



**CITY OF FAIRLAWN
SUMMIT COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2001



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**CITY OF FAIRLAWN
SUMMIT COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS

City of Fairlawn
Summit County
3487 South Smith Road
Fairlawn, Ohio 44333

To the Members of City Council:

We have audited the accompanying general purpose financial statements of the City of Fairlawn, Summit County, (the City) as of and for the year ended December 31, 2001, as listed in the table of contents. These general purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Fairlawn, Summit County, as of December 31, 2001, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 1, 2002 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink, appearing to read "Jim Petro".

Jim Petro
Auditor of State

August 1, 2002

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City of Fairlawn, Ohio
 Combined Balance Sheet
 All Fund Types and Account Groups
 December 31, 2001

| | Governmental Fund Types | | |
|--|-------------------------|--------------------|-----------------|
| | General | Special Revenue | Debt Service |
| <u>Assets and Other Debits:</u> | | | |
| <u>Assets:</u> | | | |
| Equity in Pooled Cash and Cash Equivalents | \$10,588,834 | \$1,535,001 | \$198,832 |
| Cash and Cash Equivalents | | | |
| In Segregated Accounts | 44,323 | 0 | 0 |
| With Fiscal Agent | 0 | 0 | 0 |
| Receivables: | | | |
| Taxes | 1,481,771 | 184,508 | 0 |
| Accounts | 9,064 | 4,777 | 0 |
| Special Assessments | 0 | 0 | 4,362,829 |
| Intergovernmental | 1,031,902 | 309,957 | 0 |
| Due from Other Funds | 12,834 | 5,226 | 0 |
| Materials and Supplies Inventory | 146,258 | 12,250 | 0 |
| Fixed Assets | 0 | 0 | 0 |
| <u>Other Debits:</u> | | | |
| Amount Available in Debt Service Fund | 0 | 0 | 0 |
| Amount to be Provided for Retirement of General Long-Term Obligations | 0 | 0 | 0 |
| Total Assets and Other Debits | \$13,314,986 | \$2,051,719 | \$4,561,661 |

| | Fiduciary | Account Groups | | Totals (Memorandum Only) |
|---------------------|-----------------|---------------------|--------------------------|--------------------------------|
| | Fund Type | General | General | |
| Capital Projects | Agency | Fixed Assets | Long-Term Obligations | |
| \$5,525,708 | \$71,499 | \$0 | \$0 | \$17,919,874 |
| 0 | 26,131 | 0 | 0 | 70,454 |
| 124,773 | 0 | 0 | 0 | 124,773 |
| 416,784 | 0 | 0 | 0 | 2,083,063 |
| 22,601 | 0 | 0 | 0 | 36,442 |
| 0 | 0 | 0 | 0 | 4,362,829 |
| 0 | 0 | 0 | 0 | 1,341,859 |
| 0 | 0 | 0 | 0 | 18,060 |
| 0 | 0 | 0 | 0 | 158,508 |
| 0 | 0 | 15,545,013 | 0 | 15,545,013 |
| 0 | 0 | 0 | 198,832 | 198,832 |
| 0 | 0 | 0 | 8,722,234 | 8,722,234 |
| <u>\$6,089,866</u> | <u>\$97,630</u> | <u>\$15,545,013</u> | <u>\$8,921,066</u> | <u>\$50,581,941</u> |

(Continued)

City of Fairlawn, Ohio
 Combined Balance Sheet
 All Fund Types and Account Groups (Continued)
 December 31, 2001

| | Governmental Fund Types | | |
|--|-------------------------|--------------------|-----------------|
| | General | Special Revenue | Debt Service |
| <u>Liabilities, Fund Balances and Other Credits:</u> | | | |
| <u>Liabilities:</u> | | | |
| Accounts Payable | \$57,960 | \$13,135 | \$0 |
| Contracts Payable | 4,865 | 0 | 0 |
| Accrued Wages | 101,656 | 2,800 | 0 |
| Compensated Absences Payable | 29,316 | 36 | 0 |
| Due to Other Funds | 0 | 0 | 0 |
| Intergovernmental Payable | 81,476 | 650 | 0 |
| Deferred Revenue | 1,290,331 | 455,851 | 4,362,829 |
| Undistributed Monies | 0 | 0 | 0 |
| OPWC Loans Payable | 0 | 0 | 0 |
| General Obligation Bonds Payable | 0 | 0 | 0 |
| Special Assessment Bonds Payable with Governmental Commitment | 0 | 0 | 0 |
| Total Liabilities | 1,565,604 | 472,472 | 4,362,829 |
| <u>Fund Balances and Other Credits:</u> | | | |
| Investment in General Fixed Assets | 0 | 0 | 0 |
| <u>Fund Balances:</u> | | | |
| Reserved for Encumbrances | 270,644 | 53,219 | 0 |
| Reserved for Inventory | 146,258 | 12,250 | 0 |
| Designated for Sewer Line Repair | 195,990 | 0 | 0 |
| Undesignated | 11,136,490 | 1,513,778 | 198,832 |
| Total Fund Balances and Other Credits | 11,749,382 | 1,579,247 | 198,832 |
| Total Liabilities, Fund Balances and Other Credits | \$13,314,986 | \$2,051,719 | \$4,561,661 |

See Accompanying Notes to the General Purpose Financial Statements

| | Fiduciary | Account Groups | | Totals (Memorandum Only) |
|---------------------------|------------------------|----------------------------|-------------------------------------|--------------------------------|
| | Fund Type | General Fixed Assets | General Long-Term Obligations | |
| Capital Projects | Agency | | | |
| \$36,892 | \$0 | \$0 | \$0 | \$107,987 |
| 100,146 | 0 | 0 | 0 | 105,011 |
| 0 | 0 | 0 | 0 | 104,456 |
| 0 | 0 | 0 | 844,359 | 873,711 |
| 0 | 18,060 | 0 | 0 | 18,060 |
| 0 | 0 | 0 | 185,976 | 268,102 |
| 191,217 | 0 | 0 | 0 | 6,300,228 |
| 0 | 79,570 | 0 | 0 | 79,570 |
| 0 | 0 | 0 | 810,731 | 810,731 |
| 0 | 0 | 0 | 5,685,000 | 5,685,000 |
| 0 | 0 | 0 | 1,395,000 | 1,395,000 |
| <u>328,255</u> | <u>97,630</u> | <u>0</u> | <u>8,921,066</u> | <u>15,747,856</u> |
| 0 | 0 | 15,545,013 | 0 | 15,545,013 |
| 614,029 | 0 | 0 | 0 | 937,892 |
| 0 | 0 | 0 | 0 | 158,508 |
| 0 | 0 | 0 | 0 | 195,990 |
| <u>5,147,582</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>17,996,682</u> |
| <u>5,761,611</u> | <u>0</u> | <u>15,545,013</u> | <u>0</u> | <u>34,834,085</u> |
| <u><u>\$6,089,866</u></u> | <u><u>\$97,630</u></u> | <u><u>\$15,545,013</u></u> | <u><u>\$8,921,066</u></u> | <u><u>\$50,581,941</u></u> |

