

**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

BASIC FINANCIAL STATEMENTS
(AUDITED)

FOR THE YEAR ENDED
DECEMBER 31, 2018

OHIO AUDITOR OF STATE
KEITH FABER



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City Council
City of New Franklin
5611 Manchester Road
Akron, Ohio 44319

We have reviewed the *Independent Auditor's Report* of the City of New Franklin, Summit County, prepared by Julian & Grube, Inc., for the audit period January 1, 2018 through December 31, 2018. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The City of New Franklin is responsible for compliance with these laws and regulations

A handwritten signature in black ink that reads "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

September 5, 2019

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**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

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Julian & Grube, Inc.

Serving Ohio Local Governments

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Independent Auditor's Report

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

To the Members of Council and Mayor:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of New Franklin, Summit County, Ohio, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City of New Franklin's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the City of New Franklin's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the City of New Franklin's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of New Franklin, Summit County, Ohio, as of December 31, 2018, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the General, Street Construction Maintenance and Repair, Police District, and Fire District funds thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3 to the financial statements, during 2018, the City of New Franklin adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *management's discussion and analysis*, and schedules of net pension and other post-employment benefit liabilities and pension and other post-employment benefit contributions 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 applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 13, 2019, on our consideration of the City of New Franklin's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of New Franklin's internal control over financial reporting and compliance.



Julian & Grube, Inc.
June 13, 2019

**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018**

The management's 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, 2018. 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 2018 are as follows:

- The total net position of the City increased \$1,011,777 or 15.83% from 2017's restated net position.
- General revenues accounted for \$6,947,768 or 77.19% of total governmental activities revenue. Program specific revenues accounted for \$2,053,171 or 22.81% of total governmental activities revenue.
- The City had \$7,989,162 in expenses related to governmental activities; \$2,053,171 of these expenses was offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities were offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$6,947,768.
- The general fund had revenues of \$3,935,508 in 2018. The expenditures and other financing uses of the general fund totaled \$2,526,568 in 2018. The net increase in fund balance for the general fund was \$1,408,940 or 189.05%.
- The street construction maintenance and repair fund had revenues of \$1,325,258 in 2018. The expenditures of the street construction maintenance and repair fund totaled \$1,600,195 in 2018. The net decrease in fund balance for the street construction maintenance and repair fund was \$274,937 or 20.83%.
- The police district fund had revenues and other financing sources of \$1,694,216 in 2018. The expenditures of the police district fund totaled \$1,709,721 in 2018. The net decrease in fund balance for the police district fund was \$15,505 or 48.67%.
- The fire district fund had revenues of \$2,150,580 in 2018. The expenditures of the fire district fund totaled \$2,180,314 in 2018. The net decrease in fund balance for the fire district fund was \$29,734 or 22.90%.
- In the general fund, the actual revenues and other financing sources of \$3,677,123 were higher than the final budget of \$631,399. Actual expenditures and other financing uses of \$2,476,105 were less than the amount in the final budget of \$2,946,356. Original budgeted revenues and other financing sources of \$3,031,802 were lower than the final budgeted revenues and other financing sources. Original budgeted expenditures and other financing uses of \$2,946,356 were the same as the final budgeted expenditures and other financing uses.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to these statements. These statements are organized so the reader can understand the City as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The statement of net position and statement of activities provide information about the activities of the City as a whole, presenting both an aggregate view of the City's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the City's most significant funds with all other nonmajor funds presented in total in one column.

**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018

Reporting the City as a Whole

Statement of Net Position and the Statement of Activities

While this document contains a large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did the City perform financially during 2018?" The statement of net position and the statement of activities answer this question. These statements include all assets, deferred outflows, liabilities, deferred inflows, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the City's net position and changes in net position. This change in net position is important because it tells the reader that, for the City as a whole, the financial position of the City has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the City's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required community programs and other factors.

In the statement of net position and the statement of activities, the governmental activities include the City's programs and services, including police, fire and rescue, street maintenance, capital improvements and general administration. These services are funded primarily by property and municipal income taxes and intergovernmental revenues including federal and state grants and other shared revenues.

Reporting the City's Most Significant Funds

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Fund financial reports provide detailed information about the City's major funds. The City uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the City's most significant funds. The analysis of the City's major governmental funds, the general fund, street construction maintenance and repair fund, police district fund and fire district fund begins on page 10.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018**

The City maintains a multitude of individual governmental funds. The City has segregated these funds into major funds and nonmajor funds. The City's major governmental funds are the general fund, street construction maintenance and repair fund, police district fund and fire district fund. Information for major funds is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 18 through 28 of this report.

Proprietary Funds

The City maintains one proprietary fund, an internal service fund. An internal service fund is an accounting device used to accumulate and allocate costs internally among the City's various functions. The City's internal service fund accounts for health self-insurance activities. The basic proprietary fund financial statements can be found on pages 29 through 31.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. An agency fund is the City's only fiduciary fund. The basic fiduciary fund financial statement can be found on page 32.

Notes to the Basic 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. These notes to the basic financial statements can be found on pages 33-75 of this report.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's net pension liability/asset and net OPEB liability. The required supplementary information can be found on pages 78-90 of this report.

**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018

Government-Wide Financial Analysis

The table below provides a summary of the City's assets, deferred inflows of resources, liabilities, deferred outflows of resources and net position at December 31, 2018 and 2017. The net position at December 31, 2017 has been restated as described in Note 3.

	Net Position	
	Governmental	Restated
	Activities	Governmental Activities
	2018	2017
<u>Assets</u>		
Current and other assets	\$ 9,030,248	\$ 8,560,377
Capital assets	<u>12,794,133</u>	<u>12,216,484</u>
Total assets	<u>21,824,381</u>	<u>20,776,861</u>
<u>Deferred Outflows</u>	<u>1,710,513</u>	<u>2,129,972</u>
<u>Liabilities</u>		
Long-term liabilities outstanding	11,492,662	12,304,624
Other liabilities	<u>415,959</u>	<u>1,148,035</u>
Total liabilities	<u>11,908,621</u>	<u>13,452,659</u>
<u>Deferred Inflows</u>	<u>4,221,133</u>	<u>3,060,811</u>
<u>Net Position</u>		
Investment in capital assets	12,794,133	11,521,579
Restricted	1,107,442	1,674,820
Unrestricted (deficit)	<u>(6,496,435)</u>	<u>(6,803,036)</u>
Total net position	<u>\$ 7,405,140</u>	<u>\$ 6,393,363</u>

The net pension liability (NPL) is the largest single liability reported by the City at December 31, 2018 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." For 2018, the City adopted GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the City's actual financial condition by adding deferred inflows related to pension and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's net pension liability or net OPEB liability. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension liability and the net OPEB liability to equal the City's proportionate share of each plan's collective:

1. Present value of estimated future pension/OPEB benefits attributable to active and inactive employees' past service.
2. Minus plan assets available to pay these benefits.

**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018**

GASB notes that pension and OPEB obligations, whether funded or unfunded, are part of the “employment exchange” – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension and other postemployment benefits. GASB noted that the unfunded portion of this promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the City is not responsible for certain key factors affecting the balance of these liabilities. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The Ohio Revised Code permits, but does not require, the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The employee enters the employment exchange with the knowledge that the employer’s promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The retirement system is responsible for the administration of the pension and OPEB plans.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability or the net OPEB liability. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68 and GASB 75, the City’s statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan’s *change* in net pension liability and net OPEB liability, respectively, not accounted for as deferred inflows/outflows.

As a result of implementing GASB 75, the City is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at December 31, 2017, from \$10,770,202 to \$6,393,363 for governmental activities.

Over time, net position can serve as a useful indicator of a government’s financial position. At December 31, 2018, the City’s assets and deferred outflows exceeded liabilities and deferred inflows of resources by \$7,405,140.

Capital assets reported on the government-wide statements represent the largest portion of the City’s net position. At year-end, capital assets represented 58.62% of total assets. Capital assets include land, construction in progress, easements, buildings and improvements, furniture and equipment, vehicles and infrastructure. The investment in capital assets at December 31, 2018, was \$12,794,133 in the governmental activities. These capital assets are used to provide services to citizens and are not available for future spending.

Although the City’s investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the City’s net position, \$1,107,442, represents resources that are subject to external restriction on how they may be used. In the governmental activities, the remaining balance is a deficit unrestricted net position of (\$6,496,435).

**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018**

The following table shows the changes in net position for 2018 and 2017. The net position at December 31, 2017 has been restated as described in Note 3.

	Change in Net Position	
	Governmental	Restated Governmental
	Activities 2018	Activities 2017
Revenues		
Program revenues:		
Charges for services	\$ 754,738	\$ 745,804
Operating grants and contributions	916,339	978,047
Capital grants and contributions	382,094	2,280,537
Total program revenues	<u>2,053,171</u>	<u>4,004,388</u>
General revenues:		
Municipal income taxes	3,268,822	2,451,736
Property taxes	3,066,907	2,824,441
Unrestricted grants and entitlements	581,502	767,913
Investment earnings	633	254
Miscellaneous	29,904	43,037
Total general revenues	<u>6,947,768</u>	<u>6,087,381</u>
Total revenues	<u>9,000,939</u>	<u>10,091,769</u>
Expenses		
General government	1,082,598	1,053,767
Security of persons and property	5,227,481	4,711,510
Public health	171,379	136,569
Leisure time services	139,597	168,688
Community development	151,825	172,179
Transportation	1,216,282	1,790,242
Total expenses	<u>7,989,162</u>	<u>8,032,955</u>
Change in net position	<u>1,011,777</u>	<u>2,058,814</u>
Net position at beginning of year (restated)	<u>6,393,363</u>	N/A
Net position at end of year	<u>\$ 7,405,140</u>	<u>\$ 6,393,363</u>

The information necessary to restate the 2017 beginning balances and the 2017 OPEB expense amounts for the effects of the initial implementation of GASB 75 is not available. Therefore, 2017 functional expenses still include OPEB expense of \$25,196 computed under GASB 45. GASB 45 required recognizing OPEB expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements report OPEB expense of \$457,680.

**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018**

Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

	Governmental Activities
Total 2018 program expenses under GASB 75	\$ 7,989,162
OPEB expense under GASB 75	(457,680)
2018 contractually required contributions	9,922
Adjusted 2018 program expenses	7,541,404
Total 2017 program expenses under GASB 45	8,032,955
Decrease in program expenses not related to OPEB	\$ (491,551)

Governmental Activities

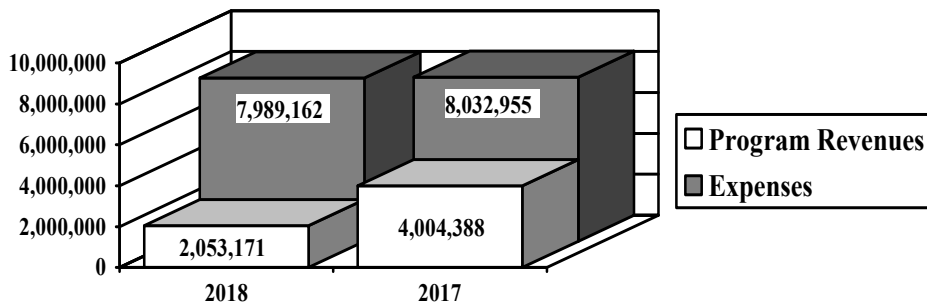
Security of persons and property, which primarily supports the operations of the police and fire departments accounted for \$5,227,481 of the total expenses of the City. These expenses were partially funded by \$455,699 in direct charges to users of the services and \$98,165 in operating grants and contributions. Transportation expenses totaled \$1,216,282. Transportation expenses were primarily funded by \$807,949 in operating grants and contributions and \$320,563 in capital grants and contributions.

During 2018, the state and federal government contributed to the City a total of \$916,339 in operating grants and contributions. These revenues are restricted to a particular program or purpose. Of the total operating grants and contributions, \$807,949 subsidized transportation programs and \$98,165 subsidized security of persons and property programs.

General revenues totaled \$6,947,768 and amounted to 77.19% of total governmental revenues in 2018. These revenues primarily consist of property and municipal income tax revenue of \$6,335,729. The other primary source of general revenues is grants and entitlements not restricted to specific programs, including local government funds, making up \$581,502. The increase in municipal income taxes was the result of the City raising its income tax rate to 2%.

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table 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 grants and entitlements. As can be seen in the graph below, the City is highly dependent upon property and municipal income taxes as well as unrestricted grants and entitlements to support its governmental activities.

