



**Auditor of State
Betty Montgomery**

**CITY OF FAIRLAWN
SUMMIT COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets.....	15
Statement of Activities.....	16
Fund Financial Statements:	
Balance Sheet	
Governmental Funds	17
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	18
Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds	19
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	20
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) General Fund.....	21
Statement of Fiduciary Net Assets Fiduciary Funds	22
Notes to the Basic Financial Statements	23
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	47

This page intentionally left blank.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

City of Fairlawn
Summit County
3487 South Smith Road
Fairlawn, Ohio 44333-3007

To the Honorable Mayor and Members of City Council:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Fairlawn, Summit County, Ohio (the City), as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Fairlawn, Summit County, Ohio, as of December 31, 2005, and the respective changes in financial position, thereof and the budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, the City was erroneously sent \$1,112,868 of public utility income taxes related to the fiscal years 2002 to 2004. The City has established a payable to repay this and the fund balances of the General and Capital Improvement Funds and net assets of the Governmental Activities have been restated as of December 31, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 9, 2006, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

Betty Montgomery
Auditor of State

August 9, 2006

CITY OF FAIRLAWN, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2005 UNAUDITED

The management's discussion and analysis of the City of Fairlawn's (the "City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2005. 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 2005 are as follows:

- The total net assets of the City increased \$524,141. Net assets of governmental activities increased \$524,141 or 0.70% from 2004, to a total of \$75,035,616 in 2005.
- General revenues accounted for \$13,024,804 of total governmental activities revenue. Program specific revenues accounted for \$1,557,857 or 10.68% of total governmental activities revenue.
- The City had \$14,058,520 in expenses related to governmental activities; \$1,557,857 of these expenses was offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$12,500,663 were offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements, including Joint Economic Development District (JEDD) revenue).
- The City has three major funds, the general fund, bond retirement fund and capital improvement fund. The general fund, the largest major fund, had revenues and other financing sources of \$10,251,115 in 2005. This represents an increase of \$953,413 from 2004 revenues and other financing sources, largely due to increases in municipal income tax receipts and investment income. The expenditures and other financing uses of the general fund, which totaled \$9,391,500 in 2005, decreased \$112,838 from 2004 primarily due to less transfers out to other funds in 2005 as compared to 2004. The net increase in fund balance for the general fund was \$859,615 or 15.18%.
- The bond retirement fund had revenues of \$263,338 in 2005. The expenditures of the bond retirement fund totaled \$302,542 in 2005. The net decrease in fund balance for the bond retirement fund was \$39,204 or 16.39%.
- The capital improvement fund had revenues and other financing sources of \$2,347,457 in 2005. The expenditures of the capital improvement fund totaled \$2,944,273 in 2005. The net decrease in fund balance for the capital improvement fund was \$596,816 or 14.92%. The decrease is attributed to less intergovernmental revenue from joint capital projects in 2005 as compared to 2004.

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 assets 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 FAIRLAWN, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED**

Reporting the City as a Whole

Statement of Net Assets 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 we do financially during 2005?" The statement of net assets and the statement of activities answer this question. These statements include all assets, liabilities, 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 assets and changes in those assets. This change in net assets 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 assets 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 income taxes and intergovernmental revenues including federal and state grants and other shared revenues.

The City's statement of net assets and statement of activities can be found on pages 15-16 of this report.

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 two categories: governmental 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 begins on page 9.

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 FAIRLAWN, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED**

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, bond retirement fund and capital improvement 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 17-21 of this report.

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 statement because the resources of those funds are not available to support the City's own programs. The City's only fiduciary funds are agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations. The basic fiduciary fund financial statement can be found on page 22 of this report.

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 23-45 of this report.

Government-Wide Financial Analysis

The Statement of Net Assets provides the perspective of the City as a whole. The net assets of the governmental activities, as of December 31, 2004, have been restated as described in Note 3 of the Notes to the Basic Financial Statements. The table below provides a summary of the City's net assets for 2005 compared to 2004:

	Net Assets	
	Governmental Activities 2005	Restated Governmental Activities 2004
<u>Assets</u>		
Current and other assets	\$ 20,165,263	\$ 18,569,518
Capital assets	<u>70,456,951</u>	<u>71,129,398</u>
Total assets	<u>90,622,214</u>	<u>89,698,916</u>
<u>Liabilities</u>		
Current and other liabilities	3,905,531	2,870,180
Long-term liabilities	<u>11,681,067</u>	<u>12,317,261</u>
Total liabilities	<u>15,586,598</u>	<u>15,187,441</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	59,943,218	59,824,691
Restricted	8,357,391	9,563,369
Unrestricted	<u>6,735,007</u>	<u>5,123,415</u>
Total net assets	<u>\$ 75,035,616</u>	<u>\$ 74,511,475</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2005,

CITY OF FAIRLAWN, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED

the City's assets exceeded liabilities by \$75,035,616.