City of Fairlawn, Ohio
 Combined Statement of Revenues, Expenditures and Changes in Fund Balances
 All Governmental Fund Types
 For the Year Ended December 31, 2001

| | Governmental | |
|--|--------------|--------------------|
| | General | Special Revenue |
| <u>Revenues:</u> | | |
| Municipal Income Taxes | \$5,282,566 | \$0 |
| Property and Other Taxes | 622,367 | 279,977 |
| Charges for Services | 41,321 | 199,711 |
| Licenses, Permits and Fees | 90,465 | 0 |
| Fines and Forfeitures | 125,397 | 185,294 |
| Intergovernmental | 4,135,732 | 290,159 |
| Special Assessments | 0 | 0 |
| Interest | 758,371 | 18,722 |
| Rentals | 0 | 15,524 |
| Contributions/Donations | 0 | 13,345 |
| Other | 74,496 | 688 |
| Total Revenues | 11,130,715 | 1,003,420 |
| <u>Expenditures:</u> | | |
| Current: | | |
| General Government | 1,867,106 | 5,779 |
| Security of Persons and Property | 3,583,137 | 587,221 |
| Public Health Services | 100,783 | 0 |
| Transportation | 1,321,374 | 124,668 |
| Community Environment | 27,925 | 0 |
| Basic Utility Services | 143,430 | 103,961 |
| Leisure Time Activities | 30,831 | 223,787 |
| Intergovernmental | 651,450 | 0 |
| Capital Outlay | 0 | 0 |
| Debt Service: | | |
| Principal Retirement | 0 | 9,508 |
| Interest and Fiscal Charges | 0 | 492 |
| Total Expenditures | 7,726,036 | 1,055,416 |
| Excess of Revenues Over/(Under) Expenditures | 3,404,679 | (51,996) |
| <u>Other Financing Sources/(Uses):</u> | | |
| Sale of Fixed Assets | 1,600 | 0 |
| Operating Transfers In | 0 | 180,000 |
| Operating Transfers Out | (2,180,000) | 0 |
| Total Other Financing Sources/(Uses) | (2,178,400) | 180,000 |
| Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses | 1,226,279 | 128,004 |
| Fund Balances Beginning of Year | 10,518,029 | 1,446,904 |
| Increase in Reserve for Inventory | 5,074 | 4,339 |
| Fund Balances End of Year | \$11,749,382 | \$1,579,247 |

See Accompanying Notes to the General Purpose Financial Statements

| Fund Types | | Totals |
|------------------|--------------------|---------------------|
| Debt Service | Capital Projects | (Memorandum Only) |
| \$0 | \$2,078,592 | \$7,361,158 |
| 0 | 69,568 | 971,912 |
| 0 | 133,411 | 374,443 |
| 0 | 87,365 | 177,830 |
| 0 | 0 | 310,691 |
| 0 | 723,443 | 5,149,334 |
| 319,198 | 134,395 | 453,593 |
| 0 | 0 | 777,093 |
| 0 | 0 | 15,524 |
| 0 | 0 | 13,345 |
| 0 | 0 | 75,184 |
| <u>319,198</u> | <u>3,226,774</u> | <u>15,680,107</u> |
| 12,005 | 0 | 1,884,890 |
| 0 | 0 | 4,170,358 |
| 0 | 0 | 100,783 |
| 0 | 0 | 1,446,042 |
| 0 | 0 | 27,925 |
| 0 | 0 | 247,391 |
| 0 | 0 | 254,618 |
| 0 | 447,904 | 1,099,354 |
| 0 | 3,932,939 | 3,932,939 |
| 135,238 | 365,284 | 510,030 |
| 152,614 | 285,107 | 438,213 |
| <u>299,857</u> | <u>5,031,234</u> | <u>14,112,543</u> |
| <u>19,341</u> | <u>(1,804,460)</u> | <u>1,567,564</u> |
| 0 | 0 | 1,600 |
| 0 | 2,000,000 | 2,180,000 |
| 0 | 0 | (2,180,000) |
| <u>0</u> | <u>2,000,000</u> | <u>1,600</u> |
| 19,341 | 195,540 | 1,569,164 |
| 179,491 | 5,566,071 | 17,710,495 |
| 0 | 0 | 9,413 |
| <u>\$198,832</u> | <u>\$5,761,611</u> | <u>\$19,289,072</u> |

City of Fairlawn, Ohio
 Combined Statement of Revenues, Expenditures and Changes in Fund Balances
 Budget (Non-GAAP) and Actual
 All Governmental Fund Types
 For the Year Ended December 31, 2001