Governmental Activities - Program Revenues vs. Total Expenses



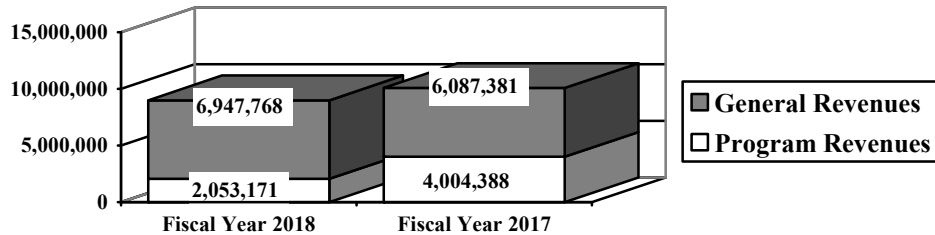
**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018

	Governmental Activities			
	2018		2017	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Program Expenses:				
General government	\$ 1,082,598	\$ 850,376	\$ 1,053,767	\$ 857,750
Security of persons and property	5,227,481	4,612,086	4,711,510	4,095,153
Public health	171,379	152,829	136,569	116,219
Leisure time services	139,597	81,105	168,688	118,828
Community development	151,825	151,825	172,179	172,179
Transportation	1,216,282	87,770	1,790,242	(1,331,562)
Total	\$ 7,989,162	\$ 5,935,991	\$ 8,032,955	\$ 4,028,567

The dependence upon general revenues for governmental activities is apparent, with 74.30% of expenses supported through taxes and other general revenues for 2018.

Governmental Activities - General and Program Revenues



Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the City's net resources available for spending at year-end.

The City's governmental funds (as presented on the balance sheet on pages 18-19) reported a combined fund balance of \$4,184,932 which is \$1,249,738 more than last year's total of \$2,935,194.

**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018

The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2018 and December 31, 2017 for all major and nonmajor governmental funds.

	Fund Balances 12/31/18	Fund Balances 12/31/17	Change
Major funds:			
General	\$ 2,154,214	\$ 745,274	\$ 1,408,940
Street construction maintenance and repair	1,044,942	1,319,879	(274,937)
Police district	16,351	31,856	(15,505)
Fire district	100,116	129,850	(29,734)
Other nonmajor governmental funds	869,309	708,335	160,974
Total	\$ 4,184,932	\$ 2,935,194	\$ 1,249,738

General Fund

The City's general fund balance increased \$1,408,940. The table that follows assists in illustrating the revenues of the general fund. Revenues of the general fund increased \$859,641 due primarily to an increase in income tax rate to 2%.

	2018 Amount	2017 Amount	Change	Percentage Change
Revenues				
Taxes	\$ 3,085,035	\$ 2,225,394	\$ 859,641	38.63 %
Charges for services	253,954	221,466	32,488	14.67 %
Licenses and permits	201,587	150,926	50,661	33.57 %
Intergovernmental	364,395	363,997	398	0.11 %
Interest	633	254	379	149.21 %
Other	29,904	43,037	(13,133)	(30.52) %
Total	\$ 3,935,508	\$ 3,005,074	\$ 930,434	30.96 %

The table that follows assists in illustrating the expenditures of the general fund.

	2018 Amount	2017 Amount	Change	Percentage Change
Expenditures				
General government	\$ 971,698	\$ 986,845	\$ (15,147)	(1.53) %
Security of persons and property	365,738	401,629	(35,891)	(8.94) %
Public health	114,156	115,264	(1,108)	(0.96) %
Community development	141,452	151,331	(9,879)	(6.53) %
Transportation	8,205	17,579	(9,374)	(53.32) %
Capital outlay	319	13,805	(13,486)	(97.69) %
Total	\$ 1,601,568	\$ 1,686,453	\$ (84,885)	(5.03) %

The most significant decrease was in security of persons and property and can be attributed primarily to a decrease in expenses from the police department. The decrease in capital outlay expenditures can be attributed to a decrease in expenses to various asset acquisitions. The decrease in transportation expenses is primarily due to a decrease in street service expenses. All other current year expenses were comparable to the prior year.

**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018

Street Construction Maintenance and Repair Fund

The City's street construction maintenance and repair fund had revenues of \$1,325,258 in 2018. The expenditures of the street construction maintenance and repair fund totaled \$1,600,195 in 2018. The net decrease in fund balance for the street construction maintenance and repair fund was \$274,937 or 20.83%. This decrease is due to an increase in transportation expenditures related to the State Route 93 Widening project.

Police District Fund

The police district fund had revenues and other financing sources of \$1,694,216 in 2018. The expenditures of the police district fund totaled \$1,709,721 in 2018. The net decrease in fund balance for the police district fund was \$15,505 or 48.67%. The increase in fund balance is due to the increase in transfers from the general fund.

Fire District Fund

The fire district fund had revenues of \$2,150,580 in 2018. The expenditures of the fire district fund totaled \$2,180,314 in 2018. The net decrease in fund balance for the fire district fund was \$29,734 or 22.90%. The increase in fund balance is due an increase in tax collections.

Budgeting Highlights

The City's budgeting process is prescribed by the Ohio Revised Code (ORC). Essentially the budget is the City's appropriations which are restricted by the amounts of anticipated revenues certified by the Budget Commission in accordance with the ORC. Therefore, the City's plans or desires cannot be totally reflected in the original budget. If budgeted revenues are adjusted due to actual activity then the appropriations can be adjusted accordingly.

Budgetary information is presented for the general fund. The actual revenues and other financing sources of \$3,677,123 were higher than the final budget of \$3,045,724. Actual expenditures and other financing uses of \$2,476,105 were less than the amount in the final budgeted of \$2,946,356. The original budget revenues and other financing sources of \$3,031,802 were lower than the final budget. Original budgeted expenditures and other financing uses of \$2,946,356 were the same as the final budgeted.

Capital Assets and Debt Administration

Capital Assets

At the end of 2018, the City had \$12,794,133 (net of accumulated depreciation) invested in land, construction in progress, easements, buildings and improvements, furniture and equipment, vehicles and infrastructure, which is an increase of \$577,649 from prior year.

**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018

The following table shows December 31, 2018 balance compared to December 31, 2017:

**Capital Assets at December 31
(Net of Depreciation)**

	Governmental Activities	
	2018	2017
Land	\$ 1,663,224	\$ 1,663,224
Construction in progress	-	566,581
Easements	51,264	51,264
Buildings and improvements	1,175,991	1,139,948
Furniture and equipment	453,924	391,515
Vehicles	1,056,565	617,927
Infrastructure	8,393,165	7,786,025
Totals	<u>\$ 12,794,133</u>	<u>\$ 12,216,484</u>

The City's largest capital asset category is infrastructure. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 65.60% of the City's total governmental capital assets. See Note 9 to the basic financial statements for detail on capital assets.

Debt Administration

At December 31, 2018, the City had no outstanding long-term obligations, other than compensated absences, net pension liability and net OPEB liability. See Note 12 to the basic financial statements for detail on long-term obligations.

Contacting the City's Financial Management

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

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**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

STATEMENT OF NET POSITION
DECEMBER 31, 2018

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents . . .	\$ 3,494,775
Receivables:	
Accounts	494,941
Due from other governments	751,324
Income taxes	1,027,127
Property taxes	3,022,816
Materials and supplies inventory	223,496
Prepayments	15,392
Net pension asset	377
Capital assets:	
Nondepreciable capital assets	1,714,488
Depreciable capital assets, net.	11,079,645
Total capital assets, net.	12,794,133
Total assets	21,824,381
Deferred outflows of resources:	
Pension	1,254,677
OPEB	455,836
Total deferred outflows of resources	1,710,513
Liabilities:	
Accounts payable	39,530
Accrued wages and benefits payable	170,236
Due to other governments	112,991
Claims payable	93,202
Long-term liabilities:	
Due within one year	105,758
Net pension liability	5,765,343
Net OPEB liability	4,865,336
Other amounts due in more than one year.	756,225
Total liabilities	11,908,621
Deferred inflows of resources:	
Property taxes levied for the next fiscal year . . .	2,954,708
Pension	851,328
OPEB	415,097
Total deferred inflows of resources	4,221,133
Net position:	
Investment in capital assets.	12,794,133
Restricted for:	
Debt service	2,183
Police and fire operations	54,086
Street construction and maintenance.	915,030
Other purposes	136,143
Unrestricted (deficit).	(6,496,435)
Total net position	\$ 7,405,140

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018

		Program Revenues			Net (Expense) Revenue and Changes in Net Position
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
Governmental activities:					
Current:					
General government	\$ 1,082,598	\$ 228,123	\$ 4,099	\$ -	\$ (850,376)
Security of persons and property	5,227,481	455,699	98,165	61,531	(4,612,086)
Public health	171,379	18,550	-	-	(152,829)
Leisure time services	139,597	52,366	6,126	-	(81,105)
Community development	151,825	-	-	-	(151,825)
Transportation	1,216,282	-	807,949	320,563	(87,770)
Total governmental activities	\$ 7,989,162	\$ 754,738	\$ 916,339	\$ 382,094	(5,935,991)
 General revenues:					
Property taxes levied for:					
General purposes					178,480
Street maintenance and repair					438,090
Police and fire operations					2,312,575
Income taxes levied for:					
General purposes					3,113,841
Other purposes					154,981
Grants and entitlements not restricted					
to specific programs					719,264
Investment earnings					633
Miscellaneous					29,904
					29,904
Total general revenues					6,947,768
Change in net position					1,011,777
Net position at beginning of year (restated)					6,393,363
Net position at end of year					\$ 7,405,140

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2018

	<u>General</u>	<u>Street Construction Maintenance and Repair Fund</u>	<u>Police District</u>	<u>Fire District</u>
Assets:				
Equity in pooled cash and cash equivalents . . .	\$ 1,525,836	\$ 763,596	\$ 96,662	\$ 221,565
Receivables:				
Accounts.	428,685	2,695	-	-
Due from other governments	191,928	357,481	38,546	136,802
Income taxes.	977,355	-	-	-
Property taxes	174,547	428,436	538,231	1,881,602
Interfund loans.	7,179	-	-	-
Materials and supplies inventory.	-	223,496	-	-
Prepayments	4,062	2,819	2,537	5,195
Total assets	<u>\$ 3,309,592</u>	<u>\$ 1,778,523</u>	<u>\$ 675,976</u>	<u>\$ 2,245,164</u>
Liabilities:				
Accounts payable.	\$ 13,970	\$ 15,287	\$ 3,556	\$ 5,790
Accrued wages and benefits payable	25,466	21,109	48,418	75,243
Due to other governments	22,788	10,778	33,736	45,611
Interfund loans payable.	-	-	-	-
Total liabilities	<u>62,224</u>	<u>47,174</u>	<u>85,710</u>	<u>126,644</u>
Deferred inflows of resources:				
Property taxes levied for the next fiscal year. . . .	170,437	418,347	527,120	1,838,804
Delinquent property tax revenue not available. . . .	4,110	10,089	11,111	42,798
Miscellaneous revenue not available.	182,954	4,275	163	-
Income tax revenue not available	611,559	-	-	-
Nonexchange transactions.	124,094	253,696	35,521	136,802
Total deferred inflows of resources	<u>1,093,154</u>	<u>686,407</u>	<u>573,915</u>	<u>2,018,404</u>
Fund balances:				
Nonspendable	4,062	226,315	2,537	5,195
Restricted.	-	818,627	13,814	94,921
Committed	-	-	-	-
Assigned	472,643	-	-	-
Unassigned	1,677,509	-	-	-
Total fund balances	<u>2,154,214</u>	<u>1,044,942</u>	<u>16,351</u>	<u>100,116</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 3,309,592</u>	<u>\$ 1,778,523</u>	<u>\$ 675,976</u>	<u>\$ 2,245,164</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Other Governmental Funds	Total Governmental Funds
\$ 824,338	\$ 3,431,997
63,561	494,941
26,567	751,324
49,772	1,027,127
-	3,022,816
-	7,179
-	223,496
779	15,392
<u>\$ 965,017</u>	<u>\$ 8,974,272</u>
\$ 927	\$ 39,530
-	170,236
78	112,991
7,179	7,179
<u>8,184</u>	<u>329,936</u>
-	2,954,708
-	68,108
46,164	233,556
24,430	635,989
16,930	567,043
<u>87,524</u>	<u>4,459,404</u>
779	238,888
660,531	1,587,893
207,999	207,999
-	472,643
-	1,677,509
<u>869,309</u>	<u>4,184,932</u>
<u>\$ 965,017</u>	<u>\$ 8,974,272</u>

**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2018

Total governmental fund balances		\$	4,184,932
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			12,794,133
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds.			
Income taxes receivable	\$	635,989	
Property taxes receivable		68,108	
Accounts receivable		233,556	
Intergovernmental receivable		567,043	
Total		567,043	1,504,696
The net pension asset and net pension liability are not available to pay for current period expenditures and are not due and payable in the current period, respectively; therefore, the asset, liability and related deferred inflows/outflows are not reported in governmental funds.			
Net pension asset		377	
Deferred outflows of resources		1,254,677	
Deferred inflows of resources		(851,328)	
Net pension liability		(5,765,343)	
Total		(5,765,343)	(5,361,617)
The net OPEB liability is not available to pay for current period expenditures and are not due and payable in the current period, respectively; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds.			
Deferred outflows of resources		455,836	
Deferred inflows of resources		(415,097)	
Net OPEB liability		(4,865,336)	
Total		(4,865,336)	(4,824,597)
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 on the statement of net position.			(30,424)
Long-term liabilities, compensated absences payable, are not due and payable in the current period and therefore are not reported in the funds.			(861,983)
Net position of governmental activities		\$	7,405,140