Capital assets reported on the government-wide statements represent the largest portion of the City's assets. At year-end, capital assets represented 77.75% of total assets. Capital assets include land, land improvements, buildings, machinery and equipment, licensed vehicles, infrastructure and construction in progress. Capital assets, net of related debt to acquire the assets at December 31, 2005, were \$59,943,218. 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 assets, \$8,357,391, represents resources that are subject to external restriction on how they may be used. In the governmental activities, the remaining balance of unrestricted net assets of \$6,735,007 may be used to meet the government's ongoing obligations to citizens and creditors.

The table below shows the changes in net assets for fiscal years 2005 and 2004.

	Change in Net Assets	
	Governmental Activities <u>2005</u>	Restated Governmental Activities <u>2004</u>
Revenues		
Program revenues:		
Charges for services	\$ 865,168	\$ 1,178,492
Operating grants and contributions	440,341	393,218
Capital grants and contributions	<u>252,348</u>	<u>993,552</u>
Total program revenues	<u>1,557,857</u>	<u>2,565,262</u>
General revenues:		
Property and other taxes	990,128	978,552
Income taxes	8,478,611	6,695,707
Unrestricted grants and entitlements	1,147,523	872,057
JEDD revenue	1,919,336	1,882,346
Investment earnings	426,782	181,159
Miscellaneous	<u>62,424</u>	<u>80,462</u>
Total general revenues	<u>13,024,804</u>	<u>10,690,283</u>
Total revenues	<u><u>14,582,661</u></u>	<u><u>13,255,545</u></u>

CITY OF FAIRLAWN, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED**

Change in Net Assets

	Governmental Activities <u>2005</u>	Restated Governmental Activities <u>2004</u>
Expenses		
General government	\$ 2,500,501	\$ 2,530,351
Security of persons and property	5,843,983	5,488,691
Public health services	111,977	110,953
Transportation	3,575,269	3,722,435
Community environment	73,726	34,761
Basic utility services	1,064,861	918,968
Leisure time activity	364,696	398,118
Interest and fiscal charges	<u>523,507</u>	<u>551,596</u>
Total expenses	<u>14,058,520</u>	<u>13,755,873</u>
Change in net assets	524,141	(500,328)
Net assets at beginning of year (restated)	<u>74,511,475</u>	<u>75,011,803</u>
Net assets at end of year	<u>\$ 75,035,616</u>	<u>\$ 74,511,475</u>

Governmental Activities

Governmental activities net assets increased \$524,141 in 2005. This increase is a result of an increase in estate and income tax revenue, versus amounts reported in the prior year.

Security of persons and property, which primarily supports the operations of the police and fire departments accounted for \$5,843,983 of the total expenses of the City. These expenses were partially funded by \$196,710 in direct charges to users of the services and \$132,464 in operating grant and contributions. Transportation expenses totaled \$3,575,269. Transportation expenses were partially funded by \$3,460 in direct charges to users of the services, and \$307,877 in operating grants and contributions and \$252,348 in capital grants and contributions.

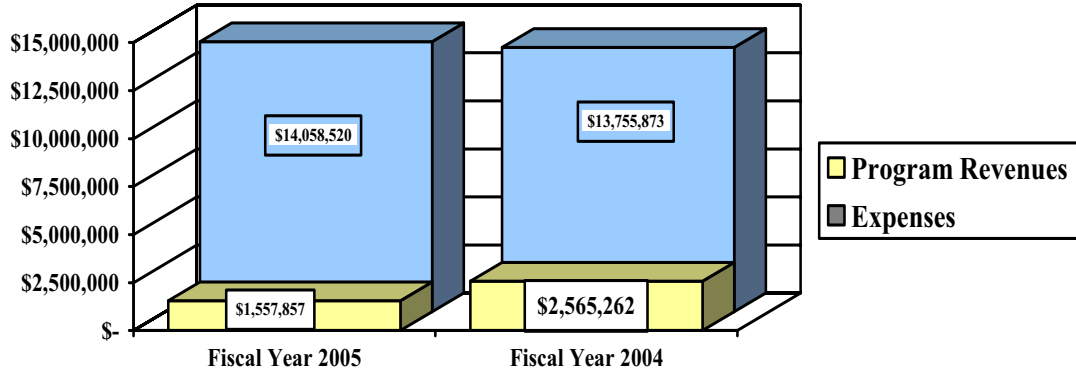
The county, state and federal governments contributed to the City a total of \$440,341 in operating grants and contributions and \$252,348 in capital grants and contributions. These revenues are restricted to a particular program or purpose. Of the total operating grants and contributions, \$132,464 subsidized security of persons and property and \$307,877 subsidized transportation programs. Of the total capital grants and contributions, \$252,348 subsidized transportation programs.

