



**Auditor of State
Betty Montgomery**

VILLAGE OF NEW FRANKLIN
SUMMIT COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Cover Letter	1
Independent Accountants' Report.....	3
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types For the Year Ended December 31, 2004	5
Notes to the Financial Statements	7
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	11
Schedule of Findings.....	13
Schedule of Prior Audit Findings.....	15

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**Auditor of State
Betty Montgomery**

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

To the Village Council:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

A handwritten signature in cursive script that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

October 31, 2005

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Village Council:

We have audited the accompanying financial statement of the Village of New Franklin, Summit County, Ohio, (the Village) as of and for the year ended December 31, 2004. This financial statement is the responsibility of the Village's management. Our responsibility is to express an opinion on this financial statement 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 opinion.

As described more fully in Note 1, the Village has prepared this financial statement using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the year ended December 31, 2004. Instead of the combined funds the accompanying financial statement present for 2004 the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2004. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Village has elected not to reformat its statements. Since this Village does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the year ended December 31, 2004 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2004, or its changes in financial position for the year then ended.

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Also, in our opinion, the financial statement referred to above presents fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Village of New Franklin, Summit County, as of December 31, 2004, and its combined cash receipts and disbursements for the year then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the Village to include Management's Discussion and Analysis for the year ended December 31, 2004. The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2005, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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.



Betty Montgomery
Auditor of State

October 31, 2005

**VILLAGE OF NEW FRANKLIN
SUMMIT COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Intergovernmental Receipts	\$47,013	\$1,949	\$48,962
Fines, Licenses, and Permits	13,640		13,640
Earnings on Investments	77		77
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	60,730	1,949	62,679
	<hr/>	<hr/>	<hr/>
Cash Disbursements:			
Current:			
Security of Persons and Property	1,045		1,045
Public Health Services		3,129	3,129
Transportation	22,150		22,150
General Government	10,486		10,486
	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	33,681	3,129	36,810
	<hr/>	<hr/>	<hr/>
Total Cash Receipts Over/(Under) Cash Disbursements	27,049	(1,180)	25,869
	<hr/>	<hr/>	<hr/>
Other Financing Receipts and (Disbursements):			
Advances-In		1,180	1,180
Advances-Out	(1,180)		(1,180)
	<hr/>	<hr/>	<hr/>
Total Other Financing Receipts/(Disbursements)	(1,180)	1,180	0
	<hr/>	<hr/>	<hr/>
Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements and Other Financing Disbursements	25,869		25,869
	<hr/>	<hr/>	<hr/>
Fund Cash Balances, January 1	44,173		44,173
	<hr/>	<hr/>	<hr/>
Fund Cash Balances, December 31	<u>\$70,042</u>	<u>\$0</u>	<u>\$70,042</u>
	<hr/>	<hr/>	<hr/>
Reserves for Encumbrances, December 31	<u>\$18,635</u>	<u>\$0</u>	<u>\$18,635</u>

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

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**VILLAGE OF NEW FRANKLIN
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of New Franklin, Summit County, (the Village) as a body corporate and politic. A publicly-elected six-member Council governs the Village. The Village provides general governmental services. The Village contracts with Franklin Township to provide security of persons and property, zoning inspections, road maintenance, and emergency medical services.

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

B. Basis of Accounting

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. This basis recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements adequately disclose material matters the Auditor of State prescribes.

C. Fund Accounting

The Village uses fund accounting to segregate cash that are restricted as to use. The Village classifies its funds into the following types:

1. General Fund

The General Fund reports all financial resources except those required to be accounted for in another fund.

2. Special Revenue Fund

These funds account for proceeds from specific sources (other than from trusts or for capital projects) that are restricted to expenditure for specific purposes. The Village had the following significant Special Revenue Fund:

Community Development Block Grant – Life Line Project Fund - This fund receives federal Community Development Block Grant monies passed through Summit County to provide emergency call buttons and supportive services to Village seniors with mobility and/or self-care limitations.

**VILLAGE OF NEW FRANKLIN
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Process

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

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the object level, and appropriations may not exceed estimated resources. Village Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated. The Village did not encumber all commitments required by Ohio law.

A summary of 2004 budgetary activity appears in Note 3.

E. Property, Plant, and Equipment

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

2. EQUITY IN POOLED CASH

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

	2004
Demand deposits	\$70,042

Deposits: Deposits are insured by the Federal Depository Insurance Corporation.

**VILLAGE OF NEW FRANKLIN
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

3. BUDGETARY ACTIVITY

Budgetary activity for the year ended December 31, 2004 follows:

2004 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$43,523	\$60,730	\$17,207
Special Revenue	0	1,949	1,949
Total	\$43,523	\$62,679	\$19,156

2004 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$32,300	\$52,316	(\$20,016)
Special Revenue	4,190	3,129	1,061
Total	\$36,490	\$55,445	(\$18,955)

Contrary to Ohio Rev. Code Section 5705.41(D), the Village Treasurer did not certify funds prior to incurring the expenditure.

Contrary to Ohio Rev. Code Section 5705.09, the Village did not establish a Permissive Sales Tax Fund, Street Construction, Maintenance and Repair Fund or a State Highway Fund to record receipts and subsequent expenditures from the Ohio Department of Public Safety during 2004.