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>General</u>	<u>Street Construction Maintenance and Repair Fund</u>	<u>Police District</u>	<u>Fire District</u>
Revenues:				
Property taxes	\$ 182,420	\$ 447,759	\$ 555,693	\$ 1,821,774
Income taxes	2,902,615	-	-	-
Charges for services.	253,954	-	126,884	2,451
Licenses and permits	201,587	-	-	-
Fines and forfeitures	2,187	-	1,522	-
Intergovernmental.	364,395	851,397	36,251	277,219
Interest.	633	421	1,054	1,407
Contributions and donations.	50	-	203	450
Other	27,667	25,681	47,609	47,279
Total revenues	<u>3,935,508</u>	<u>1,325,258</u>	<u>769,216</u>	<u>2,150,580</u>
Expenditures:				
Current:				
General government	971,698	-	-	-
Security of persons and property	365,738	-	1,701,037	2,170,952
Public health.	114,156	-	-	-
Leisure time services	-	-	-	-
Community development	141,452	-	-	-
Transportation	8,205	1,283,105	-	-
Capital outlay	319	317,090	8,684	9,362
Total expenditures	<u>1,601,568</u>	<u>1,600,195</u>	<u>1,709,721</u>	<u>2,180,314</u>
Excess (deficiency) of revenues over (under) expenditures.	<u>2,333,940</u>	<u>(274,937)</u>	<u>(940,505)</u>	<u>(29,734)</u>
Other financing sources (uses):				
Transfers in	-	-	925,000	-
Transfers (out).	<u>(925,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(925,000)</u>	<u>-</u>	<u>925,000</u>	<u>-</u>
Net change in fund balances	1,408,940	(274,937)	(15,505)	(29,734)
Fund balances at beginning of year. . .	745,274	1,319,879	31,856	129,850
Fund balances at end of year	<u>\$ 2,154,214</u>	<u>\$ 1,044,942</u>	<u>\$ 16,351</u>	<u>\$ 100,116</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Other Governmental Funds	Total Governmental Funds
\$ -	\$ 3,007,646
146,358	3,048,973
169,827	553,116
-	201,587
114	3,823
425,466	1,954,728
67	3,582
517	1,220
5,224	153,460
<u>747,573</u>	<u>8,928,135</u>
4,100	975,798
21,414	4,259,141
49,021	163,177
130,891	130,891
-	141,452
62,337	1,353,647
318,836	654,291
<u>586,599</u>	<u>7,678,397</u>
<u>160,974</u>	<u>1,249,738</u>
-	925,000
<u>-</u>	<u>(925,000)</u>
<u>-</u>	<u>-</u>
160,974	1,249,738
708,335	2,935,194
<u>\$ 869,309</u>	<u>\$ 4,184,932</u>

**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018

Net change in fund balances - total governmental funds	\$	1,249,738
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
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.		
Capital asset additions	\$ 1,454,671	
Current year depreciation	<u>(847,083)</u>	
Total		607,588
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.		
		(29,939)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Income taxes	219,849	
Property taxes	(78,501)	
Charges for service	2,429	
Intergovernmental revenues	<u>(70,973)</u>	
Total		72,804
Contractually required pension/OPEB contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.		
Pension		583,476
OPEB		9,922
Except for amounts reported as deferred inflows/outflows, changes in the net pension asset/liability and net OPEB liability are reported as pension/OPEB expense in the statement of activities.		
Pension		(835,898)
OPEB		(457,680)
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		(23,732)
The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the government-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue of the internal service fund is allocated among the governmental activities.		
		<u>(164,502)</u>
Change in net position of governmental activities	\$	<u>1,011,777</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property taxes	\$ 181,491	\$ 182,324	\$ 182,420	\$ 96
Income taxes	2,055,560	2,065,000	2,641,728	576,728
Charges for services.	238,853	239,950	253,075	13,125
Licenses and permits	169,721	170,500	203,165	32,665
Intergovernmental.	354,622	356,250	356,645	395
Interest.	547	550	633	83
Contributions and donations.	100	100	50	(50)
Other	19,162	19,250	27,667	8,417
Total revenues	<u>3,020,056</u>	<u>3,033,924</u>	<u>3,665,383</u>	<u>631,459</u>
Expenditures:				
Current:				
General government	1,179,821	1,179,821	897,962	281,859
Security of persons and property	66,000	66,000	11,562	54,438
Public health.	114,156	114,156	114,156	-
Community development	174,200	174,200	141,086	33,114
Transportation	50,000	50,000	8,205	41,795
Capital outlay	35,000	35,000	955	34,045
Total expenditures	<u>1,619,177</u>	<u>1,619,177</u>	<u>1,173,926</u>	<u>445,251</u>
Excess of revenues over expenditures	<u>1,400,879</u>	<u>1,414,747</u>	<u>2,491,457</u>	<u>1,076,710</u>
Other financing sources (uses):				
Advances in and not repaid	11,746	11,800	11,740	(60)
Advances (out) and not repaid	(7,179)	(7,179)	(7,179)	-
Transfers (out).	(1,320,000)	(1,320,000)	(1,295,000)	25,000
Total other financing sources (uses)	<u>(1,315,433)</u>	<u>(1,315,379)</u>	<u>(1,290,439)</u>	<u>24,940</u>
Net change in fund balances	85,446	99,368	1,201,018	1,101,650
Fund balances at beginning of year	<u>290,417</u>	<u>290,417</u>	<u>290,417</u>	<u>-</u>
Fund balance at end of year	<u>\$ 375,863</u>	<u>\$ 389,785</u>	<u>\$ 1,491,435</u>	<u>\$ 1,101,650</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
STREET CONSTRUCTION MAINTENANCE AND REPAIR FUND
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property taxes	\$ 446,611	\$ 447,516	\$ 447,759	\$ 243
Intergovernmental.	640,353	641,650	943,673	302,023
Interest	499	500	421	(79)
Other	41,915	42,000	25,876	(16,124)
Total revenues	<u>1,129,378</u>	<u>1,131,666</u>	<u>1,417,729</u>	<u>286,063</u>
Expenditures:				
Current:				
Transportation	2,097,100	2,097,100	1,798,335	298,765
Capital outlay	343,059	343,059	317,090	25,969
Total expenditures	<u>2,440,159</u>	<u>2,440,159</u>	<u>2,115,425</u>	<u>324,734</u>
 Net change in fund balances	 (1,310,781)	 (1,308,493)	 (697,696)	 610,797
 Fund balances at beginning of year	 997,491	 997,491	 997,491	 -
Prior year encumbrances appropriated	<u>317,090</u>	<u>317,090</u>	<u>317,090</u>	<u>-</u>
Fund balance at end of year	<u>\$ 3,800</u>	<u>\$ 6,088</u>	<u>\$ 616,885</u>	<u>\$ 610,797</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
POLICE DISTRICT FUND
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Property taxes	\$ 553,559	\$ 554,388	\$ 555,693	\$ 1,305
Charges for services.	126,693	126,884	126,884	-
Fines and forfeitures	1,498	1,500	1,777	277
Intergovernmental.	36,945	37,000	36,251	(749)
Interest	999	1,000	1,054	54
Contributions and donations	100	100	203	103
Other	30,470	30,516	50,249	19,733
Total revenues	<u>750,264</u>	<u>751,388</u>	<u>772,111</u>	<u>20,723</u>
Expenditures:				
Current:				
Security of persons and property	1,729,355	1,729,355	1,682,725	46,630
Capital outlay	60,449	60,449	8,684	51,765
Total expenditures	<u>1,789,804</u>	<u>1,789,804</u>	<u>1,691,409</u>	<u>98,395</u>
Excess of expenditures over revenues	<u>(1,039,540)</u>	<u>(1,038,416)</u>	<u>(919,298)</u>	<u>119,118</u>
Other financing sources:				
Transfers in	<u>948,580</u>	<u>950,000</u>	<u>925,000</u>	<u>(25,000)</u>
Total other financing sources	<u>948,580</u>	<u>950,000</u>	<u>925,000</u>	<u>(25,000)</u>
Net change in fund balances	(90,960)	(88,416)	5,702	94,118
Fund balances at beginning of year	<u>90,960</u>	<u>90,960</u>	<u>90,960</u>	<u>-</u>
Fund balance at end of year.	<u>\$ -</u>	<u>\$ 2,544</u>	<u>\$ 96,662</u>	<u>\$ 94,118</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FIRE DISTRICT FUND
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Property taxes	\$ 1,938,087	\$ 1,947,012	\$ 1,821,774	\$ (125,238)
Charges for services.	1,991	2,000	2,451	451
Intergovernmental.	149,312	150,000	277,219	127,219
Interest	1,095	1,100	1,407	307
Contributions and donations.	100	100	450	350
Other	21,700	21,800	47,279	25,479
Total revenues	<u>2,112,285</u>	<u>2,122,012</u>	<u>2,150,580</u>	<u>28,568</u>
Expenditures:				
Current:				
Security of persons and property	2,297,700	2,297,700	2,148,906	148,794
Capital outlay	22,000	22,000	9,362	12,638
Total expenditures	<u>2,319,700</u>	<u>2,319,700</u>	<u>2,158,268</u>	<u>161,432</u>
Net change in fund balances	(207,415)	(197,688)	(7,688)	190,000
Fund balances at beginning of year	<u>229,253</u>	<u>229,253</u>	<u>229,253</u>	<u>-</u>
Fund balance at end of year	<u>\$ 21,838</u>	<u>\$ 31,565</u>	<u>\$ 221,565</u>	<u>\$ 190,000</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

STATEMENT OF NET POSITION
PROPRIETARY FUND
DECEMBER 31, 2018

	<u>Governmental Activities - Internal Service Fund</u>
Assets:	
Current assets:	
Equity in pooled cash and cash equivalents	\$ <u>62,778</u>
Total assets	<u>62,778</u>
Liabilities:	
Claims payable	<u>93,202</u>
Total liabilities	<u>93,202</u>
Net position:	
Unrestricted (deficit)	<u>(30,424)</u>
Total net position (deficit)	<u>\$ (30,424)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Governmental Activities - Internal Service Fund</u>
Operating revenues:	
Charges for services	\$ 1,086,048
Operating expenses:	
Claims expense	1,250,550
Total operating expenses.	<u>1,250,550</u>
Change in net position.	(164,502)
Net position at beginning of year	<u>134,078</u>
Net position (deficit) at end of year	<u>\$ (30,424)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Governmental Activities - Internal Service Fund</u>
Cash flows from operating activities:	
Cash received from customers	\$ 1,160,788
Cash payments for claims	<u>(1,276,039)</u>
Net cash used in operating activities	<u>(115,251)</u>
Net decrease in cash and cash equivalents	(115,251)
Cash and cash equivalents at beginning of year . . .	178,029
Cash and cash equivalents at end of year	<u><u>\$ 62,778</u></u>
 Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (164,502)
Changes in assets and liabilities:	
Accounts receivable	74,740
Claims payable	<u>(25,489)</u>
Net cash used in operating activities	<u><u>\$ (115,251)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUND
DECEMBER 31, 2018

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 10,000
Total assets	<u>\$ 10,000</u>
Liabilities:	
Deposits held and due to others.	\$ 10,000
Total liabilities	<u>\$ 10,000</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 1 - DESCRIPTION OF THE CITY

On January 1, 2005, the Village of New Franklin and 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 construction maintenance and repair, and general administrative services to the citizens of the City.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements (BFS) of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (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 principles. The most significant of the City's accounting policies are described below.

A. 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, firefighting and prevention, street construction 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 Public Entities Pool of Ohio (PEP) and the Regional Council of Governments. These are presented in Note 13 and 15 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.

B. Basis of Presentation - Fund Accounting

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

**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Government-Wide Financial Statements - The statement of net position 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 position 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.

C. Fund Accounting

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

Governmental Funds - Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and deferred outflows of resources and liabilities and deferred inflows of resources 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.

Street construction maintenance and repair fund - The street construction maintenance and repair special revenue fund accounts for financial resources whose use is restricted to constructing, maintaining and repairing roads and bridges.

**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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 two special tax levies and general fund transfers.

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 two special tax levies.

Other governmental funds of the City are used to account for: (a) financial resources that are restricted, committed, or assigned to expenditures for capital outlays including the acquisition or construction of capital facilities and other capital assets; (b) specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects; and (c) financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

Proprietary Funds - Proprietary fund reporting focuses on the determination of operating income, changes in net position, 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 position and changes in net position. 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's only fiduciary fund is an agency fund which is used to account for insurance and fire loss.

D. Measurement Focus

Government-Wide Financial Statements - The government-wide financial statements are prepared using the economic resources measurement focus. All assets and deferred outflows of resources and liabilities and deferred inflows of resources associated with the operation of the City are included on the statement of net position.

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 deferred outflows of resources and current liabilities and deferred inflows of resources 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 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, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

E. 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 and fiduciary funds use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred inflows of resources and in the presentation of expenses versus expenditures.

