	<u>\$ 1,102,687</u>	<u>\$ 28,377</u>	<u>\$ 17,624</u>	<u>\$ 895,000</u>	<u>\$ 3,204,170</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 Year Ended December 31, 2011

Net Change in Fund Balances - Total Governmental Funds \$ (329,215)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. 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.

Capital Asset Additions	\$ 1,382,668	
Current Year Depreciation	(366,798)	
Total		1,015,870

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.

(38,768)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Delinquent Property Taxes	10,813	
Municipal Income Taxes	47,416	
Intergovernmental	(91,403)	
Total		(33,174)

The repayment of principal of long term debt consumes the current financial resources, and reduces long term liabilities and capital leases in the statement of net assets.

Capital Leases		27,226
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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.

Compensated Absences		(44,128)
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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.

(103,555)

Change in Net Assets of Governmental Activities

\$ 494,256

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 Year Ended December 31, 2011*

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Local Taxes	\$ 1,847,123	\$ 997,123	\$ 927,130	\$ (69,993)
Intergovernmental Revenue	606,700	949,808	995,827	46,019
Fees, Licenses and Permits	99,800	99,800	99,975	175
Fines and Forfeitures	1,050	1,050	1,094	44
Charges for Services	246,200	246,200	259,683	13,483
Interest Income	2,000	2,000	2,028	28
Rentals	5,838	5,838	5,911	73
<i>Total Revenues</i>	<u>2,808,711</u>	<u>2,301,819</u>	<u>2,291,648</u>	<u>(10,171)</u>
Expenditures				
Current:				
General Government	987,451	971,471	955,531	15,940
Security of Persons and Property	200,000	350,000	306,286	43,714
Public Health	110,000	110,000	109,792	208
Community Development	120,200	120,700	119,670	1,030
Transportation	400,000	600,000	587,964	12,036
Capital Outlay	34,000	56,100	31,036	25,064
<i>Total Expenditures</i>	<u>1,851,651</u>	<u>2,208,271</u>	<u>2,110,279</u>	<u>97,992</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	957,060	93,548	181,369	87,821
Other Financing Sources (Uses)				
Advances Out	0	(150,000)	(150,000)	0
Transfers Out	(1,155,000)	(1,010,500)	(733,609)	276,891
<i>Total Other Financing Sources (Uses)</i>	<u>(1,155,000)</u>	<u>(1,160,500)</u>	<u>(883,609)</u>	<u>276,891</u>
<i>Net Change in Fund Balance</i>	(197,940)	(1,066,952)	(702,240)	364,712
<i>Fund Balance Beginning of Year (Restated, See Note 2)</i>	1,032,439	1,032,439	1,032,439	0
Prior Year Encumbrances Appropriated	22,634	22,634	22,634	0
<i>Fund Balance End of Year</i>	<u>\$ 857,133</u>	<u>\$ (11,879)</u>	<u>\$ 352,833</u>	<u>\$ 364,712</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
 Street Maintenance and Repair Fund
 For the Year Ended December 31, 2011*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Local Taxes	\$ 368,615	\$ 364,508	\$ 371,820	\$ 7,312
Intergovernmental Revenue	84,000	84,000	721,954	637,954
Miscellaneous	2,100	2,100	6,908	4,808
<i>Total Revenues</i>	454,715	450,608	1,100,682	650,074
Expenditures				
Current:				
Transportation	1,792,272	1,907,918	1,029,978	877,940
Capital Outlay	2,000	2,000	1,142	858
<i>Total Expenditures</i>	1,794,272	1,909,918	1,031,120	878,798
<i>Excess of Revenues Over (Under) Expenditures</i>	(1,339,557)	(1,459,310)	69,562	1,528,872
Other Financing Sources (Uses)				
Proceeds from Sale of Capital Assets	0	5,525	5,525	0
<i>Net Change in Fund Balance</i>	(1,339,557)	(1,453,785)	75,087	1,528,872
<i>Fund Balance Beginning of Year</i>	822,506	822,506	822,506	0
Prior Year Encumbrances Appropriated	76,472	76,472	76,472	0
<i>Fund Balance End of Year</i>	\$ (440,579)	\$ (554,807)	\$ 974,065	\$ 1,528,872