| | General Fund | | Variance Favorable (Unfavorable) |
|--|--------------------|---------------------|--|
| | Revised Budget | Actual | |
| <u>Revenues:</u> | | | |
| Municipal Income Taxes | \$5,133,376 | \$5,267,294 | \$133,918 |
| Property and Other Taxes | 553,618 | 568,045 | 14,427 |
| Charges for Services | 72,963 | 38,188 | (34,775) |
| Licenses, Permits and Fees | 60,912 | 90,465 | 29,553 |
| Fines and Forfeitures | 95,373 | 118,420 | 23,047 |
| Intergovernmental | 3,523,118 | 4,543,655 | 1,020,537 |
| Special Assessments | 0 | 0 | 0 |
| Interest | 519,008 | 809,685 | 290,677 |
| Rentals | 0 | 0 | 0 |
| Contributions/Donations | 0 | 0 | 0 |
| Other | 384,189 | 74,181 | (310,008) |
| Total Revenues | <u>10,342,557</u> | <u>11,509,933</u> | <u>1,167,376</u> |
| <u>Expenditures:</u> | | | |
| Current: | | | |
| General Government | 2,501,463 | 2,149,101 | 352,362 |
| Security of Persons and Property | 3,949,399 | 3,653,645 | 295,754 |
| Public Health Services | 101,072 | 100,783 | 289 |
| Transportation | 1,450,841 | 1,403,435 | 47,406 |
| Community Environment | 28,207 | 27,949 | 258 |
| Basic Utility Services | 158,852 | 150,813 | 8,039 |
| Leisure Time Activities | 39,428 | 34,567 | 4,861 |
| Intergovernmental | 423,359 | 651,450 | (228,091) |
| Capital Outlay | 65,000 | 0 | 65,000 |
| Debt Service: | | | |
| Principal Retirement | 0 | 0 | 0 |
| Interest and Fiscal Charges | 0 | 0 | 0 |
| Total Expenditures | <u>8,717,621</u> | <u>8,171,743</u> | <u>545,878</u> |
| Excess of Revenues Over/(Under) Expenditures | <u>1,624,936</u> | <u>3,338,190</u> | <u>1,713,254</u> |
| <u>Other Financing Sources/(Uses):</u> | | | |
| Sale of Fixed Assets | 0 | 1,600 | 1,600 |
| Operating Transfers In | 0 | 0 | 0 |
| Operating Transfers Out | (2,180,500) | (2,180,000) | 500 |
| Total Other Financing Sources/(Uses) | <u>(2,180,500)</u> | <u>(2,178,400)</u> | <u>2,100</u> |
| Excess of Revenues and Other Financing Sources Over (Under)/Expenditures and Other Financing Uses | (555,564) | 1,159,790 | 1,715,354 |
| Fund Balances Beginning of Year | 8,894,118 | 8,894,118 | 0 |
| Unexpended Prior Year Encumbrances | 190,955 | 190,955 | 0 |
| Fund Balances End of Year | <u>\$8,529,509</u> | <u>\$10,244,863</u> | <u>\$1,715,354</u> |

See Accompanying Notes to the General Purpose Financial Statements

| Special Revenue Funds | | | Debt Service Fund | | |
|-----------------------|--------------------|----------------------------------|-------------------|------------------|----------------------------------|
| Revised Budget | Actual | Variance Favorable (Unfavorable) | Revised Budget | Actual | Variance Favorable (Unfavorable) |
| \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| 255,079 | 264,445 | 9,366 | 0 | 0 | 0 |
| 186,751 | 202,773 | 16,022 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 |
| 45,450 | 60,981 | 15,531 | 0 | 0 | 0 |
| 278,282 | 420,318 | 142,036 | 0 | 0 | 0 |
| 0 | 0 | 0 | 319,128 | 319,198 | 70 |
| 18,576 | 19,314 | 738 | 0 | 0 | 0 |
| 15,135 | 15,524 | 389 | 0 | 0 | 0 |
| 18,000 | 13,345 | (4,655) | 0 | 0 | 0 |
| 800 | 688 | (112) | 0 | 0 | 0 |
| <u>818,073</u> | <u>997,388</u> | <u>179,315</u> | <u>319,128</u> | <u>319,198</u> | <u>70</u> |
| 8,500 | 5,779 | 2,721 | 15,500 | 12,005 | 3,495 |
| 686,063 | 607,015 | 79,048 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 |
| 236,165 | 199,653 | 36,512 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 |
| 188,002 | 138,977 | 49,025 | 0 | 0 | 0 |
| 282,148 | 225,483 | 56,665 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 |
| 9,508 | 9,508 | 0 | 135,238 | 135,238 | 0 |
| 492 | 492 | 0 | 152,614 | 152,614 | 0 |
| <u>1,410,878</u> | <u>1,186,907</u> | <u>223,971</u> | <u>303,352</u> | <u>299,857</u> | <u>3,495</u> |
| <u>(592,805)</u> | <u>(189,519)</u> | <u>403,286</u> | <u>15,776</u> | <u>19,341</u> | <u>3,565</u> |
| 0 | 0 | 0 | 0 | 0 | 0 |
| 170,587 | 180,000 | 9,413 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 |
| <u>170,587</u> | <u>180,000</u> | <u>9,413</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| (422,218) | (9,519) | 412,699 | 15,776 | 19,341 | 3,565 |
| 1,292,530 | 1,292,530 | 0 | 179,491 | 179,491 | 0 |
| 188,298 | 188,298 | 0 | 0 | 0 | 0 |
| <u>\$1,058,610</u> | <u>\$1,471,309</u> | <u>\$412,699</u> | <u>\$195,267</u> | <u>\$198,832</u> | <u>\$3,565</u> |

(Continued)

City of Fairlawn, Ohio
 Combined Statement of Revenues, Expenditures and Changes in Fund Balances
 Budget (Non-GAAP) and Actual (Continued)
 All Governmental Fund Types
 For the Year Ended December 31, 2001