Revenues - Exchange and Nonexchange 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 (See Note 8). Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 7). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized. Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year end: income tax, state-levied locally shared taxes (including gasoline tax), fines and forfeitures, interest, grants, fees and rentals.

Deferred Outflows of Resources and Deferred Inflows of Resources - In addition to assets, the government-wide statement of net position will report a separate section for deferred outflows of resources. Deferred outflows of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the City, see Notes 10 and 11 for deferred outflows of resources related to the City's net pension liability and net OPEB liability, respectively.

**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

In addition to liabilities, both the government-wide statement of net position and the governmental fund financial statements report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes, payments in lieu of taxes and unavailable revenue. Property taxes and payments in lieu of taxes represent amounts for which there is an enforceable legal claim as of December 31, 2018, but which were levied to finance 2019 operations. These amounts have been recorded as a deferred inflow of resources on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes, but is not limited to, income taxes, delinquent property taxes and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

For the City, see Notes 10 and 11 for deferred inflows of resources related to the City's net pension liability and net OPEB liability, respectively. This deferred inflow of resources is only reported on the government-wide statement of net position.

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.

F. 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 (personal services and other expenditures) within each fund and department. Budgetary modifications may only be made by resolution of the City Council at the legal level of control.

G. 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.

**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

H. 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 2018.

I. 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.

J. 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.

K. Cash and Cash Equivalents

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

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 2018 amounted to \$633, which includes \$382, assigned from other City funds.

**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

For purposes of the statement of cash flows and for presentation on the statement of net position/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.

L. Inventories of Materials and Supplies

On the government-wide financial statements, purchased inventories are presented at the lower of cost or market and donated commodities are presented at their entitlement value. Inventories are recorded on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method.

M. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2018 are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed. On the fund financial statements, reported prepayments are equally offset by a nonspendable fund balance.

N. 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 position, 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 acquisition values as of the date received. The City maintains a capitalization threshold of \$5,000. 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, construction in progress and easements. 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, Construction in Progress and Easements	N/A
Buildings and Improvements	15 - 50 Years
Furniture and Equipment	5 - 25 Years
Vehicles	5 - 16 Years
Infrastructure	20 Years

O. Interfund Balances

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund loans receivables/payables". Receivables and payables resulting from negative cash balances are classified as "due to/due from other funds". These amounts are eliminated in the statement of net position.

**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

P. 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 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.

On governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported.

Q. 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. Net pension/OPEB liability should be recognized in the governmental funds to the extent that benefit payments are due and payable and the pension/OPEB plan's fiduciary net position is not sufficient for payment of those benefits.

R. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally 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 in the general fund.

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

**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (ordinance) of City Council (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless City Council removes or changes the specified use by taking the same type of action (ordinance) 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 nor 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 policies of City Council, which includes giving the Finance Director the authority to constrain monies for intended purposes.

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 only used to report a deficit fund 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 restricted and unrestricted (committed, assigned, and unassigned) fund balance is 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.

S. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets, 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 position is reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for other purposes include parks and recreation, and law enforcement and fire department operations.

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

T. 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 non-operating.

**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

U. Interfund Activity

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

V. 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 2018.

W. 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.

X. Pensions/Other Postemployment Benefits (OPEB)

For purposes of measuring the net pension/OPEB liability, net pension asset, deferred outflows of resources and deferred inflows of resources related pensions/OPEB, and pension/OPEB expense, information about the fiduciary net position of the pension/OPEB plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension/OPEB plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension/OPEB plans report investments at fair value.

Y. Fair Value Measurements

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles/Restatement of Net Position

For fiscal year 2018, the City has implemented GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions", GASB Statement No. 85, "Omnibus 2017" and GASB Statement No. 86, "Certain Debt Extinguishments".

**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 75 improves the accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The implementation of GASB Statement No. 75 effected the City's postemployment benefit plan disclosures, as presented in Note 11 to the basic financial statements, and added required supplementary information which is presented after the notes to the basic financial statements.

GASB Statement No. 85 addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and OPEB. The implementation of GASB Statement No. 85 did not have an effect on the financial statements of the City.

GASB Statement No. 86 improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources - resources other than the proceeds of refunding debt - are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The implementation of GASB Statement No. 86 did not have an effect on the financial statements of the City.

A net position restatement is required in order to implement GASB Statement No 75. The governmental activities and business-type activities at January 1, 2018 have been restated as follows:

	Governmental Activities
Net position as previously reported	\$ 10,770,202
Deferred outflows - payments subsequent to measurement date	25,196
Net OPEB liability	(4,402,035)
Restated net position at January 1, 2018	\$ 6,393,363

Other than employer contributions subsequent to the measurement date, the City made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available. The restatement had no effect on fund balances.

B. Deficit Fund Net Position

Fund net position at December 31, 2018 included the following individual fund deficit:

	<u>Deficit</u>
Internal service fund	\$ 30,424

The general fund is liable for any deficit in this fund and provides transfers when cash is required, not when accruals occur. The deficit fund net position resulted from adjustments for accrued liabilities related to claims payable.

**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use, but which will be needed before the end of the current period of designation of depositories.

Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Interim monies may be deposited or 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 agreement 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;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool, the State Treasury Asset Reserve of Ohio (STAR Ohio),
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days and two hundred seventy days, respectively, from the purchase date in an amount not to exceed forty percent 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.

**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Protection of the City's deposits are provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the City Treasurer 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.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the City Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Deposits with Financial Institutions

At December 31, 2018, the carrying amount of all City deposits was \$3,504,775 and the bank balance of all City deposits was \$3,590,936. Of the bank balance, \$500,000 was covered by the FDIC and the remaining was either covered by the Ohio Pooled Collateral System or exposed to custodial credit risk as described below.

Custodial credit risk is the risk that, in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. The City has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or protected by (1) eligible securities pledged to the City's and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105 percent of the deposits being secured, or (2) participation in the OPCS, a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State. For 2018, the City's financial institutions were approved for a reduced collateral rate of 50 percent through the OPCS. Although all 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.

B. Reconciliation of Cash and Investments to the Statement of Net Position

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net position as of December 31, 2018:

<u>Cash and investments per note</u>	
Carrying amount of deposits	<u>\$ 3,504,775</u>
 <u>Cash and investments per statement of net position</u>	
Governmental activities	\$ 3,494,775
Agency fund	<u>10,000</u>
Total	<u>\$ 3,504,775</u>

**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

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 and Actual (Non-GAAP Basis) 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. 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 construction maintenance and repair fund, police district fund and fire district fund.

	<u>Net Change in Fund Balance</u>			
	<u>General Fund</u>	<u>Street Construction Maintenance and Repair Fund</u>	<u>Police District Fund</u>	<u>Fire District Fund</u>
Budget basis	\$ 1,201,018	\$ (697,696)	\$ 5,702	\$ (7,688)
Net adjustment for revenue accruals	179,100	(92,471)	(2,895)	-
Net adjustment for expenditure accruals	13,354	368,519	(18,312)	(22,046)
Net adjustment for other sources/uses	(4,561)	-	-	-
Funds budgeted elsewhere	20,029	-	-	-
Adjustment for encumbrances	-	146,711	-	-
GAAP basis	<u>\$ 1,408,940</u>	<u>\$ (274,937)</u>	<u>\$ (15,505)</u>	<u>\$ (29,734)</u>

NOTE 6 - RECEIVABLES

Receivables at December 31, 2018, consisted of accounts (billings for user charged services), intergovernmental receivables arising from grants, entitlements and shared revenue, income taxes and property taxes. All intergovernmental receivables have been classified as “due from other governments” on the BFS. Receivables have been recorded to the extent that they are measurable at December 31, 2018.

**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 6 - RECEIVABLES - (Continued)

A summary of the items of receivables reported on the statement of net position follows:

Governmental activities:

Accounts	\$ 494,941
Due from other governments	751,324
Income taxes	1,027,127
Property taxes	3,022,816

No allowances for doubtful accounts have been recorded because uncollectible amounts are expected to be insignificant. Receivables are expected to be collected within the subsequent year.

NOTE 7 - PROPERTY TAXES

Property taxes include amounts levied against all real and public utility property located in the City. Property tax revenue received during 2018 for real and public utility property taxes represents collections of the 2017 taxes.

2018 real property taxes were levied after October 1, 2018 on the assessed value as of January 1, 2018, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2018 real property taxes are collected in and intended to finance 2019.

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. 2018 public utility property taxes which became a lien December 31, 2017, are levied after October 1, 2018, and are collected in 2019 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 2011-2017, 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, 2018, was \$12.15 per \$1,000 of assessed valuation. The assessed values of real property upon which 2018 property tax receipts were based are as follows:

Real property	\$ 321,862,370
Public utilities - real	50,520
Public utilities - personal	32,436,780
Total assessed value	<u><u>\$ 354,349,670</u></u>

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. Public utility property taxes are payable on the same dates as real property taxes.

**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 7 - PROPERTY TAXES - (Continued)

The Summit County Fiscal Officer collects property taxes on behalf of all taxing districts within the County, including the City of New Franklin. 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, 2018, and for which there is an enforceable legal claim. In the governmental funds, the portion of the receivable not levied to finance 2018 operations is offset to deferred inflows of resources - property taxes. On the accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on the modified accrual basis, the revenue has been reported as deferred inflows of resources - unavailable revenue.

NOTE 8 - 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. During 2018, the income tax rate was 2 percent. 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 2 percent rate for 2018 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 2019 using the 2 percent rate.

All residents, 16 years of age and over, working outside the City are subject to the 2 percent 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 2 percent.

Income tax revenues are allocated based on City ordinance. The parks and recreation fund, a nonmajor governmental fund, receives 5 percent of the collections and the balance goes to the general fund. In 2018, all costs of collecting the taxes and administering and enforcing the provisions were paid from the general fund.

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**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 9 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2018, was as follows:

<u>Governmental activities:</u>	Balance <u>12/31/17</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>12/31/18</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 1,663,224	\$ -	\$ -	\$ 1,663,224
Construction in progress	566,581	71,143	(637,724)	-
Easements	<u>51,264</u>	<u>-</u>	<u>-</u>	<u>51,264</u>
Total capital assets, not being depreciated	<u>2,281,069</u>	<u>71,143</u>	<u>(637,724)</u>	<u>1,714,488</u>
<i>Capital assets, being depreciated:</i>				
Buildings and improvements	1,673,715	94,482	-	1,768,197
Furniture and equipment	1,493,786	151,582	-	1,645,368
Vehicles	2,700,244	674,010	(337,248)	3,037,006
Infrastructure	<u>9,330,169</u>	<u>1,101,178</u>	<u>-</u>	<u>10,431,347</u>
Total capital assets, being depreciated	<u>15,197,914</u>	<u>2,021,252</u>	<u>(337,248)</u>	<u>16,881,918</u>
<i>Less: accumulated depreciation:</i>				
Buildings and improvements	(533,767)	(58,439)	-	(592,206)
Furniture and equipment	(1,102,271)	(89,173)	-	(1,191,444)
Vehicles	(2,082,317)	(205,433)	307,309	(1,980,441)
Infrastructure	<u>(1,544,144)</u>	<u>(494,038)</u>	<u>-</u>	<u>(2,038,182)</u>
Total accumulated depreciation	<u>(5,262,499)</u>	<u>(847,083)</u>	<u>307,309</u>	<u>(5,802,273)</u>
Total capital assets, being depreciated, net	<u>9,935,415</u>	<u>1,174,169</u>	<u>(29,939)</u>	<u>11,079,645</u>
Governmental activities capital assets, net	<u>\$ 12,216,484</u>	<u>\$ 1,245,312</u>	<u>\$ (667,663)</u>	<u>\$ 12,794,133</u>

Depreciation expense was charged to programs as follows:

<u>Governmental activities:</u>	
General government	\$ 49,047
Security of persons and property	214,070
Public health and welfare	8,202
Transportation	562,075
Community environment	7,110
Leisure time activity	<u>6,579</u>
Total depreciation expense - governmental activities	<u>\$ 847,083</u>

**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 10 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability/Asset

The net pension liability/asset reported on the statement of net position represents a liability or asset to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability/asset represents the City's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability/asset calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

The Ohio Revised Code limits the City's obligation for this liability to annually required payments. The City cannot control benefit terms or the manner in which pensions are financed; however, the City does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes any net pension liability/asset is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

Plan Description – Ohio Public Employees Retirement System (OPERS)

Plan Description - City employees, other than full-time police and firefighters, participate 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 and the Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. City employees) may elect the Member-Directed Plan and the Combined Plan, substantially all employee members are in OPERS' Traditional Pension Plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the Traditional Pension Plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the Traditional Pension Plan as per the reduced benefits adopted by SB 343 (see OPERS CAFR referenced above for additional information):

Group A Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	Group B 20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Group C Members not in other Groups and members hired on or after January 7, 2013
State and Local	State and Local	State and Local
Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35
Law Enforcement	Law Enforcement	Law Enforcement
Age and Service Requirements: Age 52 with 15 years of service credit	Age and Service Requirements: Age 48 with 25 years of service credit or Age 52 with 15 years of service credit	Age and Service Requirements: Age 48 with 25 years of service credit or Age 56 with 15 years of service credit

Final average Salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3.00% simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 2.25%.