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 Fund
 For the Year Ended December 31, 2011*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Local Taxes	\$ 662,000	\$ 670,169	\$ 671,144	\$ 975
Intergovernmental Revenue	129,000	165,000	165,822	822
Fines and Forfeitures	550	1,250	1,268	18
Charges for Services	50,000	57,500	57,752	252
Gifts and Donations	200	200	208	8
Miscellaneous	5,835	5,835	5,859	24
<i>Total Revenues</i>	<u>847,585</u>	<u>899,954</u>	<u>902,053</u>	<u>2,099</u>
Expenditures				
Current:				
Security of Persons and Property	1,653,250	1,727,250	1,589,111	138,139
Capital Outlay	80,000	80,000	77,229	2,771
<i>Total Expenditures</i>	<u>1,733,250</u>	<u>1,807,250</u>	<u>1,666,340</u>	<u>140,910</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	(885,665)	(907,296)	(764,287)	143,009
Other Financing Sources (Uses)				
Insurance Recoveries	0	10,000	10,585	585
Transfers In	79,000	823,400	725,000	(98,400)
<i>Total Other Financing Sources (Uses)</i>	<u>79,000</u>	<u>833,400</u>	<u>735,585</u>	<u>(97,815)</u>
<i>Net Change in Fund Balance</i>	(806,665)	(73,896)	(28,702)	45,194
<i>Fund Balance Beginning of Year</i>	<u>106,042</u>	<u>106,042</u>	<u>106,042</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$ (700,623)</u>	<u>\$ 32,146</u>	<u>\$ 77,340</u>	<u>\$ 45,194</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 Fund
 For the Year Ended December 31, 2011*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Local Taxes	\$ 1,550,243	\$ 1,620,361	\$ 1,621,902	\$ 1,541
Intergovernmental Revenue	261,000	352,000	353,301	1,301
Charges for Services	22,000	22,000	22,523	523
Gifts and Donations	1,000	1,000	1,340	340
Miscellaneous	1,000	1,000	1,184	184
<i>Total Revenues</i>	<u>1,835,243</u>	<u>1,996,361</u>	<u>2,000,250</u>	<u>3,889</u>
Expenditures				
Current:				
Security of Persons and Property	2,119,836	2,139,968	2,115,924	24,044
Capital Outlay	240,640	240,640	231,018	9,622
Debt Service:				
Principal Retirement	27,226	27,226	27,226	0
Interest and Fiscal Charges	3,888	3,888	3,888	0
<i>Total Expenditures</i>	<u>2,391,590</u>	<u>2,411,722</u>	<u>2,378,056</u>	<u>33,666</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	(556,347)	(415,361)	(377,806)	37,555
Other Financing Sources (Uses)				
Proceeds from Sale of Capital Assets	0	0	3,925	3,925
Advances In	172,000	172,000	150,000	(22,000)
<i>Total Other Financing Sources (Uses)</i>	<u>172,000</u>	<u>172,000</u>	<u>153,925</u>	<u>(18,075)</u>
<i>Net Change in Fund Balance</i>	(384,347)	(243,361)	(223,881)	19,480
<i>Fund Balance Beginning of Year</i>	437,810	437,810	437,810	0
Prior Year Encumbrances Appropriated	50,940	50,940	50,940	0
<i>Fund Balance End of Year</i>	<u>\$ 104,403</u>	<u>\$ 245,389</u>	<u>\$ 264,869</u>	<u>\$ 19,480</u>

See accompanying notes to the basic financial statements.

City of New Franklin, Summit County
Statement of Fund Net Assets
Proprietary Funds
December 31, 2011

	Governmental Activities - Internal Service Fund
	<hr/>
Assets	
Current Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 203,895
Accounts Receivable	564
	<hr/>
<i>Total Assets</i>	204,459
	<hr/>
Liabilities	
Current Liabilities	
Claims Payable	178,975
	<hr/>
<i>Total Liabilities</i>	178,975
	<hr/>
Net Assets	
Unrestricted	25,484
	<hr/>
<i>Total Net Assets</i>	\$ 25,484
	<hr/> <hr/>

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 Year Ended December 31, 2011

	Governmental Activities - Internal Service Fund
Operating Revenues	
Charges for Services	\$ 865,282
<i>Total Operating Revenues</i>	865,282
Operating Expenses	
Contractual Service	219,967
Claims	748,870
<i>Total Operating Expenses</i>	968,837
<i>Change in Net Assets</i>	(103,555)
<i>Net Assets at Beginning of Year</i>	129,039
<i>Net Assets at the End of the Year</i>	\$ 25,484

See accompanying notes to the basic financial statements.

City of New Franklin, Summit County
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2011

	Governmental Activities - Internal Service Fund
Cash Flows From Operating Activities	
Cash Received from Customers	\$ 865,322
Cash Paid for Goods and Services	(219,967)
Cash Paid for Claims	(606,993)
	38,362
<i>Net Cash Provided By (Used For) Operating Activities</i>	38,362
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	38,362
<i>Cash and Cash Equivalents at Beginning of Year</i>	165,533
<i>Cash and Cash Equivalents at End of Year</i>	\$ 203,895
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities	
Operating Income (Loss)	\$ (103,555)
Adjustments:	
(Increase) Decrease in Assets:	
Accounts Receivable	40
Increase (Decrease) in Liabilities:	
Claims Payable	141,877
	141,917
<i>Total Adjustments</i>	141,917
<i>Net Cash Provided By (Used For) Operating Activities</i>	\$ 38,362

See accompanying notes to the basic financial statements.

City of New Franklin, Summit County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

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 and one jointly governed organization. These organizations are the Ohio Plan and the Regional Council of Governments. These are presented in Note 12 and 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. The City has elected not to apply FASB pronouncements and interpretations issued after November 30, 1989, to its internal service fund.

The more significant of the city's accounting policies are described below.

City of New Franklin, Summit County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

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 two categories of funds: governmental and proprietary.

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:

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.