| | <u>Capital Projects Funds</u> | | |
|--|-------------------------------|--------------------|---|
| | <u>Revised Budget</u> | <u>Actual</u> | <u>Variance Favorable (Unfavorable)</u> |
| <u>Revenues:</u> | | | |
| Municipal Income Taxes | \$2,071,239 | \$2,071,239 | \$0 |
| Property and Other Taxes | 76,385 | 69,557 | (6,828) |
| Charges for Services | 19,030 | 133,411 | 114,381 |
| Licenses, Permits and Fees | 0 | 85,304 | 85,304 |
| Fines and Forfeitures | 0 | 0 | 0 |
| Intergovernmental | 500,000 | 723,443 | 223,443 |
| Special Assessments | 0 | 134,395 | 134,395 |
| Interest | 0 | 0 | 0 |
| Rentals | 0 | 0 | 0 |
| Contributions/Donations | 0 | 0 | 0 |
| Other | 500,000 | 0 | (500,000) |
| Total Revenues | <u>3,166,654</u> | <u>3,217,349</u> | <u>50,695</u> |
| <u>Expenditures:</u> | | | |
| <u>Current:</u> | | | |
| General Government | 0 | 0 | 0 |
| Security of Persons and Property | 0 | 0 | 0 |
| Public Health Services | 0 | 0 | 0 |
| Transportation | 0 | 0 | 0 |
| Community Environment | 0 | 0 | 0 |
| Basic Utility Services | 0 | 0 | 0 |
| Leisure Time Activities | 0 | 0 | 0 |
| Intergovernmental | 0 | 447,904 | (447,904) |
| Capital Outlay | 5,047,416 | 4,654,048 | 393,368 |
| <u>Debt Service:</u> | | | |
| Principal Retirement | 365,284 | 365,284 | 0 |
| Interest and Fiscal Charges | 285,107 | 285,107 | 0 |
| Total Expenditures | <u>5,697,807</u> | <u>5,752,343</u> | <u>(54,536)</u> |
| Excess of Revenues Over/(Under) Expenditures | <u>(2,531,153)</u> | <u>(2,534,994)</u> | <u>(3,841)</u> |
| <u>Other Financing Sources/(Uses):</u> | | | |
| Sale of Fixed Assets | 0 | 0 | 0 |
| Operating Transfers In | 350,408 | 2,000,000 | 1,649,592 |
| Operating Transfers Out | 0 | 0 | 0 |
| Total Other Financing Sources/(Uses) | <u>350,408</u> | <u>2,000,000</u> | <u>1,649,592</u> |
| Excess of Revenues and Other Financing Sources Over (Under)/Expenditures and Other Financing Uses | <u>(2,180,745)</u> | <u>(534,994)</u> | <u>1,645,751</u> |
| Fund Balances Beginning of Year | 4,742,290 | 4,742,290 | 0 |
| Unexpended Prior Year Encumbrances | 692,117 | 692,117 | 0 |
| Fund Balances End of Year | <u>\$3,253,662</u> | <u>\$4,899,413</u> | <u>\$1,645,751</u> |

See Accompanying Notes to the General Purpose Financial Statements

| Totals (Memorandum Only) | | |
|--------------------------|---------------------|--|
| Revised Budget | Actual | Variance Favorable (Unfavorable) |
| \$7,204,615 | \$7,338,533 | \$133,918 |
| 885,082 | 902,047 | 16,965 |
| 278,744 | 374,372 | 95,628 |
| 60,912 | 175,769 | 114,857 |
| 140,823 | 179,401 | 38,578 |
| 4,301,400 | 5,687,416 | 1,386,016 |
| 319,128 | 453,593 | 134,465 |
| 537,584 | 828,999 | 291,415 |
| 15,135 | 15,524 | 389 |
| 18,000 | 13,345 | (4,655) |
| 884,989 | 74,869 | (810,120) |
| <u>14,646,412</u> | <u>16,043,868</u> | <u>1,397,456</u> |
| 2,525,463 | 2,166,885 | 358,578 |
| 4,635,462 | 4,260,660 | 374,802 |
| 101,072 | 100,783 | 289 |
| 1,687,006 | 1,603,088 | 83,918 |
| 28,207 | 27,949 | 258 |
| 346,854 | 289,790 | 57,064 |
| 321,576 | 260,050 | 61,526 |
| 423,359 | 1,099,354 | (675,995) |
| 5,112,416 | 4,654,048 | 458,368 |
| 510,030 | 510,030 | 0 |
| 438,213 | 438,213 | 0 |
| <u>16,129,658</u> | <u>15,410,850</u> | <u>718,808</u> |
| <u>(1,483,246)</u> | <u>633,018</u> | <u>2,116,264</u> |
| 0 | 1,600 | 1,600 |
| 520,995 | 2,180,000 | 1,659,005 |
| <u>(2,180,500)</u> | <u>(2,180,000)</u> | <u>500</u> |
| <u>(1,659,505)</u> | <u>1,600</u> | <u>1,661,105</u> |
| (3,142,751) | 634,618 | 3,777,369 |
| 15,108,429 | 15,108,429 | 0 |
| 1,071,370 | 1,071,370 | 0 |
| <u>\$13,037,048</u> | <u>\$16,814,417</u> | <u>\$3,777,369</u> |

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City of Fairlawn
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2001

NOTE 1 - REPORTING ENTITY AND BASIS OF PRESENTATION

The City of Fairlawn (the “City”) is a charter municipal corporation established and operated under the laws of the State of Ohio. The City is organized as a Mayor/Council form of government. The Mayor, Council and Finance Director are elected.

A. Reporting Entity

In evaluating how to define the City for financial reporting purposes, management has considered all agencies, departments, and organizations making up the City (the primary government) and its potential component units consistent with Governmental Accounting Standards Board (GASB) Statement No. 14 “The Financial Reporting Entity.”

The City provides various services including police and fire protection, emergency medical, recreation (including parks), planning, zoning, street maintenance and repair, and general administrative services. The operation of each of these activities is directly controlled by the Council through the budgetary process. None of these services are provided by a legally separate organization; therefore, these operations are included in the primary government.

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 of services performed or provided by the organization or (2) the City is legally entitled to or can otherwise access the organization’s resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to the organization; or the City is obligated for the debt of the organization. Component units may also include organizations for which the City issues debt, levies taxes or determines the budget. Based on this criteria, the City has no component units.

The Copley/Fairlawn City School District and the Summit County Public Library have been excluded from the City’s financial statements. Both are legally separate from the City. Neither impose a financial burden nor provide a financial benefit to the City. The City cannot significantly influence the operations of these entities.

The City participates in the Bath-Akron-Fairlawn Joint Economic Development District (JEDD), which is a jointly governed organization. The JEDD was created to assure the continued economic viability of Bath Township. A nine-member board of directors, three appointed from Bath Township, Akron, and Fairlawn, respectively, controls the operation of the JEDD. The board exercises total control over the operation of the JEDD including budgeting, appropriating, contracting and designating management. Each participant’s

City of Fairlawn
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2001

degree of control is limited to its representation on the board. All 2001 JEDD revenues were the result of the income tax levied by the JEDD effective January 1, 1999.

B. Basis of Presentation - Fund Accounting

The City uses funds and account groups to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain City functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect the net expendable available financial resources.