Benefits in the Combined Plan consist of both an age-and-service formula benefit (defined benefit) and a defined contribution element. The defined benefit element is calculated on the basis of age, FAS, and years of service. Eligibility regarding age and years of service in the Combined Plan is the same as the Traditional Pension Plan. The benefit formula for the defined benefit component of the plan for State and Local members in transition Groups A and B applies a factor of 1.00% to the member's FAS for the first 30 years of service.

A factor of 1.25% is applied to years of service in excess of 30. The benefit formula for transition Group C applies a factor of 1.0% to the member's FAS and the first 35 years of service and a factor of 1.25% is applied to years in excess of 35. Persons retiring before age 65 with less than 30 years of service credit receive a percentage reduction in benefit. The defined contribution portion of the benefit is based on accumulated member contributions plus or minus any investment gains or losses on those contributions. Members retiring under the Combined Plan receive a 2.25% COLA adjustment on the defined benefit portion of their benefit.

**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

Defined contribution plan benefits are established in the plan documents, which may be amended by the OPERS's Board of Trustees. Member-Directed Plan and Combined Plan members who have met the retirement eligibility requirements may apply for retirement benefits. The amount available for defined contribution benefits in the Combined Plan consists of the member's contributions plus or minus the investment gains or losses resulting from the member's investment selections. The amount available for defined contribution benefits in the Member-Directed Plan consists of the members' contributions, vested employer contributions and investment gains or losses resulting from the members' investment selections. Employer contributions and associated investment earnings vest over a five-year period, at a rate of 20% each year. For additional information, see the Plan Statement in the OPERS CAFR.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	State and Local	Law Enforcement
2018 Statutory Maximum Contribution Rates		
Employer	14.0 %	18.1 %
Employee	10.0 %	**
2018 Actual Contribution Rates		
Employer:		
Pension	14.0 %	18.1 %
Post-employment Health Care Benefits	0.0 %	0.0 %
Total Employer	14.0 %	18.1 %
Employee	10.0 %	13.0 %

** This rate is also determined by OPERS' Board, but is limited by ORC to not more than 2 percent greater than the Public Safety rate.

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll.

The City's contractually required contribution for the Traditional Pension Plan, the Combined Plan and Member-Directed Plan was \$238,492 for 2018. Of this amount, \$36,449 is reported as due to other governments.

Plan Description – Ohio Police & Fire Pension Fund (OP&F)

Plan Description - City full-time police and firefighters participate in Ohio Police and Fire Pension Fund (OP&F), a cost-sharing, multiple-employer defined benefit pension plan administered by OP&F. 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 and detailed information about OP&F fiduciary net position. The report that may be obtained by visiting the OPF website at www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

Upon attaining a qualifying age with sufficient years of service, a member of OP&F may retire and receive a lifetime monthly pension. OP&F offers four types of service retirement: normal, service commuted, age/service commuted and actuarially reduced. Each type has different eligibility guidelines and is calculated using the member's average annual salary. The following discussion of the pension formula relates to normal service retirement.

For members hired after July 1, 2013, the minimum retirement age is 52 for normal service retirement with at least 25 years of service credit. For members hired on or before after July 1, 2013, the minimum retirement age is 48 for normal service retirement with at least 25 years of service credit.

The annual pension benefit for normal service retirement is equal to a percentage of the allowable average annual salary. The percentage equals 2.50% for each of the first 20 years of service credit, 2.00% for each of the next five years of service credit and 1.50% for each year of service credit in excess of 25 years. The maximum pension of 72.00% of the allowable average annual salary is paid after 33 years of service credit.

Under normal service retirement, retired members who are at least 55 years old and have been receiving OPF benefits for at least one year may be eligible for a cost-of-living allowance adjustment. The age 55 provision for receiving a COLA does not apply to those who are receiving a permanent and total disability benefit and statutory survivors.

Members retiring under normal service retirement, with less than 15 years of service credit on July 1, 2013, will receive a COLA equal to either three percent or the percent increase, if any, in the consumer price index (CPI) over the 12-month period ending on September 30 of the immediately preceding year, whichever is less. The COLA amount for members with at least 15 years of service credit as of July 1, 2013 is equal to three percent of their base pension or disability benefit.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	<u>Police</u>	<u>Firefighters</u>
2018 Statutory Maximum Contribution Rates		
Employer	19.50 %	24.00 %
Employee	12.25 %	12.25 %
2018 Actual Contribution Rates		
Employer:		
Pension	19.00 %	23.50 %
Post-employment Health Care Benefits	<u>0.50 %</u>	<u>0.50 %</u>
Total Employer	<u>19.50 %</u>	<u>24.00 %</u>
Employee	12.25 %	12.25 %

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OP&F was \$344,984 for 2018. Of this amount, \$59,849 is reported as due to other governments.

**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

Net Pension Liabilities/Assets, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability and net pension asset for the OPERS Traditional Pension Plan, Combined Plan and Member-Directed Plan, respectively, were measured as of December 31, 2017, and the total pension liability or asset used to calculate the net pension liability or asset was determined by an actuarial valuation as of that date. OP&F's total pension liability was measured as of December 31, 2017, and was determined by rolling forward the total pension liability as of January 1, 2017, to December 31, 2017. The City's proportion of the net pension liability or asset was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities.

Following is information related to the proportionate share and pension expense:

	OPERS - Traditional	OPERS - Member- Directed	OP&F	Total
Proportion of the net pension liability/asset prior measurement date	0.01210900%	0.00956700%	0.06812000%	
Proportion of the net pension liability/asset current measurement date	<u>0.01145600%</u>	<u>0.01081000%</u>	<u>0.06465400%</u>	
Change in proportionate share	<u>-0.00065300%</u>	<u>0.00124300%</u>	<u>-0.00346600%</u>	
Proportionate share of the net pension liability	\$ 1,797,224	\$ -	\$ 3,968,119	\$ 5,765,343
Proportionate share of the net pension asset	-	(377)	-	(377)
Pension expense	359,800	(123)	476,221	835,898

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**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

At December 31, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	OPERS - Traditional	OPERS - Combined	OPERS - Member- Directed	OP&F	Total
Deferred outflows of resources					
Differences between expected and actual experience	\$ 1,835	\$ -	\$ 736	\$ 60,219	\$ 62,790
Changes of assumptions	214,779	-	45	172,912	387,736
Changes in employer's proportionate percentage/ difference between employer contributions	841	-	-	219,834	220,675
City contributions subsequent to the measurement date	231,403	2,025	5,064	344,984	583,476
Total deferred outflows of resources	<u>\$ 448,858</u>	<u>\$ 2,025</u>	<u>\$ 5,845</u>	<u>\$ 797,949</u>	<u>\$ 1,254,677</u>
Deferred inflows of resources					
Differences between expected and actual experience	\$ 35,418	\$ -	\$ -	\$ 7,179	\$ 42,597
Net difference between projected and actual earnings on pension plan investments	385,839	-	108	137,266	523,213
Changes in employer's proportionate percentage/ difference between employer contributions	60,607	-	-	224,911	285,518
Total deferred inflows of resources	<u>\$ 481,864</u>	<u>\$ -</u>	<u>\$ 108</u>	<u>\$ 369,356</u>	<u>\$ 851,328</u>

\$583,476 reported as deferred outflows of resources related to pension resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability/asset in the year ending December 31, 2019.

**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ending December 31:	OPERS - Traditional	OPERS - Member- Directed	OP&F	Total
2019	\$ 130,618	\$ 81	\$ 102,999	\$ 233,698
2020	(66,576)	78	66,912	414
2021	(169,901)	67	(81,571)	(251,405)
2022	(158,550)	70	(33,259)	(191,739)
2023	-	101	23,959	24,060
Thereafter	-	276	4,569	4,845
Total	\$ (264,409)	\$ 673	\$ 83,609	\$ (180,127)

Actuarial Assumptions - OPERS

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability was determined by an actuarial valuation as of December 31, 2017, using the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB 67.

Wage inflation	3.25%
Future salary increases, including inflation COLA or ad hoc COLA	3.25% to 10.75% including wage inflation Pre 1/7/2013 retirees: 3.00%, simple Post 1/7/2013 retirees: 3.00%, simple through 2018, then 2.15% simple
Investment rate of return	7.50%
Actuarial cost method	Individual entry age

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-employment mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-employment mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables.

**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

The most recent experience study was completed for the five-year period ended December 31, 2015.

The long-term rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

During 2017, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio, and the Defined Contribution portfolio. The Defined Benefit portfolio contains the investment assets for the Traditional Pension Plan, the defined benefit component of the Combined Plan and the annuitized accounts of the Member-Directed Plan. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio was 16.82% for 2017.

The allocation of investment assets with the Defined Benefit portfolio is approved by the OPERS Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2017 and the long-term expected real rates of return:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed income	23.00 %	2.20 %
Domestic equities	19.00	6.37
Real estate	10.00	5.26
Private equity	10.00	8.97
International equities	20.00	7.88
Other investments	18.00	5.26
Total	<u>100.00 %</u>	<u>5.66 %</u>

Discount Rate - The discount rate used to measure the total pension liability/asset was 7.50%, post-experience study results, for the Traditional Pension Plan, the Combined Plan and Member-Directed Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for the Traditional Pension Plan, Combined Plan and Member-Directed Plan was applied to all periods of projected benefit payments to determine the total pension liability.

**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following table presents the City's proportionate share of the net pension liability/asset calculated using the current period discount rate assumption of 7.50%, as well as what the City's proportionate share of the net pension liability/asset would be if it were calculated using a discount rate that is one-percentage-point lower (6.50%) or one-percentage-point higher (8.50%) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
City's proportionate share of the net pension liability (asset):			
Traditional Pension Plan	\$ 3,191,412	\$ 1,797,224	\$ 634,892
Member-Directed Plan	(216)	(377)	(541)

Actuarial Assumptions – OP&F

OP&F's total pension liability as of December 31, 2017 is based on the results of an actuarial valuation date of January 1, 2017, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OP&F's actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2017, are presented below. The following were the most significant changes of assumptions that affected the total pension liability since the prior measurement date: (a) reduction in the investment rate of return from 8.25% to 8.00%, (b) projected salary increases decreased from 4.25% - 11.00% to 3.75% - 10.50%, (c) payroll increases decreased from 3.75% to 3.25%, (d) inflation assumptions decreased from 3.25% to 2.75% and (e) Cost of Living Adjustments (COLAs) decreased from 2.60% to 2.20%.

Valuation date	January 1, 2017
Actuarial cost method	Entry age normal
Investment rate of return	8.00%
Projected salary increases	3.75% - 10.50%
Payroll increases	3.25%
Inflation assumptions	2.75%
Cost of living adjustments	2.20% and 3.00% simple

Rates of death are based on the RP2000 Combined Table, age-adjusted as follows. For active members, set back six years. For disability retirements, set forward five years for police and three years for firefighters. For service retirements, set back zero years for police and two years for firefighters. For beneficiaries, set back zero years. The rates are applied on a fully generational basis, with a base year of 2009, using mortality improvement Scale AA.

**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

The most recent experience study was completed for the five-year period ended December 31, 2016. The recommended assumption changes based on this experience study were adopted by OPF's Board and were effective beginning with the January 1, 2017 actuarial valuation.

The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy and Guidelines. A forecasted rate of inflation serves as the baseline for the return expected. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted average of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes.

Best estimates of the long-term expected geometric real rates of return for each major asset class included in OPF's target asset allocation as of December 31, 2017 are summarized below:

Asset Class	Target Allocation	10 Year Expected Real Rate of Return **	30 Year Expected Real Rate of Return **
Cash and Cash Equivalents	- %		
Domestic Equity	16.00	4.22 %	5.39 %
Non-US Equity	16.00	4.41	5.59
Private Markets	8.00	6.67	8.08
Core Fixed Income *	23.00	1.57	2.71
High Yield Fixed Income	7.00	2.94	4.71
Private Credit	5.00	6.93	7.26
Global Inflation			
Protected Securities *	17.00	0.98	2.52
Master Limited Partnerships	8.00	7.50	7.93
Real Assets	8.00	6.88	7.24
Private Real Estate	12.00	5.58	6.34
Total	<u>120.00 %</u>		

Note: assumptions are geometric.

* levered 2x

** numbers include inflation

OP&F's Board of Trustees has incorporated the risk parity concept into OP&F's asset liability valuation with the goal of reducing equity risk exposure, which reduces overall Total Portfolio risk without sacrificing return and creating a more risk-balanced portfolio based on the relationship between asset classes and economic environments. From the notional portfolio perspective above, the Total Portfolio may be levered up to 1.20 times due to the application of leverage in certain fixed income asset classes.