City of New Franklin, Summit County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

Street Maintenance & Repair Fund – The street maintenance and repair special revenue fund accounts for financial resources whose use is restricted to constructing, maintaining and repairing roads and bridges.

Police District Fund – The police district 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 to which the City is bound to observe constraints imposed upon the use of the resources.

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, prescription drug and life insurance 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. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City has no fiduciary funds.

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.

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.

City of New Franklin, Summit County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

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.

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 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 6). 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.

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, 2011, but which were levied to finance year 2012 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.

City of New Franklin, Summit County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

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 alternative 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.

Alternative 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 2011.

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 personal services 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.

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.

City of New Franklin, Summit County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

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 2011, 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 2011 amounted to \$2,533, which includes \$1,734, 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.

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 and Construction in Progress	N/A
Buildings and Improvements	10 - 50 Years
Furniture and Equipment	5 - 20 Years
Vehicles	5 - 16 Years
Infrastructure	20 Years

City of New Franklin, Summit County
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Interfund Balances

On the fund financial statements, long-term interfund loans are classified as “advances to/from other funds”. 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.

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. Capital leases are recognized as a liability on the fund financial statements when due.

Fund Balance

In accordance with Governmental Accounting Standards Board Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions”, the City classifies its fund balance based on the purpose for which the resources were received and the level of constraint placed on the resources. The classifications are as follows:

Nonspendable – The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed or assigned.

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

City of New Franklin, Summit County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

Committed – The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (ordinance or resolution) of City Council. Those committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

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

Unassigned – Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

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

Net Assets

Net assets 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

City of New Franklin, Summit County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

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 2011.

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.

Changes in Accounting Principles

For 2011, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" and GASB Statement No. 59, "Financial Instruments Omnibus."

GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The requirements of this statement classify fund balance as nonspendable, restricted, committed, assigned and/or unassigned.

GASB Statement No. 59 updated and improved existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. Implementation of this GASB statement did not affect the presentation of the financial statements of the City.

Restatement of Fund Balances/Net Assets

On January 1, 2011, the City implemented Governmental Accounting Standards Board Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions". As a result, the income tax fund and dispatch fund, previously reported as a special revenue funds and the franklin park fund, previously recorded as an agency fund were reclassified to the general fund for GAAP reporting purposes.

The following is the effect of those changes in fund balance:

City of New Franklin, Summit County
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For the Year Ended December 31, 2011

	<u>General Fund</u>	<u>Other Governmental Funds</u>
Fund Balance December 31, 2010	\$ 1,580,712	\$ 733,287
Fund Reclassification	<u>(6,386)</u>	<u>8,721</u>
Restated Fund Balance January 1, 2011	<u>\$ 1,574,326</u>	<u>\$ 742,008</u>

The following is the effect of those changes in net assets:

	<u>Governmental Activities</u>
Net Assets December 31, 2010	\$ 8,809,558
Fund Reclassification	<u>2,335</u>
Restated Net Assets January 1, 2011	<u>\$ 8,811,893</u>

The following is the effect of those changes in agency fund assets and liabilities:

	<u>Agency Fund</u>
Assets and Liabilities December 31, 2010	\$ 2,335
Fund Reclassification	<u>(2,335)</u>
Restated Assets and Liabilities January 1, 2011	<u>\$ 0</u>

The following is the change to the beginning fund balance of the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual for general fund based on the reclassification of funds:

	<u>General Fund</u>
Fund Balance December 31, 2010	\$ 1,236,924
Fund Reclassification	<u>(204,485)</u>
Restated Fund Balance January 1, 2011	<u>\$ 1,032,439</u>

City of New Franklin, Summit County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

Note 3 – Fund Balance

Fund balance can be classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in governmental funds.

The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented as follows:

	General Fund	Street Maintenance and Repair Fund	Police District Fund	Fire District Fund	Other Governmental Funds	Total
Restricted for:						
Street Improvement/Repair	\$ 0	\$ 1,102,687	\$ 0	\$ 0	\$ 504,216	\$ 1,606,903
Police and Fire Operations	0	0	28,377	17,624	0	46,001
Street Lighting	0	0	0	0	12,919	12,919
Drug Programs	0	0	0	0	2,236	2,236
Cemetery Operations	0	0	0	0	113,762	113,762
Other Purposes	0	0	0	0	10,270	10,270
Total Restricted	<u>0</u>	<u>1,102,687</u>	<u>28,377</u>	<u>17,624</u>	<u>643,403</u>	<u>1,792,091</u>
Committed to:						
Parks and Recreation	0	0	0	0	81,906	81,906
Fire Department Capital Outlay	0	0	0	0	169,691	169,691
Total Committed	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>251,597</u>	<u>251,597</u>
Assigned for:						
Encumbrances	<u>38,426</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>38,426</u>
Total Assigned	<u>38,426</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>38,426</u>
Unassigned (Deficit)	<u>1,122,056</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,122,056</u>
Total Fund Balance (Deficit)	<u>\$ 1,160,482</u>	<u>\$ 1,102,687</u>	<u>\$ 28,377</u>	<u>\$ 17,624</u>	<u>\$ 895,000</u>	<u>\$ 3,204,170</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.