Governmental Fund Types

Governmental funds are those through which most governmental functions of the City are financed. The acquisition, use and balances of the City's expendable financial resources and the related current liabilities are accounted for through governmental funds. The following are the City's governmental fund types:

- *General Fund* - this fund is the operating fund of the City and is used to account 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.
- *Special Revenue Funds* - these funds are established to account for the proceeds of specific revenue sources (other than amounts relating to major capital projects) that are legally restricted to expenditure for specified purposes.
- *Debt Service Fund* - this fund is used to account for the accumulation of resources for, and the payment of, general and special assessment long-term debt principal, interest, and related costs.
- *Capital Projects Funds* - these funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

City of Fairlawn
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2001

Fiduciary Fund Types

Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. There are two types of fiduciary funds, trust and agency. The City has no trust funds. The City's agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations.

Account Groups

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

- *General Fixed Asset Account Group* - this account group accounts for all general fixed assets of the City.
- *General Long-Term Obligations Account Group* - this account group accounts for all unmatured long-term indebtedness of the City, including special assessment debt for which the City is obligated in some manner.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed in the preparation of these financial statements are summarized below. These policies conform to generally accepted accounting principles (GAAP) for local governmental units as prescribed in the statements issued by the GASB and other recognized authoritative sources.

A. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the combined balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made.

The modified accrual basis of accounting is followed for the governmental and agency funds.

City of Fairlawn
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2001

On a modified accrual basis, revenue resulting from exchange transactions in which each party gives and receives essentially equal value 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 thirty-one days of year-end.

Non-exchange transactions in which the City receives value without directly giving equal value in return, include income tax, property taxes, grants, entitlements and donations. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 6) Revenue from grants, entitlements and donations is recognized in the fiscal 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 fiscal 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 fiscal year-end: interest, state-levied locally shared taxes (including gasoline tax), grants, fines and forfeitures and income tax.

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of December 31, 2001, but which were levied to finance 2002 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On the modified accrual basis, receivables that will not be collected within the available period have also been reported as deferred revenue.

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 the governmental funds.

B. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation ordinance, all of which are prepared on the budgetary basis of accounting.

City of Fairlawn
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2001

The certificate of estimated resources and the appropriation ordinance are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control has been established by City Council at the object level within each department. Any budgetary modifications at this level may only be made by resolution of the City Council.

Tax Budget

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

Estimated Resources

The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by September 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 appropriation ordinance. On or about January 1, the certificate of estimated resources is amended to include unencumbered fund 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 statements reflect the amounts in the final amended official certificate of estimated resources issued during 2001.

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 fund, department, and object level. The appropriation ordinance may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. The allocation of appropriations among the departments and objects within a fund may be modified during the year by an ordinance of Council. During the year, several supplemental appropriation measures were passed.

City of Fairlawn
Notes to the General Purpose Financial Statements
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None of these supplemental appropriations had any significant affect on the original appropriations. The budget figures that appear in the statement of budgetary comparisons represent the final appropriation amounts, including all amendments and modifications.

Encumbrances

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of moneys are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. The Ohio Revised Code prohibits expenditures plus encumbrances from exceeding appropriations at the fund, department and object level. On the GAAP basis, encumbrances outstanding at year-end are reported as reservations of fund balances for subsequent year expenditures.

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 year and is not re-appropriated.

C. Cash and Cash Equivalents

To improve cash management, cash received by the City is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the City's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the combined balance sheet.

During 2001, investments were limited to overnight repurchase agreements, certificates of deposit and interest in STAR Ohio, the State Treasurer's Investment Pool.

Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

The City had invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during 2001. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investments could be sold for on December 31, 2001.

City of Fairlawn
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2001

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2001 amounted to \$758,371, which includes \$335,353 assigned from other City funds.

The City has segregated bank accounts for monies held separate from the City's central bank account. These interest bearing depository accounts are presented in the combined balance sheet as "cash and cash equivalents in segregated accounts" since they are not required to be deposited into the City treasury.

For presentation on the combined balance sheet, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the City are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

The City has monies on deposit with Ohio Department of Transportation (ODOT) to be used for road improvement projects. This amount is presented as "cash and cash equivalents with fiscal agent" on the combined balance sheet.

D. Inventory

Inventories of governmental funds are stated at cost. For all funds, cost is determined on a first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental fund types when purchased. Reported materials and supplies inventory is equally offset by a fund balance reserve in the governmental fund which indicates that it does not constitute available expendable resources even though it is a component of net current assets.

E. Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed asset account group.

All purchased fixed assets are valued at cost when historical records are available and at an estimated historical cost when no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized.

Public domain (infrastructure) general fixed assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems are not capitalized,

City of Fairlawn
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2001

as these assets are immovable and of value only to the City. Assets in the general fixed assets account group are not depreciated.

F. *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 City will compensate the employees for the benefits through paid time off or some other means. The City records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes employees currently eligible to receive termination benefits and those the City has identified as probable of receiving benefits in the future. The amount is based on accumulated sick leave and the employees' wage rates at fiscal year end, taking into consideration any limits specified in the City's termination policy. The City records a liability for accumulated unused sick leave for all employees hired before December 31, 1991.

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group.

G. *Interfund Assets/Liabilities*

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds."

H. *Fund Balances*

Reservations of fund balance are established to identify the existence of assets that, because of their non-monetary nature or lack of liquidity, represent financial resources not available for current appropriation or expenditure including amounts that are legally segregated for a specific future use. Fund balances are reserved for encumbrances and inventories of supplies and materials. A designated fund balance has been established for sewer line repairs.

City of Fairlawn
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2001

I. Interfund Transactions

Quasi-external transactions are accounted for as revenue and expenditures. Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed.

Nonrecurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other inter-fund transfers are reported as operating transfers.

J. Accrued and Long-Term Liabilities

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, claims and judgments, compensated absences and contractually required pension contributions are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current expendable available financial resources. Payments made more than thirty-one days after year-end are generally considered not to have been paid with current available financial resources. Bonds and long-term loans are recognized as a liability of the general long-term obligations account group until due.

K. Estimates

The preparation of 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.

L. Total Columns on General Purpose Financial Statements

Total columns on General Purpose Financial Statements are captioned Memorandum Only to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations, in conformity with GAAP. Neither is such data comparable to a consolidation. Inter-fund eliminations have not been made in the aggregation of this data.