Contrary to Ohio Rev. Code Section 5705.39, total appropriations exceeded total estimated resources by \$4,190 in the Special Revenue Community Development Block Grant Fund.

Due to audit adjustments of \$22,150, expenditures exceeded appropriations in the General Fund. Therefore, no exception will be taken.

4. RISK MANAGEMENT

Risk Pool Membership

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

Casualty Coverage

PEP retains casualty risks up to \$250,000 per claim, including loss adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$5,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$10,000,000 from the General Reinsurance Corporation.

If losses exhaust PEP's retained earnings, APEEP covers PEP losses up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

**VILLAGE OF NEW FRANKLIN
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

4. RISK MANAGEMENT (Continued)

Property Coverage

PEP retains property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsures losses exceeding \$100,000 up to \$500,000,000 per occurrence. APEEP's Guarantee Fund pays losses and loss adjustment expenses exceeding operating contributions.

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

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2004 (the latest information available).

<u>Casualty Coverage</u>	<u>2004</u>
Assets	\$30,547,049
Liabilities	<u>(16,989,918)</u>
Retained earnings	<u>\$13,557,131</u>
<u>Property Coverage</u>	<u>2004</u>
Assets	\$3,652,970
Liabilities	<u>(544,771)</u>
Retained earnings	<u>\$3,108,199</u>

5. SUBSEQUENT EVENT

The Village and Franklin Township residents approved the merger of Franklin Township as part of the Village effective January 1, 2005.



Auditor of State Betty Montgomery

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

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

To the Village Council:

We have audited the financial statements of the Village of New Franklin, Summit County, Ohio, (the Village) as of and for the year ended December 31, 2004, and have issued our report thereon dated October 31, 2005, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. 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 Village's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Village's management dated October 31, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, 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 2004-001 through 2004-003. In a separate letter to the Village's management dated October 31, 2005, we reported other matters related to noncompliance we deemed immaterial.

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Village of New Franklin
Summit County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of the management, and Village Council. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

October 31, 2005

VILLAGE OF NEW FRANKLIN
SUMMIT COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2004

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

FINDING NUMBER 2004-001

Noncompliance Citation

Ohio Rev. Code Section 5705.41(D) requires that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision certifying that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's fiscal officer. Every contract made without such a certificate shall be void and no warrant shall be issued in payment of any amount due thereon.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. **"Then and Now" Certificate** – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Village can authorize the drawing of a warrant for the payment of the amount due. The Village has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Village.

2. **Blanket Certificate** – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. **Super Blanket Certificate** – The Village may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

During 2004, 7 of the 22 or (32%) of the expenditures tested were not certified by the Clerk/Treasurer prior to incurring the obligation. It was also found that neither of the exceptions above was utilized for the items found to be in noncompliance. The Township should certify the availability of funds for expenditure and also implement the use of "Then and Now" Certificates as further means to certify funds pursuant to Ohio Rev. Code Section 5705.41(D).

FINDING NUMBER 2004-002

Noncompliance Citation

Ohio Rev. Code Section 5705.09 requires each subdivision to establish a special fund for each class of revenue derived from a source other than general property tax, which the law requires to be used for a particular purpose.

During 2004, the Village did not establish a Permissive Sales Tax Fund to record receipts and subsequent expenditures from the Ohio Department of Public Safety totaling \$13,245.08, a Street Construction, Maintenance and Repair Fund to record Undivided Auto Fees totaling \$22,171.08 and Gasoline Taxes totaling \$1,780.67, or a State Highway Fund to record Gasoline Taxes totaling \$144.38. As a result, the Village's receipts and disbursements were overstated in the General Fund and understated in these Funds. The Village should create a Permissive Sales Tax Fund, Street Construction, Maintenance and Repair Fund and a State Highway Fund to account for all related receipt and disbursement activity and Council should pass a resolution for the establishment of these funds to ensure that all Village funds are authorized. The Village should refer to Auditor of State Bulletin 2000-08 for additional guidance. A similar comment was included in the prior audit's management letter.

FINDING NUMBER 2004-003

Noncompliance Citation

Ohio Rev. Code Section 5705.39 requires that total appropriations from each fund not exceed total estimated fund resources from each fund. This section also requires the Village to obtain a County Auditor's certificate that total appropriations from each fund do not exceed the total official estimate or amended official estimate when amending estimated resources.

During 2004, total appropriations exceeded total estimated resources at year end as follows:

<u>Fund</u>	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Variance</u>
Special Revenue Community Development Block Grant – Life Line Project Fund	\$0	\$4,190	\$4,190

In addition, the Village did not always obtain a certificate from the County fiscal officer that appropriations from each fund do not exceed the total Amended Official Estimate of Resources for certain appropriation and estimated resource amendments. Village Council should monitor appropriations versus estimated resources to help avoid overspending. In addition, the Treasurer should obtain the required certificate from the County fiscal officer when amending appropriations and estimated resources. A similar comment was included in the prior audit's management letter.

**VILLAGE OF NEW FRANKLIN
SUMMIT COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2003-001	Ohio Rev. Code Section 5705.41(D)	No	Not Corrected. Comment will be placed in the Schedule of Findings as item 2004-001.
2003-002	Ohio Rev. Code Section 5705.41(B)	Yes	



**Auditor of State
Betty Montgomery**

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VILLAGE OF NEW FRANKLIN

SUMMIT COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 30, 2005**