City of New Franklin, Summit County
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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.

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)
7. Certain banker's acceptances and commercial paper notes in an amount not to exceed 25% of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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.

City of New Franklin, Summit County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

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.

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. Protection of the City's cash and deposits is provided by the Federal Deposit Insurance Corporation, as well as qualified securities pledged by the institution holding the assets. By law, financial institutions must collateralize all uninsured public deposits. The face value of the pooled collateral must equal at least 105 percent of uninsured public funds deposited. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

Deposits: The carrying value of the City's deposits totaled \$1,844,843 and the bank balances of the deposits totaled \$1,954,502. Of the bank balance \$1,201,815 was covered by depository insurance; and \$752,687 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging institution in the pledging institution's name, and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

Investments

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

Standard & Poor's	Investment	Fair Value	Investment Maturity Less than One Year	Total Investments
N/A *	Repurchase Agreement	\$ 1,352,815	\$ 1,352,815	100.00%

*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.

City of New Franklin, Summit County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

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 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).
2. Expenditures 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 assigned, committed or restricted fund balance (GAAP).
4. Advances in and advances out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).
5. Some funds are included in the general fund (GAAP), but have separate legally adopted budgets (budget).

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 district fund and fire district fund.

City of New Franklin, Summit County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

	Net Change in Fund Balance			
	<u>General **</u>	<u>Street Maintenance and Repair</u>	<u>Police District</u>	<u>Fire District</u>
GAAP Basis (as reported)	\$ (413,844)	\$ 170,294	\$ 92,379	\$ (331,036)
Adjustments:				
Net adjustment for revenue accruals	40,392	(53,793)	(13,039)	14,165
Advance in	0	0	0	150,000
Net adjustment for expenditure accruals	16,578	1,117	(108,042)	(46,245)
Advance out	(150,000)	0	0	0
Funds budgeted elsewhere	(156,940)	0	0	0
Encumbrances	(38,426)	(42,531)	0	(10,765)
 Budget Basis	 <u>\$ (702,240)</u>	 <u>\$ 75,087</u>	 <u>\$ (28,702)</u>	 <u>\$ (223,881)</u>

** As part of Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, certain funds that are legally budgeted in separate special revenue funds are considered part of general fund on a gaap basis. This includes the income tax fund, the dispatch fund and the franklin park civic fund.

Note 6 – Receivables

Receivables at December 31, 2011, consisted of taxes, interest, accounts, interfund 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 and public utility property located in the City. Property tax revenue received during 2011 for real and public utility property taxes represents collections of the 2010 taxes.

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

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2011 public utility property taxes which became a lien December 31, 2010, are levied after October 1, 2011, and are collected in 2012 with real property taxes.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phased out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property was eliminated in calendar year 2009, and the tax on telephone and telecommunications property was eliminated in calendar year 2010. The tax was phased out by reducing the assessment rate on the property each year. The bill replaced the revenue lost by the City due to the phasing out of the tax. In calendar years 2006-2010, the City was fully reimbursed for the lost revenue. In calendar years 2011-

City of New Franklin, Summit County
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2017, the reimbursements are being phased out. On June 30, 2011, House Bill No. 153 was signed into law, which further reduced the amounts of these reimbursements.

The full tax rate for all City operations for the year ended December 31, 2011 was \$14.65 per \$1,000 of assessed valuation. The assessed values of real and tangible personal property upon which 2011 property tax receipts were based are as follows:

Category	Assessed Value
Real Property	\$ 315,574,550
Public Utilities - Real	44,930
Public Utilities - Personal	7,768,730
	\$ 323,388,210

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

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30; with the remainder payable by September 20.

The Summit County Fiscal Officer collects property taxes on behalf of all taxing districts within the County. The County Fiscal Officer periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real property taxes, public utility real and tangible personal property taxes, and outstanding delinquencies which became measurable as of December 31, 2011, and for which there is an enforceable legal claim. In the governmental funds, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2011 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On the accrual basis, collectible delinquent property taxes have been recorded as revenue while the remainder of the receivable is deferred.

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 September 1, 2005, the income tax rate was 1%. The Regional Income Tax Agency (RITA) 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% rate for 2011 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 2011 using the 1% rate.

All residents, 16 years of age and over, working outside the City are subject to the 1% 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%.

City of New Franklin, Summit County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

Income tax revenues are allocated based on City ordinance. The parks and recreation fund receives 5% of the collections and the balance goes to the general fund. In 2011, all costs of collecting the taxes and administering and enforcing the provisions were paid from the general fund.