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLES

For 2001, the City has implemented GASB Statement No. 33, “Accounting and Financial Reporting for Nonexchange Transactions” and GASB Statement No. 36, “Recipient Reporting for Certain Shared Nonexchange Revenues.” The implementation of these statements did not result in any change in fund balance from the prior year.

City of Fairlawn
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2001

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the GAAP basis, the budgetary basis as provided by law is based upon accounting for transactions on a basis of cash receipts, disbursements, and encumbrances.

The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP) and Actual - All Governmental Fund Types is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget and to demonstrate compliance with state statute. The major difference between the budget basis and the GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Outstanding year-end encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance for governmental fund types (GAAP).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements on a fund type basis:

| | Excess of Revenues and Other Financing Sources Over/(Under) Expenditures and Other Financing Uses | | | |
|----------------------|--|--------------------|--------------|---------------------|
| | General | Special Revenue | Debt Service | Capital Projects |
| GAAP Basis | \$1,226,279 | \$128,004 | \$19,341 | \$195,540 |
| Revenue Accruals | 327,904 | (7,245) | 0 | (9,425) |
| Unreported Cash | 51,314 | 1,213 | 0 | 0 |
| Expenditure Accruals | (87,934) | (68,876) | 0 | 29,958 |
| Encumbrances | (357,773) | (62,615) | 0 | (751,067) |
| Budget Basis | \$1,159,790 | \$(9,519) | \$19,341 | \$(534,994) |

NOTE 5 - 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.

City of Fairlawn
Notes to the General Purpose Financial Statements
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Inactive deposits are public deposits that Council has identified as not required for use within the current 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 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 pass book accounts.

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

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 division (1) or (2) of this section and repurchase agreements

City of Fairlawn
Notes to the General Purpose Financial Statements
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secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and

6. The State Treasurer's investment pool (STAR Ohio).

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 treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements."

Cash on Hand

At year end, the City had \$1,400 in un-deposited cash on hand which is included on the balance sheet as part of "equity in pooled cash and cash equivalents."

Cash with Fiscal Agents

The City has \$124,773 on deposit with the Ohio Department of Transportation (ODOT). Information regarding the classification of ODOT's deposits and investments per GASB Statement No. 3 may be found in the State's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2001.

City Deposits

At year-end, the carrying amount of the City's deposits was \$495,404 and the bank balance was \$327,693. Of the bank balance, \$144,323 was covered by federal depository insurance and \$183,370 was uninsured and un-collateralized.

City Investments

The City's investments are required to be categorized to give an indication of the level of risk assumed by the City at year-end. Category 1 includes investments that are insured or registered or are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust deposit

City of Fairlawn
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2001

or agent in the City's name. Category 3 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent but not in the City's name. STAR Ohio is an unclassified investment since it is not evidenced by securities that exist in physical or book form.

| | 3 | Carrying Value | Fair Value |
|-----------------------|-------------|----------------|--------------|
| Repurchase Agreements | \$2,722,517 | \$2,722,517 | \$2,722,517 |
| STAR Ohio | | 14,771,007 | 14,771,007 |
| Total Investments | \$2,722,517 | \$17,493,524 | \$17,493,524 |

The classification of cash and cash equivalents, and investments on the combined financial statements are based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Government Entities That Use Proprietary Fund Accounting".

A reconciliation between the classifications of cash and cash equivalents and investments on the combined financial statements and the classification per GASB Statement No. 3 is as follows:

| | Cash and Cash Equivalents/Deposits | Investments |
|--|---------------------------------------|--------------|
| GASB Statement No. 9 | \$18,115,101 | \$0 |
| Investments which are part of the cash management pool: | | |
| Repurchase Agreement | (2,722,517) | 2,722,517 |
| STAR Ohio | (14,771,007) | 14,771,007 |
| ODOT | (124,773) | 0 |
| GASB Statement No. 3 | \$496,804 | \$17,493,524 |

NOTE 6 – RECEIVABLES

Receivables at December 31, 2001 consist primarily of taxes, intergovernmental receivables, special assessments and accrued interest on investments. All receivables are considered fully collectible.

A. Property Taxes

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2001 for real and public utility property taxes represents collections of 2000 taxes. Property tax payments received during 2001 for tangible personal property (other than public utility property) are for 2001 taxes.

City of Fairlawn
Notes to the General Purpose Financial Statements
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2001 real property taxes are levied after October 1, 2001, on the assessed value as of January 1, 2001, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2001 real property taxes are collected in and intended to finance 2002.

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. 2001 public utility property taxes became a lien December 31, 2000, are levied after October 1, 2001, and are collected in 2002 with real property taxes.

2001 tangible personal property taxes are levied after October 1, 2000, on the value as of December 31, 2000. Collections are made in 2001. Tangible personal property assessments are 25 percent of true value.

The full tax rate for all City operations for the year ended December 31, 2001 was \$2.70 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2001 property tax receipts were based are as follows:

| | <u>Assessed Value</u> |
|-------------------------|-----------------------------|
| Real Estate | \$268,976,820 |
| Public Utility Property | 4,258,140 |
| Tangible Personal | <u>28,351,317</u> |
| Total | <u><u>\$301,586,277</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.

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

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City of Fairlawn. The County Auditor periodically remits to the City its portion of taxes. Property taxes receivable represent real and tangible personal property taxes and outstanding delinquencies which are measurable as of December 31, 2001, and for which there is an enforceable legal claim. Although total property tax collections for the next year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31, nor were they levied to finance 2001 operations. The receivable is offset by deferred revenue.

City of Fairlawn
Notes to the General Purpose Financial Statements
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B. Income Taxes

The City levies a municipal income tax of 2 percent on gross salaries, wages and other personal service compensation earned by residents of the City and on the earnings of nonresidents working within the City. This tax also applies to the net income of business operations within the City. Residents of the City are granted a credit of up to 2 percent for taxes paid to other municipalities.

Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly, as required. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. By City ordinance, income tax proceeds are credited as follows: the general fund receives 90 percent and the capital improvement fund receives 10 percent of the first 1.5 percent of the 2 percent income tax. The capital improvement fund receives the remaining .5 percent of the income tax.