Discount Rate - The total pension liability was calculated using the discount rate of 8.00%. A discount rate of 8.25% was used in the prior measurement period. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the longer-term assumed investment rate of return 8.00%. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, a long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 8.00%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.00%), or one percentage point higher (9.00%) than the current rate.

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
City's proportionate share of the net pension liability	\$ 5,500,838	\$ 3,968,119	\$ 2,718,026

NOTE 11 - DEFINED BENEFIT OPEB PLANS

Net OPEB Liability

The net OPEB liability reported on the statement of net position represents a liability to employees for OPEB. OPEB is a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. OPEB are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for OPEB is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net OPEB liability represents the City's proportionate share of each OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each OPEB plan's fiduciary net position. The net OPEB liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting these estimates annually.

Ohio Revised Code limits the City's obligation for this liability/asset to annually required payments. The City cannot control benefit terms or the manner in which OPEB are financed; however, the City does receive the benefit of employees' services in exchange for compensation including OPEB.

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The proportionate share of each plan's unfunded benefits is presented as a long-term net OPEB liability on the accrual basis of accounting. Any liability for the contractually-required OPEB contribution outstanding at the end of the year is included in due to other governments on both the accrual and modified accrual bases of accounting.

**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 11 - DEFINED BENEFIT OPEB PLANS - (Continued)

Plan Description – Ohio Public Employees Retirement System (OPERS)

Plan Description - The 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 trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the traditional pension and the combined plans. This trust is also used to fund health care for member-directed plan participants, in the form of a Retiree Medical Account (RMA). At retirement or refund, member directed plan participants may be eligible for reimbursement of qualified medical expenses from their vested RMA balance.

In order to qualify for postemployment health care coverage, age and service retirees under the traditional pension and combined plans must have twenty 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 Post Employment Benefit (OPEB) as described in GASB Statement 75. See OPERS' CAFR referenced below for additional information.

The Ohio Revised Code permits, but does not require OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the Board in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/financial/reports.shtml>, by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

Funding Policy - The Ohio Revised Code provides the statutory authority requiring public employers to fund postemployment health care through their contributions to OPERS. When funding is approved by OPERS' Board of Trustees, a portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans. Beginning in 2018, health care is not being funded.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2018, state and local employers contributed at a rate of 14.0 percent of earnable salary and public safety and law enforcement employers contributed at 18.1 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 1.0 percent during calendar year 2017. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2018 decreased to 0 percent for both plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the RMA for participants in the Member-Directed Plan for 2018 was 4.0 percent.

**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 11 - DEFINED BENEFIT OPEB PLANS - (Continued)

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll.

The City's contractually required contribution was \$2,025 for 2018. Of this amount, \$309 is reported as due to other governments.

Plan Description – Ohio Police & Fire Pension Fund (OP&F)

Plan Description – The City contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored healthcare program, a cost-sharing, multiple-employer defined post-employment healthcare plan administered by a third-party provider. This program is not guaranteed and is subject to change at any time upon action of the Board of Trustees. OP&F provides health care benefits including coverage for medical, prescription drug, dental, vision, and Medicare Part B Premium to retirees, qualifying benefit recipients and their eligible dependents.

OP&F provides access to postretirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or statutory survivor benefit, or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F meets the definition of an Other Post Employment Benefit (OPEB) as described in Government Accounting Standards Board (GASB) Statement No. 75.

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

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. The report may be obtained by visiting the OP&F website at www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 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 to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently 19.5 percent and 24 percent of covered payroll for police and fire employer units, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.5 percent of covered payroll for police employer units and 24 percent 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. There is one account for health care benefits and one account for Medicare Part B reimbursements. A separate health care trust accrual account is maintained for health care benefits under IRS Code Section 115 trust. An Internal Revenue Code 401(h) account is maintained for Medicare Part B reimbursements.

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 2018, the portion of employer contributions allocated to health care was 0.5 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 11 - DEFINED BENEFIT OPEB PLANS - (Continued)

The OP&F Board of Trustees is also 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.

Beginning January 1, 2019, OP&F is changing its retiree health care model and the current self-insured health care plan will no longer be offered. In its place is a stipend-based health care model. A stipend funded by OP&F will be placed in individual Health Reimbursement Accounts that retirees will use to be reimbursed for health care expenses.

The City's contractually required contribution to OP&F was \$7,897 for 2018. Of this amount, \$1,370 is reported as due to other governments.

Net OPEB Liabilities, OPEB Expense, and Deferred Outflows or Resources and Deferred Inflows of Resources Related to OPEB

The net OPEB liability and total OPEB liability for OPERS were determined by an actuarial valuation as of December 31, 2016, rolled forward to the measurement date of December 31, 2017, by incorporating the expected value of health care cost accruals, the actual health care payment, and interest accruals during the year. OP&F's total OPEB liability was measured as of December 31, 2017, and was determined by rolling forward the total OPEB liability as of January 1, 2017, to December 31, 2017. The City's proportion of the net OPEB liability was based on the City's share of contributions to the retirement plan relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Proportion of the net OPEB liability prior measurement date	0.01156923%	0.06812000%	
Proportion of the net OPEB liability current measurement date	<u>0.01107000%</u>	<u>0.06465400%</u>	
Change in proportionate share	<u>-0.00049923%</u>	<u>-0.00346600%</u>	
Proportionate share of the net OPEB liability	\$ 1,202,120	\$ 3,663,216	\$ 4,865,336
OPEB expense	\$ 86,233	\$ 371,447	\$ 457,680

**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 11 - DEFINED BENEFIT OPEB PLANS - (Continued)

At December 31, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Deferred outflows of resources			
Differences between expected and actual experience	\$ 936	\$ -	\$ 936
Changes of assumptions	87,527	357,451	444,978
City contributions subsequent to the measurement date	2,025	7,897	9,922
Total deferred outflows of resources	<u>\$ 90,488</u>	<u>\$ 365,348</u>	<u>\$ 455,836</u>
Deferred inflows of resources			
Differences between expected and actual experience	\$ -	\$ 18,476	\$ 18,476
Net difference between projected and actual earnings on pension plan investments	89,550	24,113	113,663
Changes of assumptions	-	-	-
Changes in employer's proportionate percentage/ difference between employer contributions	34,075	248,883	282,958
Total deferred inflows of resources	<u>\$ 123,625</u>	<u>\$ 291,472</u>	<u>\$ 415,097</u>

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**CITY OF NEW FRANKLIN
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 11 - DEFINED BENEFIT OPEB PLANS - (Continued)

\$9,922 reported as deferred outflows of resources related to OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ending December 31:	OPERS	OP&F	Total
2019	\$ 3,616	\$ (11,834)	\$ (8,218)
2020	3,616	(11,834)	(8,218)
2021	(20,005)	(11,834)	(31,839)
2022	(22,389)	21,970	(419)
2023	-	27,998	27,998
Thereafter	-	51,513	51,513
Total	\$ (35,162)	\$ 65,979	\$ 30,817

Actuarial Assumptions - OPERS

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of coverage provided at the time of each valuation and the historical pattern of sharing of costs between OPERS and plan members. The total OPEB liability was determined by an actuarial valuation as of December 31, 2016, rolled forward to the measurement date of December 31, 2017. The actuarial valuation used the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB 74:

Wage Inflation	3.25 percent
Projected Salary Increases, including inflation	3.25 to 10.75 percent including wage inflation
Single Discount Rate:	
Current measurement date	3.85 percent
Prior Measurement date	4.23 percent
Investment Rate of Return	6.50 percent
Municipal Bond Rate	3.31 percent
Health Care Cost Trend Rate	7.5 percent, initial 3.25 percent, ultimate in 2028
Actuarial Cost Method	Individual Entry Age

**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 11 - DEFINED BENEFIT OPEB PLANS - (Continued)

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-employment mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-employment mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to all of the above described tables.

The most recent experience study was completed for the five year period ended December 31, 2015.

The long-term expected rate of return on health care investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

During 2017, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio and the Defined Contribution portfolio. The Health Care portfolio includes the assets for health care expenses for the Traditional Pension Plan, Combined Plan and Member-Directed Plan eligible members. Within the Health Care portfolio, contributions into the plans are assumed to be received continuously throughout the year based on the actual payroll payable at the time contributions are made, and health care-related payments are assumed to occur mid-year. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Health Care portfolio is 15.2 percent for 2017.

The allocation of investment assets with the Health Care portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Assets are managed on a total return basis with a long-term objective of continuing to offer a sustainable health care program for current and future retirees. OPERS' primary goal is to achieve and maintain a fully funded status for the benefits provided through the defined pension plans. Health care is a discretionary benefit. The table below displays the Board-approved asset allocation policy for 2017 and the long-term expected real rates of return:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	34.00 %	1.88 %
Domestic Equities	21.00	6.37
Real Estate Investment Trust	6.00	5.91
International Equities	22.00	7.88
Other investments	17.00	5.39
Total	100.00 %	4.98 %

**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 11 - DEFINED BENEFIT OPEB PLANS - (Continued)

Discount Rate A single discount rate of 3.85 percent was used to measure the OPEB liability on the measurement date of December 31, 2017. A single discount rate of 4.23 percent was used to measure the OPEB liability on the measurement date of December 31, 2016. Projected benefit payments are required to be discounted to their actuarial present value using a single discount rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the health care fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate are not met). This single discount rate was based on an expected rate of return on the health care investment portfolio of 6.50 percent and a municipal bond rate of 3.31 percent. The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rate. Based on these assumptions, the health care fiduciary net position and future contributions were sufficient to finance health care costs through 2034. As a result, the long-term expected rate of return on health care investments was applied to projected costs through the year 2034, and the municipal bond rate was applied to all health care costs after that date.

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following table presents the City's proportionate share of the net OPEB liability calculated using the single discount rate of 3.85 percent, as well as what the City's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (2.85 percent) or one-percentage-point higher (4.85 percent) than the current rate:

	1% Decrease (2.85%)	Current Discount Rate (3.85%)	1% Increase (4.85%)
City's proportionate share of the net OPEB liability	\$ 1,597,069	\$ 1,202,120	\$ 882,611

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate

Changes in the health care cost trend rate may also have a significant impact on the net OPEB liability. The following table presents the net OPEB liability calculated using the assumed trend rates, and the expected net OPEB liability if it were calculated using a health care cost trend rate that is 1.0 percent lower or 1.0 percent higher than the current rate.

Retiree health care valuations use a health care cost-trend assumption that changes over several years built into the assumption. The near-term rates reflect increases in the current cost of health care; the trend starting in 2018 is 7.50 percent. If this trend continues for future years, the projection indicates that years from now virtually all expenditures will be for health care. A more reasonable alternative is that in the not-too-distant future, the health plan cost trend will decrease to a level at, or near, wage inflation. On this basis, the actuaries project premium rate increases will continue to exceed wage inflation for approximately the next decade, but by less each year, until leveling off at an ultimate rate, assumed to be 3.25 percent in the most recent valuation.

	1% Decrease	Current Health Care Trend Rate Assumption	1% Increase
City's proportionate share of the net OPEB liability	\$ 1,150,173	\$ 1,202,120	\$ 1,255,781

**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 11 - DEFINED BENEFIT OPEB PLANS - (Continued)

Actuarial Assumptions – OP&F

OP&F's total OPEB liability as of December 31, 2017, is based on the results of an actuarial valuation date of January 1, 2017, and rolled-forward using generally accepted actuarial procedures. The total OPEB liability is determined by OP&F's actuaries in accordance with GASB Statement No. 74, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases, actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, are presented below.

Valuation Date	January 1, 2017, with actuarial liabilities rolled forward to December 31, 2017
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.0 percent
Projected Salary Increases	3.75 percent to 10.5 percent
Payroll Growth	Inflation rate of 2.75 percent plus productivity increase rate of 0.5 percent
Single discount rate:	
Current measurement date	3.24 percent
Prior measurement date	3.79 percent
Cost of Living Adjustments	3.00 percent simple; 2.2 percent simple for increased based on the lesser of the increase in CPI and 3 percent

1

Mortality for non-disabled participants is based on the RP-2014 Total Employee and Healthy Annuitant Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale. Rates for surviving beneficiaries are adjusted by 120 percent.

<u>Age</u>	<u>Police</u>	<u>Fire</u>
67 or less	77 %	68 %
68-77	105	87
78 and up	115	120

**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 11 - DEFINED BENEFIT OPEB PLANS - (Continued)

Mortality for disabled retirees is based on the RP-2014 Disabled Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale.

Age	Police	Fire
59 or less	35 %	35 %
60-69	60	45
70-79	75	70
80 and up	100	90

The most recent experience study was completed for the five year period ended December 31, 2016, the prior experience study was completed December 31, 2011.

The long-term expected rate of return on OPEB plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expected. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F's target asset allocation as of December 31, 2017, are summarized below:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash and Cash Equivalents	- %	0.00 %
Domestic Equity	16.00	5.21
Non-US Equity	16.00	5.40
Core Fixed Income*	20.00	2.37
Global Inflation Protected Securities*	20.00	2.33
High Yield	15.00	4.48
Real Estate	12.00	5.65
Private Markets	8.00	7.99
Timber	5.00	6.87
Master Limited Partnerships	8.00	7.36
Total	120.00 %	

Note: Assumptions are geometric.