Intergovernmental Receivables

A summary of intergovernmental receivables follows:

	<u>Amount</u>
Governmental Activities:	
Local Government	\$ 261,130
Auto Registration	65,047
Permissive Tax	6,108
Gasoline Tax	267,249
Homestead Rollback	239,316
Grants	<u>40,452</u>
Total	<u><u>\$ 879,302</u></u>

Taxes Receivable

A summary of taxes receivables follows:

	<u>Amount</u>
Governmental Activities:	
Real Estate and Personal Property Tax	\$ 2,741,643
Municipal Income Tax	<u>281,997</u>
Total	<u><u>\$ 3,023,640</u></u>

City of New Franklin, Summit County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

Note 7 – Capital Assets

Capital asset activity for the year ended December 31, 2011, was as follows:

	Balance 12/31/2010	Additions	Reductions	Balance 12/31/2011
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$ 847,865	\$ 402,253	\$ 0	\$ 1,250,118
Construction in Progress	0	199,079	0	199,079
Total Capital Assets, not being depreciated	847,865	601,332	0	1,449,197
<i>Capital Assets, being depreciated:</i>				
Buildings and Improvements	1,181,295	181,960	0	1,363,255
Furniture and Equipment	1,372,785	19,988	(55,624)	1,337,149
Vehicles	2,909,367	202,293	(603,108)	2,508,552
Infrastructure	1,298,080	377,095	0	1,675,175
Total Capital Assets, being depreciated	6,761,527	781,336	(658,732)	6,884,131
<i>Less Accumulated Depreciation:</i>				
Buildings and Improvements	(246,100)	(34,846)	0	(280,946)
Furniture and Equipment	(685,598)	(79,459)	54,287	(710,770)
Vehicles	(1,686,419)	(205,196)	565,677	(1,325,938)
Infrastructure	(58,601)	(47,297)	0	(105,898)
Total Accumulated Depreciation	(2,676,718)	(366,798)	619,964	(2,423,552)
Total Capital Assets being depreciated, net	4,084,809	414,538	(38,768)	4,460,579
Governmental Activities Capital Assets, Net	\$ 4,932,674	\$ 1,015,870	\$ (38,768)	\$ 5,909,776

City of New Franklin, Summit County
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For the Year Ended December 31, 2011

Depreciation expense was charged to programs as follows:

<i>Governmental Activities:</i>	
General Government	\$ 16,773
Transportation	138,424
Leisure Time	2,401
Security of Persons and Property	<u>209,200</u>
Total	<u><u>\$ 366,798</u></u>

Note 8 – Defined Benefit Pension Plans

Ohio Public Employees Retirement System

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

OPERS provides retirement, disability, survivor and death benefits, and annual cost-of-living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or calling 614-222-5601 or 1-800-222-7377.

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions. For 2011, member and employer contribution rates were consistent across all three plans. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Pension Plan.

For the year ended December 31, 2011, members in state and local classifications contributed 10.0% of covered payroll while public safety and law enforcement members contributed 11.0% and 11.6%, respectively.

The City's 2011 contribution rate was 14.0%, except for those plan members in law enforcement or public safety, for whom the City's contribution was 18.1% of covered payroll. The portion of employer contributions used to fund pension benefits is net of postemployment health care benefits. The portion of employer contribution allocated to health care for members in the Traditional Plan was 4.0% during calendar year 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05% during calendar year 2011.

City of New Franklin, Summit County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

The City's required contributions for pension obligations to the Traditional Pension and Member-Directed Plans for the years ended December 31, 2011, 2010, and 2009 were \$154,606, \$165,826, and \$138,644 respectively. For 2011, 92.5% has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2010 and 2009. There were no contributions made to the Combined Plan for 2011.

Ohio Police and Fire Pension Fund

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

Funding Policy - Plan members are required to contribute 10.0 percent of their annual covered salary, while employers are required to contribute 19.5 percent for police officers and 24.0 percent for firefighters. The City's contributions to OP&F for police and firefighters were \$41,466 and \$153,237 for the year ended December 31, 2011, \$19,632 and \$143,389 for the year ended December 31, 2010 and \$15,779 and \$143,312 for the year ended December 31, 2009. 70.6% for police and 69.9% for firefighters has been contributed for 2011. The full amount has been contributed for 2010 and 2009.

Social Security System

As of December 31, 2011, two of the Council members have elected to be covered by Social Security rather than OPERS. The Council's liability is 6.2% of wages paid.

Note 9 – Postemployment Benefits

Ohio Public Employees Retirement System

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

OPERS maintains a cost-sharing multiple-employer defined benefit post-employment health care plan, which includes a medical plan, a prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and Combined Plans. Members of the Member-Directed plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Postemployment Benefit (OPEB) as described in GASB Statement 45.

City of New Franklin, Summit County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

The Ohio Revised Code permits, but does not mandate, OPERS to provide health care benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or calling 614-222-5601 or 1-800-222-7377.

Funding Policy – The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer’s contribution OPERS is set aside for the funding of post-retirement health care benefits.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2011, state and local employers contributed at a rate of 14.0% of covered payroll, and public safety and law enforcement employers contributed at 18.1%. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active members do not make contributions to the OPEB Plan.

OPERS’ Postemployment Health Care plan was established under, and is administered in accordance with Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding postemployment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 4.0% during calendar year 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05% during calendar year 2011.

The OPERS Board of Trustees is also authorized to establish rules for the retiree, or their surviving beneficiaries, to pay a portion of the health care benefits provided. Payment amounts vary depending on the number of covered dependents and coverage selected.