C. Intergovernmental Receivables

A summary of intergovernmental receivables follows:

City of Fairlawn
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2001

| Intergovernmental Receivable | Amount |
|------------------------------------|---------------------------|
| General Fund: | |
| Local Government Tax | \$281,432 |
| Tangible Exempt | 4,379 |
| Liquor Permits | 4,106 |
| Building Permits | 6,457 |
| Estate Tax | 189,557 |
| Akron Court Fines | 1,664 |
| JEDD Disbursements | 285,437 |
| Reimbursements for Shared Projects | 228,091 |
| Homestead & Rollback | 30,779 |
| Total General Fund | <u>1,031,902</u> |
| Special Revenue Funds: | |
| Gasoline Tax | 105,209 |
| Motor Vehicle | 32,152 |
| Motor Vehicle Permissive | 12,124 |
| Police DARE Grant | 9,000 |
| Fire Equipment Grants | 141,272 |
| Court Fines | 110 |
| Tangible Exempt | 1,264 |
| Homestead & Rollback | 8,826 |
| Total Special Revenue Funds | <u>309,957</u> |
| Total | <u><u>\$1,341,859</u></u> |

NOTE 7 - FIXED ASSETS

Changes in general fixed assets during 2001 were as follows:

| | Balance | | | Balance |
|----------------------------|---------------------|--------------------|-----------------|---------------------|
| | January 1, 2001 | Additions | Deletions | December 31, 2001 |
| Land | \$1,073,002 | \$1,070,000 | \$0 | \$2,143,002 |
| Land Improvements | 1,193,738 | 35,295 | 0 | 1,229,033 |
| Buildings | 6,554,698 | 0 | 0 | 6,554,698 |
| Machinery and Equipment | 2,866,404 | 443,902 | 40,942 | 3,269,364 |
| Vehicles | 2,013,619 | 335,297 | 0 | 2,348,916 |
| Total | <u>\$13,701,461</u> | <u>\$1,884,494</u> | <u>\$40,942</u> | <u>\$15,545,013</u> |

NOTE 8 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

City of Fairlawn
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2001

During 2001, the City contracted with Wichert Insurance Service, Inc. for property and general liability insurance, including boiler and machinery. Police and professional liability policies are provided by CNA Insurance Companies with a \$1,000,000 limit and a \$10,000 deductible. A commercial umbrella policy through RLI Insurance Company provides additional general liability and auto liability insurance up to an \$11,000,000 limit.

Vehicles are covered by Westfield Insurance Company and hold a \$500 deductible for collision. Automobile liability coverage has no limit for collision, a \$500,000 limit for uninsured/underinsured motorist and a \$1,000,000 limit for bodily injury. Settled claims have not exceeded this commercial coverage in any of the past three years.

There has not been a significant reduction in coverage from the prior year.

Volunteer Fireman's Insurance Services covers Firemen and EMT professional liability with a limit of \$1,000,000 and no deductible.

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

NOTE 9 - DEFINED BENEFIT PENSION PLANS

A. Public Employees Retirement System (PERS)

All City full-time employees, other than non-administrative full-time police officers and firefighters, participate in the Public Employees Retirement System of Ohio (PERS), a cost-sharing multiple-employer public employee retirement system administered by the Public Employees Retirement Board. PERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. PERS issues a stand-alone financial report which may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. The 2001 employer contribution rate for the City was 9.25 percent of covered payroll, increased from 6.54 percent in 2000. Contributions are authorized by State statute. The contribution rates are determined actuarially. The City's required contributions to PERS for the years ended December 31, 2001, 2000, and 1999 were \$187,231, \$115,321 and \$155,881, respectively. The full amount has been contributed for 2000 and 1999. 74 percent has been contributed for 2001 with the remainder being reported as a liability within the general long-term obligations account group.

City of Fairlawn
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2001

B. Ohio Police and Fire Pension Fund

The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple employer public employee retirement system administered by the OP&F's Board of Trustees. OP&F provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and by Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Police and firefighters are required to contribute 10 percent of their annual covered salary to fund pension obligations and the City is required to contribute 12.00 percent for police and 16.50 percent for firefighters. For 2000, the City contributions were 12.25 percent for police and 16.75 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the OP&F for police and firefighters were \$135,718 and \$96,404 for the year ended December 31, 2001, \$123,958 and \$77,119 for the year ended December 31, 2000 and \$126,806 and \$84,204 for the year ended December 31, 1999. The full amount has been contributed for 2000 and 1999. 73.4 percent and 72.9 percent, respectively, have been contributed for 2001 with the remainder being reported as a liability in the general long-term obligations account group.

C. Social Security System

Effective August 3, 1992, all volunteer firefighters, not otherwise covered by another retirement system, are covered by social security. The City's liability is 6.20 percent of wages paid.

NOTE 10 - POST EMPLOYMENT BENEFITS

A. Public Employees Retirement System

The Public Employees Retirement System of Ohio (PERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to the PERS is set aside for the funding of postretirement health care based on authority granted by State statute. The 2001 employer contribution rate was 13.55 percent of covered payroll; 4.30 percent was the portion that was used to fund health care for 2001. For 2000, the contribution rate was 10.84 percent of covered payroll; 4.30 percent was the portion that was used to fund health care.

City of Fairlawn
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2001

Benefits are advance-funded using the entry age normal cost method. Significant actuarial assumptions, based on PERS's latest actuarial review performed as of December 31, 2000, include a rate of return on investments of 7.75 percent, an annual increase in active employee total payroll of 4.75 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .54 percent and 5.1 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.75 percent annually.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets.

The number of active contributing participants was 411,076. The City's actual contributions for 2001 which were used to fund postemployment benefits were \$87,037. The actual contribution and the actuarially required contributions are the same. PERS's net assets available for payment of benefits at December 31, 2000, (the latest information available) were \$11,735.9 million. The actuarially accrued liability and the unfunded actuarial accrued liability were \$14,364.6 million and \$2,628.7 million, respectively.

B. Ohio Police and Fire Pension Fund

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

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's Board of Trustees to provide health care coverage and states that health care costs paid from the Ohio Police and Fire Pension Fund shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.5 percent of covered payroll was applied to the postemployment health care program during 2001. For 2000, the percent used to fund healthcare was 7.25 percent. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment.