*levered 2x

OP&F's Board of Trustees has incorporated the risk parity concept into OP&F's asset liability valuation with the goal of reducing equity risk exposure, which reduces overall Total Portfolio risk without sacrificing return, and creating a more risk-balanced portfolio based on their relationship between asset classes and economic environments. From the notional portfolio perspective above, the Total Portfolio may be levered up to 1.2 times due to the application of leverage in certain fixed income asset classes.

**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 11 - DEFINED BENEFIT OPEB PLANS - (Continued)

Discount Rate - The total OPEB liability was calculated using the discount rate of 3.24 percent. The projection of cash flows used to determine the discount rate assumed the contribution from employers and from members would be computed based on contribution requirements as stipulated by state statute. Projected inflows from investment earnings were calculated using the longer-term assumed investment rate of return 8 percent. Based on those assumptions, OP&F's fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, a municipal bond rate of 3.16 percent at December 31, 2017 and 3.71 percent at December 31, 2016, was blended with the long-term rate of 8 percent, which resulted in a blended discount rate of 3.24 percent. The municipal bond rate was determined using the S&P Municipal Bond 20 Year High Grade Rate Index. The OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments until 2025. The long-term expected rate of return on health care investments was applied to projected costs through 2025, and the municipal bond rate was applied to all health care costs after that date.

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate Net OPEB liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net OPEB liability calculated using the discount rate of 3.24 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.24 percent), or one percentage point higher (4.24 percent) than the current rate.

	1% Decrease (2.24%)	Current Discount Rate (3.24%)	1% Increase (4.24%)
City's proportionate share of the net OPEB liability	\$ 4,579,051	\$ 3,663,216	\$ 2,958,502

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate Net OPEB liability is sensitive to changes in the health care cost trend rate. The trend rate is the annual rate at which the cost of covered medical services is assumed to increase from the current year to the next year. Beginning in 2017, the per-capita costs are assumed to change by the following percentages each year:

	Non-Medicare	Non-AARP	AARP	Rx Drug	Medicare Part B
Year					
2017	-0.47%	-2.50%	4.50%	-0.47%	5.20%
2018	7.00%	7.00%	4.50%	7.00%	5.10%
2019	6.50%	6.50%	4.50%	6.50%	5.00%
2020	6.00%	6.00%	4.50%	6.00%	5.00%
2021	5.50%	5.50%	4.50%	5.50%	5.00%
2022	5.00%	5.00%	4.50%	5.00%	5.00%
2023 and Later	4.50%	4.50%	4.50%	4.50%	5.00%

**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 11 - DEFINED BENEFIT OPEB PLANS - (Continued)

To illustrate the potential impact, the following table presents the net OPEB liability calculated using the current healthcare cost trend current rates as outlined in the table above, a one percent decrease in the trend rates and a one percent increase in the trend rates.

	1% Decrease	Current Health Care Trend Rate Assumption	1% Increase
City's proportionate share of the net OPEB liability	\$ 2,845,644	\$ 3,663,216	\$ 4,765,001

NOTE 12 - LONG-TERM OBLIGATIONS

During 2018, the following activity occurred in governmental activities long-term obligations. The long-term obligations at December 31, 2017 have been restated as described in Note 3.

	Restated Balance		Additions	Reductions	Balance 12/31/18	Amounts Due in One Year
Governmental activities:	12/31/17					
Net pension liability	\$ 7,064,338	\$ -	\$ (1,298,995)	\$ 5,765,343	\$ -	
Net OPEB liability	4,402,035	463,301	-	4,865,336	-	
Compensated absences	838,251	83,752	(60,020)	861,983	105,758	
Total governmental activities long-term obligations	\$ 12,304,624	\$ 547,053	\$ (1,359,015)	\$ 11,492,662	\$ 105,758	

Net pension liability and net OPEB liability: See Notes 10 and 11 for details.

Compensated absences: Compensated absences are reported on the statement of net position and will be paid from the fund from which the employee's salaries are paid, which will primarily be the general fund, the police district fund and the fire district fund.

NOTE 13 - RISK MANAGEMENT

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

The City belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. York Risk Pooling Services, Inc. (YORK), functions as the administrator of PEP and provides underwriting, claims loss control, risk management, and reinsurance services for PEP. PEP is a member of American Public Entity Excess Pool (APEEP), which is also administered by YORK. 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 and Property Coverage

APEEP provides PEP with an excess risk-sharing program. Under this arrangement, PEP retains insured risks up to an amount specified in the contracts. At December 31, 2018, PEP retained \$500,000 for casualty claims and \$250,000 for property claims.

**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 13 - RISK MANAGEMENT - (Continued)

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 PEP member.

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and net position at December 31, 2018 and 2017.

	2018	2017
Assets	\$ 49,921,998	\$ 44,452,326
Liabilities	(14,676,199)	(13,004,011)
Net Position	\$ 35,245,799	\$ 31,448,315

At December 31, 2018 and 2017, respectively, the liabilities above include approximately \$13.0 million and \$11.8 million of estimated incurred claims payable. The assets above also include approximately \$11.8 million and \$11.2 million of unpaid claims to be billed. The Pool's membership increased from 527 members in 2017 to 538 members in 2018. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2018, the City's share of these unpaid claims collectible in future years is approximately \$39,000.

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

Contributions to PEP	
2018	2017
\$ 61,566	\$ 55,813

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

Settlements have not exceeded coverage in any of the last three fiscal years. There has not been a significant reduction in coverage from the prior year.

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.

**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 13 - RISK MANAGEMENT - (Continued)

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, 2018, a total expense of \$1,250,550 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 \$93,202 reported in the fund at December 31, 2018 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 2018 and 2017 were:

<u>Year</u>	<u>Balance at Beginning of Year</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Balance at End of Year</u>
2018	\$ 118,691	\$ 1,250,550	\$ (1,276,039)	\$ 93,202
2017	84,126	1,019,531	(984,966)	118,691

NOTE 14 - CONTINGENCIES

A. Grants

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.

B. Litigation

The City of New Franklin is party to legal proceedings. The City management is of the opinion that the ultimate disposition of these claims and legal proceedings will not have a material effect on the financial condition of the City.

NOTE 15 - 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.

**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 15 - JOINTLY GOVERNED ORGANIZATION - (Continued)

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 16 - INTERFUND ACTIVITY

- A. 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.

The transfers in 2018 are as follows:

	Transfers In	
Transfers Out	Police District	Total
General fund	\$ 925,000	\$ 925,000
Total	\$ 925,000	\$ 925,000

The general fund transferred to the Police District fund to cover expenditures.

- B. Interfund loans receivable/payable consisted of the following at December 31, 2018, as reported on the fund statements:

Receivable fund	Payable fund	Amount
General	Nonmajor governmental fund	\$ 7,179

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by December 31. These interfund balances will be repaid once the anticipated revenues are received. Interfund loans between governmental funds are eliminated on the statement of net position.

NOTE 17 - ENCUMBRANCE COMMITMENT

The City utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed or assigned classifications of fund balance. At year end, the City's commitments for encumbrances in the governmental funds were as follows:

Fund	Year-End Encumbrances
General Fund	\$ 13,836
Street Construction, Maintenance & Repair	133,631
Total	\$ 147,467

**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 18 - FUND BALANCE

Fund balance is 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 resources in the governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund balance	General	Street Construction, Maintenance and Repair Fund	Police District Fund	Fire District Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:						
Materials and supplies inventory	\$ -	\$ 223,496	\$ -	\$ -	\$ -	\$ 223,496
Prepayments	4,062	2,819	2,537	5,195	779	15,392
Total nonspendable	<u>4,062</u>	<u>226,315</u>	<u>2,537</u>	<u>5,195</u>	<u>779</u>	<u>238,888</u>
Restricted:						
Security of persons and property	-	-	13,814	94,921	53,970	162,705
Public health	-	-	-	-	95,685	95,685
Transportation	-	818,627	-	-	468,119	1,286,746
Community development	-	-	-	-	25,318	25,318
Other purposes	-	-	-	-	15,256	15,256
Debt service	-	-	-	-	2,183	2,183
Total restricted	<u>-</u>	<u>818,627</u>	<u>13,814</u>	<u>94,921</u>	<u>660,531</u>	<u>1,587,893</u>
Committed:						
Leisure time activity	-	-	-	-	108,576	108,576
Capital improvements	-	-	-	-	99,423	99,423
Total committed	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>207,999</u>	<u>207,999</u>
Assigned:						
General government	13,836	-	-	-	-	13,836
Subsequent year appropriations	458,807	-	-	-	-	458,807
Total assigned	<u>472,643</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>472,643</u>
Unassigned	<u>1,677,509</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,677,509</u>
Total fund balances	<u>\$ 2,154,214</u>	<u>\$ 1,044,942</u>	<u>\$ 16,351</u>	<u>\$ 100,116</u>	<u>\$ 869,309</u>	<u>\$ 4,184,932</u>

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REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF NEW FRANKLIN, OHIO
SUMMIT COUNTY, OHIO**

SCHEDULES OF THE REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY/NET PENSION ASSET
OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

LAST FIVE YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<i>Traditional Plan:</i>					
City's proportion of the net pension liability	0.011456%	0.012109%	0.012201%	0.012245%	0.012245%
City's proportionate share of the net pension liability	\$ 1,797,224	\$ 2,749,748	\$ 2,113,367	\$ 1,476,884	\$ 1,443,526
City's covered payroll	\$ 1,612,931	\$ 1,689,900	\$ 1,581,233	\$ 1,498,225	\$ 1,378,169
City's proportionate share of the net pension liability as a percentage of its covered payroll	111.43%	162.72%	133.65%	98.58%	104.74%
Plan fiduciary net position as a percentage of the total pension liability	84.66%	77.25%	81.08%	86.45%	86.36%
<i>Member Directed Plan:</i>					
City's proportion of the net pension asset	0.010810%	0.009567%	0.009778%	n/a	n/a
City's proportionate share of the net pension asset	\$ 377	\$ 40	\$ 37	n/a	n/a
City's covered payroll	\$ 59,610	\$ 39,317	\$ 54,450	n/a	n/a
City's proportionate share of the net pension asset as a percentage of its covered payroll	0.63%	0.10%	0.07%	n/a	n/a
Plan fiduciary net position as a percentage of the total pension asset	124.45%	103.40%	103.91%	n/a	n/a

Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the City's measurement date which is the prior year-end.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF NEW FRANKLIN, OHIO
SUMMIT COUNTY, OHIO**

SCHEDULES OF THE REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
OHIO POLICE AND FIRE (OP&F) PENSION FUND

LAST FIVE YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
City's proportion of the net pension liability	0.06465400%	0.06812000%	0.06299000%	0.06774060%	0.06774060%
City's proportionate share of the net pension liability	\$ 3,968,119	\$ 4,314,590	\$ 4,052,145	\$ 3,509,245	\$ 3,299,180
City's covered payroll	\$ 1,542,631	\$ 1,505,251	\$ 1,500,549	\$ 1,522,989	\$ 1,464,435
City's proportionate share of the net pension liability as a percentage of its covered payroll	257.23%	286.64%	270.04%	230.42%	225.29%
Plan fiduciary net position as a percentage of the total pension liability	70.91%	68.36%	66.77%	72.20%	73.00%

Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the City's measurement date which is the prior year-end.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF NEW FRANKLIN, OHIO
SUMMIT COUNTY, OHIO**

SCHEDULES OF THE REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CITY PENSION CONTRIBUTIONS
OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

LAST TEN YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<i>Traditional Plan:</i>				
Contractually required contribution	\$ 231,403	\$ 209,681	\$ 202,788	\$ 189,748
Contributions in relation to the contractually required contribution	<u>(231,403)</u>	<u>(209,681)</u>	<u>(202,788)</u>	<u>(189,748)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered payroll	\$ 1,652,879	\$ 1,612,931	\$ 1,689,900	\$ 1,581,233
Contributions as a percentage of covered payroll	14.00%	13.00%	12.00%	12.00%
<i>Combined Plan:</i>				
Contractually required contribution	\$ 2,025	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contribution	<u>(2,025)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered payroll	\$ 14,464	\$ -	\$ -	\$ -
Contributions as a percentage of covered payroll	14.00%	13.00%	12.00%	12.00%
<i>Member Directed Plan:</i>				
Contractually required contribution	\$ 5,064	\$ 5,961	\$ 4,718	\$ 6,534
Contributions in relation to the contractually required contribution	<u>(5,064)</u>	<u>(5,961)</u>	<u>(4,718)</u>	<u>(6,534)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered payroll	\$ 50,640	\$ 59,610	\$ 39,317	\$ 54,450
Contributions as a percentage of covered payroll	10.00%	10.00%	12.00%	12.00%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 179,787	\$ 179,162	\$ 192,869	\$ 150,448	\$ 165,826	\$ 138,644
<u>(179,787)</u>	<u>(179,162)</u>	<u>(192,869)</u>	<u>(150,448)</u>	<u>(165,826)</u>	<u>(138,644)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 1,498,225	\$ 1,378,169	\$ 1,928,690	\$ 1,504,480	\$ 1,859,036	\$ 1,705,338
12.00%	13.00%	10.00%	10.00%	8.92%	8.13%
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
12.00%	13.00%	7.95%	7.95%	9.69%	