The City’s contributions allocated to fund post-employment health care benefits for the years ended December 31, 2011, 2010, and 2009 were \$56,050, \$80,717 and \$84,181, respectively. For 2011, 93.30% has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2010 and 2009.

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

Ohio Police and Firemen’s Disability and Pension Fund

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

City of New Franklin, Summit County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

OP&F provides access to post-retirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F meets the definition of an Other Postemployment Benefit (OPEB) as described in GASB Statement 45.

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

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

Funding Policy – The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F defined benefit pension plan. Participating employers are required Ohio Revised Code to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.5% and 24.0% of covered payroll for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.5% of covered payroll for police employer units and 24.0% of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

OP&F maintains funds for health care in two separate accounts. One for health care benefits under an IRS Code Section 115 trust and one for Medicare Part B reimbursements administrated as an Internal Revenue Code 401(h) account, both of which are within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2011, the employer contribution allocated to the health care plan was 6.75% of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

The City's contributions to OP&F which were allocated to fund post-employment health care benefits for police and firefighters were \$21,952 and \$59,962 for the year ended December 31, 2011, \$10,394 and \$56,109 for the year ended December 31, 2010, and \$8,354 and \$56,079 for the year ended December 31, 2009. 70.6% has been contributed for police and 69.9% has been contributed for firefighters for 2011. The full amount has been contributed for 2009 and 2008.

City of New Franklin, Summit County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

Note 10 – Long Term Obligations

Long term liability activity for the year ended December 31, 2011 was as follows:

	<u>Balance</u> 12/31/2010	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> 12/31/2011	<u>Due Within</u> <u>One Year</u>
<i>Long Term Obligations</i>					
Capital Leases	85,449	0	27,226	58,223	28,464
Compensated Absences	<u>617,899</u>	<u>72,834</u>	<u>28,706</u>	<u>662,027</u>	<u>68,165</u>
Total Long Term Obligations	<u>\$ 703,348</u>	<u>\$ 72,834</u>	<u>\$ 55,932</u>	<u>\$ 720,250</u>	<u>\$ 96,629</u>

The capital lease is paid from the fire district fund and compensated absences are paid from the general fund, street maintenance and repair fund and the fire district fund.

Note 11 - 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 under generally accepted accounting standards. 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. 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, 2011.

<u>Year</u>	<u>Amount</u>
2012	\$ 31,113
2013	<u>31,113</u>
Total Minimum Lease Payments	62,226
Less Amount Representing Interest	<u>4,003</u>
Present Value of Minimum Lease Payments	<u>\$ 58,223</u>

The assets being acquired have been capitalized in the governmental activities in the amount of \$147,604, which is the present value of the minimum lease payments at the inception of each lease.

Note 12 – Risk Management

Property, Casualty and Liability

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2011, the City contracted with The Ohio Plan for various types of insurance. The coverage and deductible are as follows:

City of New Franklin, Summit County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

Type of Coverage	Deductible	Coverage
General Liability	\$ 2,500	\$ 3,000,000
Employers Liability	2,500	3,000,000
Employee Benefits	2,500	1,000,000
Law Enforcement Officers Liability	2,500	3,000,000
Public Officials Liability	2,500	3,000,000
Automobile	0	3,000,000
Property	1,000	3,541,860
Special Property Coverage	1,000	1,365,477
Electronic Equipment/Media Coverage	1,000	104,312
Public Employee Dishonesty	1,000	100,000
Emergency Medical Services Liability	2,500	3,000,000
Municipal Attorney and Law Director	2,500	1,000,000

There has not been a significant reduction in coverage from the prior year. Settled claims have not exceeded commercial coverage in any of the past three years.

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

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, 2011, a total expense of \$968,837 was incurred in benefits and administrative costs. An excess coverage insurance policy covers individual claims in excess of \$30,000. The liability for unpaid claims cost of \$178,975 reported in the fund at December 31, 2011 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 2011 and 2010 was:

	Beginning Balance	Claims	Claim Payments	Ending Balance
2011	\$ 37,098	748,870	606,993	\$ 178,975
2010	30,218	858,071	851,191	37,098

City of New Franklin, Summit County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

Note 13 – Contingencies

The City is a defendant in several lawsuits, the outcome of which cannot be determined. It is the opinion of the City's management that any judgment against the City would not have a material adverse effect on the City's financial position, and would be covered by liability insurance maintained by the City.

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.

Note 14 - Jointly Governed Organization

In 1971, 38 municipalities joined together to organize a Regional Council of Governments (RCOG) under the authority of Chapter 167 of the Ohio Revised Code to administer tax collection and enforcement concerns facing the cities and villages. The purpose of the RCOG is to foster cooperation between the municipalities through sharing of facilities for their common benefit. This includes the establishment of a central collection facility for the purpose of administering the income tax laws of the various municipal corporations who are members of the RCOG and for the purpose of collecting income taxes on behalf of each member municipality, doing all things allowed by law to accomplish such purpose.