The City's actual contributions for 2001 that were used to fund postemployment benefits were \$84,824 for police and \$73,820 for fire. The OP&F's total health care expenses for the year ended December 31, 2000, (the latest information available) were \$106,160,054,

City of Fairlawn
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2001

which was net of member contributions of \$5,657,431. The number of OP&F participants eligible to receive health care benefits as of December 31, 2000, was 12,853 for police and 10,037 for firefighters.

NOTE 11 - OTHER EMPLOYEE BENEFITS

A. *Compensated Absences*

The criteria for determining vested vacation and sick leave components are derived from negotiated agreements and state laws. Employees earn ten to thirty days of vacation per year, depending upon length of service. Vacation accumulation is typically limited to one year. Employees may carry over vacation earned for three years prior to the employee's retirement date. All accumulated unused vacation time is paid upon termination of employment.

Employees earn sick leave at the rate of 1.25 days per month of service. Sick leave accumulation is limited to 220 days. Upon retirement, employees hired before 1991 are eligible to receive payment for accumulated unused sick days. The exact terms vary in accordance with the negotiated collective bargaining agreement in effect. In most cases, the sick leave termination payment is limited to 90 days. Employees with a hire date subsequent to 1991 are generally not eligible to receive termination payments for sick leave. As of December 31, 2001, the total liability for unpaid compensated absences was \$873,711.

B. *Health Care Benefits*

The City provides life insurance and accidental death and dismemberment insurance to most employees. The City has elected to provide employees medical/surgical benefits through Medical Mutual of Northern Ohio. The employees share the cost of the monthly premium. Dental insurance is provided by the City through Delta Dental.

NOTE 12 - LONG-TERM OBLIGATIONS

Long-term obligations of the City as of December 31, 2001, were as follows:

City of Fairlawn
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2001

| | Balance | | | Balance |
|---------------------------------------|--------------------|------------------|------------------|--------------------|
| | December 31, 2000 | Additions | Deletions | December 31, 2001 |
| General Obligation Bonds (2.80-5.75%) | \$5,955,000 | \$0 | \$270,000 | \$5,685,000 |
| Special Assessment | | | | |
| Various Purpose Bond (4.80-7.00%) | 1,490,000 | 0 | 95,000 | 1,395,000 |
| OPWC Loans (6.00%) | 850,969 | 0 | 40,238 | 810,731 |
| Capital Loan (5.18%) | 104,792 | 0 | 104,792 | 0 |
| Intergovernmental Payable | 132,674 | 185,976 | 132,674 | 185,976 |
| Compensated Absences | 761,189 | 112,528 | 29,358 | 844,359 |
| Total General Long-Term Debt | \$9,294,624 | \$298,504 | \$672,062 | \$8,921,066 |

The general obligation bonds will be paid from income taxes receipted into the capital improvement fund. The special assessment bond and OPWC loans will be paid from the proceeds of special assessments levied against the benefited property owners. In the event that a property owner fails to pay the assessment, payment will be made by the City. Compensated absences reported in the "compensated absences payable" account will be paid from the fund from which the employees' salaries are paid. Intergovernmental payable represents unfunded pension contribution not paid with current available financial resources and will be paid from the general fund and special revenue funds.

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2001 are as follows:

| Year Ending | Special Assessment Bond | General Obligation Bonds | OPWC Loans | Total |
|------------------------------|-------------------------------|--------------------------------|------------------|--------------------|
| 2002 | \$201,117 | \$549,255 | \$90,702 | \$841,074 |
| 2003 | 199,345 | 547,583 | 90,702 | 837,630 |
| 2004 | 197,140 | 550,212 | 90,702 | 838,054 |
| 2005 | 199,550 | 546,790 | 90,702 | 837,042 |
| 2006 | 195,800 | 552,692 | 90,702 | 839,194 |
| 2007 - 2011 | 988,150 | 2,736,940 | 453,509 | 4,178,599 |
| 2012 - 2016 | 0 | 2,022,135 | 272,106 | 2,294,241 |
| 2017+ | 0 | 620,983 | 0 | 620,983 |
| Total principal and interest | 1,981,102 | 8,126,590 | 1,179,125 | 11,286,817 |
| Less interest | 586,102 | 2,441,590 | 368,394 | 3,396,086 |
| Total principal | \$1,395,000 | \$5,685,000 | \$810,731 | \$7,890,731 |

NOTE 13 - CONTRACTUAL COMMITMENTS

As of December 31, 2001, the City had various contractual commitments; for road maintenance and improvements of \$305,994, sewer cleaning and improvements of \$36,960, building improvements of \$219,442, purchases of various capital equipment of \$256,958 and park equipment and improvement of \$66,281.

City of Fairlawn
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2001

NOTE 14 - CONTINGENCIES

A. Grants

The City received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on the overall financial position of the City as of December 31, 2001.

B. Litigation

The City 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, if any, on the financial condition of the City.

NOTE 15 - INTERFUND TRANSACTIONS

Interfund balances at December 31, 2001, consist of the following:

| | Due From | Due To |
|-----------------------------|----------|----------|
| General Fund | \$12,834 | \$0 |
| Special Revenue Funds: | | |
| Children Adolescent SAEF - | 5,133 | 0 |
| Enforcement & Education | 93 | 0 |
| Total Special Revenue Funds | 5,226 | 0 |
| Mayor's Court - Agency Fund | 0 | 18,060 |
| Total | \$18,060 | \$18,060 |



**STATE OF OHIO
OFFICE OF THE AUDITOR**

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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON
INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

City of Fairlawn
Summit County
3487 South Smith Road
Fairlawn, Ohio 44333

To the Members of City Council:

We have audited the general purpose financial statements of the City of Fairlawn, Summit County, (the City) as of and for the year ended December 31, 2001 and have issued our report thereon dated August 1, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

However, we noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated August 1, 2002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the City in a separate letter dated August 1, 2002.

City of Fairlawn
Summit County
Report of Independent Accountants on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

This report is intended for the information and use of management and City Council, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a cursive "Petro".

Jim Petro
Auditor of State

August 1, 2002



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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CITY OF FAIRLAWN

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 12, 2002**