**CITY OF NEW FRANKLIN, OHIO
SUMMIT COUNTY, OHIO**

SCHEDULES OF THE REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CITY PENSION CONTRIBUTIONS
OHIO POLICE AND FIRE (OP&F) PENSION FUND

LAST TEN YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<i>Police:</i>				
Contractually required contribution	\$ 110,529	\$ 96,703	\$ 92,830	\$ 85,491
Contributions in relation to the contractually required contribution	<u>(110,529)</u>	<u>(96,703)</u>	<u>(92,830)</u>	<u>(85,491)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered payroll	\$ 581,732	\$ 508,963	\$ 488,579	\$ 449,953
Contributions as a percentage of covered payroll	19.00%	19.00%	19.00%	19.00%
<i>Fire:</i>				
Contractually required contribution	\$ 234,455	\$ 242,912	\$ 238,918	\$ 246,890
Contributions in relation to the contractually required contribution	<u>(234,455)</u>	<u>(242,912)</u>	<u>(238,918)</u>	<u>(246,890)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered payroll	\$ 997,681	\$ 1,033,668	\$ 1,016,672	\$ 1,050,596
Contributions as a percentage of covered payroll	23.50%	23.50%	23.50%	23.50%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 92,371	\$ 70,246	\$ 46,213	\$ 22,197	\$ 19,632	\$ 15,779
<u>(92,371)</u>	<u>(70,246)</u>	<u>(46,213)</u>	<u>(22,197)</u>	<u>(19,632)</u>	<u>(15,779)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 486,163	\$ 442,355	\$ 362,455	\$ 174,094	\$ 153,976	\$ 123,757
19.00%	15.88%	12.75%	12.75%	12.75%	12.75%
\$ 243,654	\$ 208,300	\$ 147,502	\$ 77,399	\$ 143,389	\$ 143,312
<u>(243,654)</u>	<u>(208,300)</u>	<u>(147,502)</u>	<u>(77,399)</u>	<u>(143,389)</u>	<u>(143,312)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 1,036,826	\$ 1,022,080	\$ 855,084	\$ 448,690	\$ 831,241	\$ 830,794
23.50%	20.38%	17.25%	17.25%	17.25%	17.25%

**CITY OF NEW FRANKLIN, OHIO
SUMMIT COUNTY, OHIO**

SCHEDULES OF THE REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF
THE NET OPEB LIABILITY
OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

LAST TWO YEARS

	2018	2017
City's proportion of the net OPEB liability	0.011070%	0.01156923%
City's proportionate share of the net OPEB liability	\$ 1,202,120	\$ 1,168,532
City's covered payroll	\$ 1,672,541	\$ 1,729,217
City's proportionate share of the net OPEB liability as a percentage of its covered payroll	71.87%	67.58%
Plan fiduciary net position as a percentage of the total OPEB liability	54.14%	54.05%

Note: Information prior to 2017 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the City's measurement date which is the prior year-end.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF NEW FRANKLIN, OHIO
SUMMIT COUNTY, OHIO**

SCHEDULES OF THE REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF
THE NET OPEB LIABILITY
OHIO POLICE AND FIRE (OP&F) PENSION FUND

LAST TWO YEARS

	2018	2017
City's proportion of the net OPEB liability	0.06465400%	0.06812000%
City's proportionate share of the net OPEB liability	\$ 3,663,216	\$ 3,233,503
City's covered payroll	\$ 1,542,631	\$ 1,505,251
City's proportionate share of the net OPEB liability as a percentage of its covered payroll	237.47%	214.81%
Plan fiduciary net position as a percentage of the total OPEB liability	14.13%	15.96%

Note: Information prior to 2017 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the City's measurement date which is the prior year-end.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF NEW FRANKLIN, OHIO
SUMMIT COUNTY, OHIO**

SCHEDULES OF THE REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CITY OPEB CONTRIBUTIONS
OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

LAST TEN YEARS

	2018	2017	2016	2015
Contractually required contribution	\$ 2,025	\$ 17,483	\$ 33,570	\$ 29,317
Contributions in relation to the contractually required contribution	(2,025)	(17,483)	(33,570)	(29,317)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
City's covered payroll	\$ 1,717,983	\$ 1,672,541	\$ 1,729,217	\$ 1,635,683
Contributions as a percentage of covered payroll	0.12%	1.05%	1.94%	1.79%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 29,871	\$ 13,680	\$ 54,432	\$ 56,050	\$ 80,717	\$ 84,181
<u>(29,871)</u>	<u>(13,680)</u>	<u>(54,432)</u>	<u>(56,050)</u>	<u>(80,717)</u>	<u>(84,181)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 1,498,225	\$ 1,378,169	\$ 1,928,690	\$ 1,504,480	\$ 1,859,036	\$ 1,705,338
1.99%	0.99%	2.82%	3.73%	4.34%	4.94%

**CITY OF NEW FRANKLIN, OHIO
SUMMIT COUNTY, OHIO**

SCHEDULES OF THE REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CITY OPEB CONTRIBUTIONS
OHIO POLICE AND FIRE (OP&F) PENSION FUND

LAST TEN YEARS

	2018	2017	2016	2015
<i>Police:</i>				
Contractually required contribution	\$ 2,909	\$ 2,545	\$ 2,509	\$ 2,311
Contributions in relation to the contractually required contribution	(2,909)	(2,545)	(2,509)	(2,311)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
City's covered payroll	\$ 581,732	\$ 508,963	\$ 488,579	\$ 449,953
Contributions as a percentage of covered payroll	0.50%	0.50%	0.50%	0.50%
 <i>Fire:</i>				
Contractually required contribution	\$ 4,988	\$ 5,168	\$ 5,083	\$ 5,253
Contributions in relation to the contractually required contribution	(4,988)	(5,168)	(5,083)	(5,253)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
City's covered payroll	\$ 997,681	\$ 1,033,668	\$ 1,016,672	\$ 1,050,596
Contributions as a percentage of covered payroll	0.50%	0.50%	0.50%	0.50%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 2,039	\$ 9,605	\$ 11,751	\$ 21,952	\$ 10,394	\$ 8,354
<u>(2,039)</u>	<u>(9,605)</u>	<u>(11,751)</u>	<u>(21,952)</u>	<u>(10,394)</u>	<u>(8,354)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 486,163	\$ 442,355	\$ 362,455	\$ 174,094	\$ 153,976	\$ 123,757
0.50%	3.62%	6.75%	6.75%	6.75%	6.75%
\$ 4,807	\$ 24,000	\$ 30,286	\$ 59,962	\$ 56,109	\$ 56,079
<u>(4,807)</u>	<u>(24,000)</u>	<u>(30,286)</u>	<u>(59,962)</u>	<u>(56,109)</u>	<u>(56,079)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 1,036,826	\$ 1,022,080	\$ 855,084	\$ 448,690	\$ 831,241	\$ 830,794
0.50%	3.62%	6.75%	6.75%	6.75%	6.75%

**CITY OF NEW FRANKLIN, OHIO
SUMMIT COUNTY, OHIO**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2018

PENSION

OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

Changes in benefit terms : There were no changes in benefit terms from the amounts reported for 2014-2018.

Changes in assumptions : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2014-2016. For 2017, the following were the most significant changes of assumptions that affected the total pension liability since the prior measurement date: (a) reduction in the actuarially assumed rate of return from 8.00% down to 7.50%, (b) for defined benefit investments, decreasing the wage inflation from 3.75% to 3.25% and (c) changing the future salary increases from a range of 4.25%-10.05% to 3.25%-10.75%. There were no changes in assumptions for 2018.

OHIO POLICE AND FIRE (OP&F) PENSION FUND

Changes in benefit terms : There were no changes in benefit terms from the amounts reported for 2014-2018.

Changes in assumptions : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2014-2017. For 2018, the following were the most significant changes of assumptions that affected the total pension since the prior measurement date: (a) reduction in the actuarially assumed rate of return from 8.50% down to 8.00%, (b) changing the future salary increases from a range of 4.25%-11.00% to 3.75%-10.50%, (c) reduction in payroll increases from 3.75% down to 3.25%, (d) reduction in inflation assumptions from 3.25% down to 2.75% and (e) Cost of Living Adjustments (COLA) were reduced from 2.60% and 3.00% simple to 2.20% and 3.00% simple.

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

Changes in benefit terms : There were no changes in benefit terms from the amounts reported for 2017-2018.

Changes in assumptions : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2017. For 2018, the following were the most significant changes of assumptions that affected the total OPEB liability since the prior measurement date: (a) reduction in the actuarially assumed rate of return from 4.23% down to 3.85%.

OHIO POLICE AND FIRE (OP&F) PENSION FUND

Changes in benefit terms : There were no changes in benefit terms from the amounts reported for 2017-2018.

Changes in assumptions : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2017. For 2018, the following were the most significant changes of assumptions that affected the total OPEB liability since the prior measurement date: (a) DROP interest rate was reduced from 4.50% to 4.00%, (b) CPI-based COLA was reduced from 2.60% to 2.20%, (c) investment rate of return was reduced from 8.25% to 8.00%, (d) salary increases were reduced from 3.75% to 3.25%, (e) payroll growth was reduced from 3.75% to 3.25% and (f) the discount rate (interest rate) was reduced from 3.79% to 3.24%.



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**Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Required by *Government Auditing Standards***

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

To the Members of Council and Mayor:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of New Franklin, Summit County, Ohio, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City of New Franklin's basic financial statements and have issued our report thereon dated June 13, 2019, wherein we noted as discussed in Note 3, the City of New Franklin adopted Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the City of New Franklin's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the City of New Franklin's internal control. Accordingly, we have not opined on it.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses that we consider a significant deficiency. We consider finding 2018-001 to be a significant deficiency.

Compliance and Other Matters

As part of reasonably assuring whether the City of New Franklin's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

City of New Franklin's Response to the Finding

The City of New Franklin's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not subject the City of New Franklin's response to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the City of New Franklin's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the City of New Franklin's internal control and compliance. Accordingly, this report is not suitable for any other purpose.



Julian & Grube, Inc.
June 13, 2019

**CITY OF NEW FRANKLIN
SUMMIT COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2018**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2018-001

Significant Deficiency - Financial Statement Presentation:

Management is responsible for preparing complete and accurate financial statements in accordance with the applicable financial reporting framework. Control and monitoring activities typically associated with the period-end financial reporting process include reviewing and approving manual journal entries, consolidating entries, and any entries that are recorded directly to the financial statements. When outsourcing the financial reporting process to a third party, management is still responsible for preparing complete and accurate financial statements.

Certain adjustments were made to the financial statements to properly account for the classification of revenues.

- An adjustment was made to reclassify homestead and rollback receipts within the Fire District fund from "property taxes" revenues to "intergovernmental" revenues in the amount of \$137,762. An adjustment was also made on the Statement of Activities to reclassify general revenue from "property taxes levied for police and fire operations" to "grants and entitlements not restricted to specific programs" in the amount of \$137,762.
- An adjustment was made to reclassify grant receipts received from the Ohio Public Works Commission and Summit County within the Street Construction Maintenance & Repair fund from "other" revenues to "intergovernmental" revenues in the amount of \$246,438.
- An adjustment was made to reclassify grant receipts from Summit County within the Other Governmental funds from "other" revenues to "intergovernmental" revenues in the amount of \$109,014.

The present control and monitoring system did not detect the above homestead and rollback item due to the absence of a review of tax settlement reports and homestead and rollback receipts recorded within the City's financial system. The "other" revenues were not detected due to having an insufficient amount of time for reviewing manual journal entries, consolidating entries, and entries recorded directly to the financial statements.

Without additional policies and procedures for control and monitoring activities associated with the period-end financial reporting process the City is at risk of preparing incomplete or inaccurate financial statements.

We recommend the City design and implement additional policies and procedures in order to provide adequate time to review and approve all manual journal entries, consolidating entries, and any entries that are recorded directly to the financial statements. Further, we recommend the City implement a review process of the tax settlement reports to ensure homestead and rollback is properly recorded. We also recommend the City consult with their auditors, the Auditor of State and/or further consult with an accounting firm to help ensure accurate financial reporting and the City's desired timelines are met.

Client Response: Regarding the first adjustment, the City has implemented a review process for homestead and rollback intergovernmental receipts. While receipted to the correct fund they were receipted to the incorrect line item within the fund. Regarding the second and third adjustments, the City properly recorded the intergovernmental receipts in its system, but during the financial statement compilation process, they were recorded as other revenue by the outside firm retained to perform the GAAP conversion.

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OHIO AUDITOR OF STATE
KEITH FABER



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
SEPTEMBER 17, 2019**