The first official act of the RCOG was to form the Regional Income Tax Agency (RITA). Today RITA serves as the income tax collection agency for over 160 municipalities throughout the State of Ohio. Each member municipality appoints its own delegate to the RCOG, including electing members to the RITA Board of Trustees. Regardless of the population or tax collections of member municipalities, each member of the RCOG has an equal say in the operations of RITA. The Council did not receive any funding from the City during the current year.

Note 15 – Advances To/From Other Funds and Transfers

Advances To/From Other Funds

The account balances reported in the fund financial statements for “advances to other funds” and “advances from other funds” as of December 31, 2011 are as follows:

Fund	Advances To Other Funds	Advances From Other Funds
General Fund	\$ 150,000	\$ 0
Fire District Fund	0	150,000
Total Governmental Funds	\$ 150,000	\$ 150,000

Interfund receivables and payables can result from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, or (3) payments between funds are made.

The general fund made an advance to the fire district fund to purchase an ambulance. The fire district fund will repay the advance over a five year period at \$30,000 per year.

City of New Franklin, Summit County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

Interfund Transfers

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the fund collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

During 2011, the general fund transferred \$725,000 to the police district fund, \$6,522 to the assistance to firefighters fund and \$2,087 to the ODNR fund for expenditures.

Note 16 – Contractual Commitment

The City had the following contractual commitments outstanding at December 31, 2011:

Fund	Contractual Commitment	Expended	Balance Remaining
Rt. 619/93 Road Improvement Project	\$ 1,843,500	\$ 199,079	\$ 1,644,421

Note 17 – Compliance

Contrary to Ohio Revised Code Section 5705.39 appropriations exceeded estimated resources within original and final budget for the street maintenance and repair fund by \$440,579 and \$554,807, respectively. Appropriations exceeded estimated resources in original budget by \$700,623 for the police district fund.

Contrary to Ohio Revised Code Section 5705.10(H), the City reported a negative fund balance in the permissive motor vehicle tax fund of \$115,822 and in the self-insurance fund of \$115,564 at October 31, 2011.



Dave Yost • Auditor of State

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

City of 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 City of New Franklin, Summit County, Ohio, (the City) as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 7, 2012, wherein we noted the City restated its governmental fund balance due to change in fund structure as a result of implementing the provisions of the Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying Schedule of Findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness and another deficiency we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2011-003 described in the accompanying Schedule of Findings to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2011-004 described in the accompanying Schedule of Findings to be a significant deficiency.

101 Central Plaza South, 700 Chase Tower, Canton, Ohio 44702-1509
Phone: 330-438-0617 or 800-443-9272 Fax: 330-471-0001

www.ohioauditor.gov

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 instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2011-001 and 2011-002.

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

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Finding. We did not audit the City's response and, accordingly, we express no opinion on them.

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



Dave Yost
Auditor of State

September 7, 2012

CITY OF NEW FRANKLIN
SUMMIT COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2011

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

FINDING NUMBER 2011-001

Noncompliance

Ohio Rev. Code Section 5705.10(H) states that money that is paid into a fund must be used only for the purposes for which such fund has been established. At October 31, 2011 the City's Statement of Cash Position reflected negative fund balances in the Permissive Motor Vehicle Tax Fund of \$115,822 and in the Self-Insurance Fund of \$115,564. These negative fund balances indicate that money from one fund was used to cover the expenditures of another fund and increases the possibility that a lack of monitoring controls exists.

The City should monitor fund activity to help prevent future expenditures in excess of available resources. In those cases where additional funds are required, the resources should either be transferred or advanced to the fund in accordance with the Ohio Revised Code. This may help ensure that money is only used for the purposes for which each fund was established.

Official's Response: The current Finance Director is reviewing the monthly cash statement prior to closing and making any necessary transfers and submitting to Council for approval.

FINDING NUMBER 2011-002

Noncompliance

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

The original and final appropriations exceeded estimated resources in the Street Maintenance and Repair Fund by \$440,579 and \$554,807, respectively. In addition, the original appropriations exceeded estimated resources in the Police District Fund of \$700,623. Finally, the City did not obtain certification from the Summit County Fiscal Officer that total appropriations did not exceed the official estimate or amended estimate.

The Finance Director and Council should closely monitor appropriations and estimated resources to ensure appropriations do not exceed estimated resources. In addition, the City should request such certification from the Summit County Fiscal Officer to ensure compliance with the budgetary provisions of Ohio Revised Code section 5705.39.

Official's Response: The current Finance Director and Council have reviewed and adjusted appropriations to ensure that they do not exceed the Certificate of Estimated Resources.

FINDING NUMBER 2011-003

Material Weakness - Bank Reconciliations and Review of Financial Reports

During 2011 there were no monthly bank to book reconciliations performed by the Finance Director. A necessary step in the internal control over financial reporting is to reconcile the bank balance and the cash balance in the accounting records. A bank reconciliation means accounting for the differences between the balance on the bank statement(s) and the cash and investment balances according to the City's records at a specific point in time.

In January 2012, the City contracted with an outside accounting firm to perform 2011 monthly bank account reconciliations. The accounting firm noted a number of system posting errors and omissions during the performance of the reconciliations including the following:

- The Finance Director made an entry to the system to create a new fund and erroneously increased the City's cash balance by \$100,000.
- December 2011 receipts totaling \$225,032 were not posted to the accounting system by the Finance Director.
- December 2011 expenditures totaling \$118,226 were not posted to the accounting system by the Finance Director.
- There was \$3,019 noted in unposted bank interest earnings, bank fees, bank deposit and check cashing errors noted throughout the year.
- There was a \$6,757 unknown difference noted between the December 31, 2011 reconciled bank account and the City's adjusted book balance.
- There were no check dates documented on the City's outstanding check listing making it difficult to determine if there were any stale-dated checks included which should be removed as reconciling items.

The Auditor of State's Office tested the December 2011 year-end bank reconciliation performed by the accounting firm, and noted that in addition to the above errors, an \$8,700 outstanding check included on the City's year-end outstanding check listing had actually been cashed in June 2011. This check amount was removed as a year-end reconciling item. In addition, the Auditor of State's Office was able to identify \$6,619 of the \$6,757 unknown difference documented on the accounting firms year-end bank reconciliation resulting in an unknown error of \$138.

City Council was not provided with bank reconciliations by the Finance Director at any time during 2011. In addition, the Finance Director submitted no financial reports (revenue, expense, budgetary, cash balances) to Council for the months of January, March, June, October and December 2011 for review and approval.

The bank reconciliation process provides an independent verification of the accuracy of the accounting records and must be completed before preparing the financial statements. Performance of bank reconciliations confirms the amount of money the City has available and are a necessary part of the internal controls of the City, particularly in terms of identifying recording errors and fraud. Bank reconciliations should be performed each month by the Finance Director and those reconciliations should be reviewed by another person and signed off to indicate their approval.

The Finance Director should provide City Council with monthly financial reports including bank reconciliations. Council should document receipt of the financial reports and bank reconciliations within the minutes. Also, a designated council member should sign (or initial) and date the reports as evidence of review and approval. These procedures may help ensure that City Council is properly monitoring the City's financial activity.

FINDING NUMBER 2011-003 (Continued)

Material Weakness - Bank Reconciliations and Review of Financial Reports (Continued)

Official's Response: The current Finance Director is working to bring Bank Reconciliations up to date and to provide monthly financial reports.

FINDING NUMBER 2011-004

Significant Deficiency - Revenue Reporting

The following errors were noted during testing of the City's revenue accounts:

- The Finance Director did not post receipts to the City's ledgers for December 2011 as noted within the Bank Reconciliations and Review of Financial Reports (Finding #2011-003).
- The February 2011 Homestead & Rollback distribution was posted at the net amount of \$237,249 entirely to the General Fund rather than allocated at the gross amount of \$238,546 between the General Fund of \$13,072, Street Maintenance and Repair Fund of \$32,086, Police District Fund of \$54,838 and Fire District Fund of \$138,550.
- The August 2011 Homestead & Rollback distribution was allocated to the proper funds but was improperly posted at the net amounts to "real estate" revenue accounts rather than "intergovernmental" revenue accounts.
- \$180,248 receipts from ODOT for reimbursement of project engineering expenditures were improperly posted to the Street Maintenance and Repair Fund as "miscellaneous" revenues rather than to the General Fund (where the expenditures originally were incurred) "intergovernmental" receipts.
- A \$14,966 EECBG grant receipt from Summit County for reimbursement of mechanic and truck garage remodeling expenditures was improperly posted to the Street Maintenance and Repair Fund as "miscellaneous" revenues rather than "intergovernmental" revenues.
- \$21,382 grant receipts to the Police Department and \$38,207 grant receipts to the Fire Department were improperly posted as "miscellaneous" revenue rather than as "intergovernmental" revenue. \$3,395 investment interest earnings were improperly reported as "intergovernmental" revenues in the General Fund.
- A personal property tax reimbursement receipt of \$21,547 was entirely posted to the General Fund rather than allocated between the General Fund, Street Construction Fund, Police Fund and Fire District Fund.
- A personal property tax reimbursement receipt of \$25,891 was properly allocated between funds but improperly classified as "property tax" revenue rather than as "intergovernmental" revenue.

The above errors and misclassifications were corrected by the City except for \$6,619 of immaterial Fire District grant receipts which was classified as "miscellaneous" rather than "intergovernmental" revenue. The City's financial statements properly reflect all of the adjustments made by the City.

The City's Finance Director should properly post all receipts to the correct fund and revenue account classification.

Official's Response: The current Finance Director reviews all receipts to ensure that they are posted to the correct fund and revenue account classifications.

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**CITY OF NEW FRANKLIN
SUMMIT COUNTY**

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

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2010-001	<p>Ohio Rev. Code Section 5705.10(H) At year-end the City's Statement of Cash Position reflected negative fund balances in the Assistance to Firefighters Fund and in the ODNR-Sisler Park Fund. These negative fund balances indicate that money from one fund was used to cover the expenses of another fund and increases the possibility that a lack of monitoring controls exists.</p>	No	See Finding 2011-001

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Dave Yost • 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
OCTOBER 4, 2012**