General revenues totaled \$13,024,804, and amounted to 89.32% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$9,468,739 and Joint Economic Development District revenue of \$1,919,336.

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. The graph below illustrates the City's dependence upon general revenues as program revenues are not sufficient to cover total governmental expenses.

CITY OF FAIRLAWN, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED

Governmental Activities – Program Revenues vs. Total Expenses



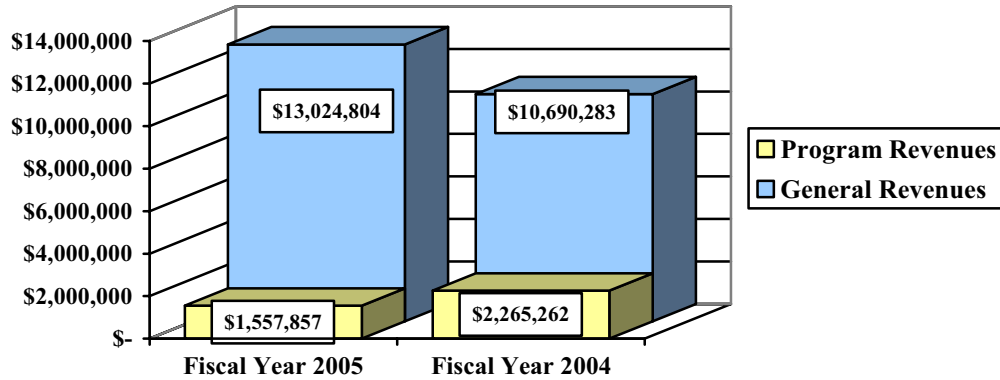
	Governmental Activities			
	Total Cost of Services 2005	Net Cost of Services 2005	Total Cost of Services 2004	Net Cost of Services 2004
Program Expenses:				
General government	\$ 2,500,501	\$ 1,997,104	\$ 2,530,351	\$ 1,744,978
Security of persons and property	5,843,983	5,514,809	5,488,691	5,243,411
Public health services	111,977	111,977	110,953	110,953
Transportation	3,575,269	3,011,584	3,722,435	2,349,292
Community environment	73,726	66,419	34,761	34,761
Basic utility services	1,064,861	929,570	918,968	784,333
Leisure time activity	364,696	345,693	398,118	371,287
Intergovernmental	-	-	-	-
Interest and fiscal charges	523,507	523,507	551,596	551,596
Total	<u>\$ 14,058,520</u>	<u>\$ 12,500,663</u>	<u>\$ 13,755,873</u>	<u>\$ 11,190,611</u>

The dependence upon general revenues for governmental activities is apparent, with 88.92% of expenses supported through taxes and other general revenues. The chart below illustrates the City's program revenues versus general revenues for 2005:

CITY OF FAIRLAWN, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED**

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, unreserved fund balance serves 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 page 17) reported a combined fund balance of \$12,176,341 which is \$80,605 greater than last year's total of \$12,095,736. The fund balances of the governmental funds, as of December 31, 2004, have been restated as described in Note 3 of the Notes to the Basic Financial Statements. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2005 and 2004 for all major and nonmajor governmental funds.

	Fund Balances 12/31/05	Restated Fund Balances 12/31/04	Increase (Decrease)	Percentage Change
Major funds:				
General	\$ 6,524,920	\$ 5,662,776	\$ 862,144	15.22 %
Bond retirement	199,987	239,191	(39,204)	(16.39) %
Capital improvement	3,402,794	3,999,610	(596,816)	(14.92) %
Other nonmajor governmental funds	<u>2,048,640</u>	<u>2,194,159</u>	<u>(145,519)</u>	<u>(6.63) %</u>
Total	<u>\$ 12,176,341</u>	<u>\$ 12,095,736</u>	<u>\$ 80,605</u>	0.67 %

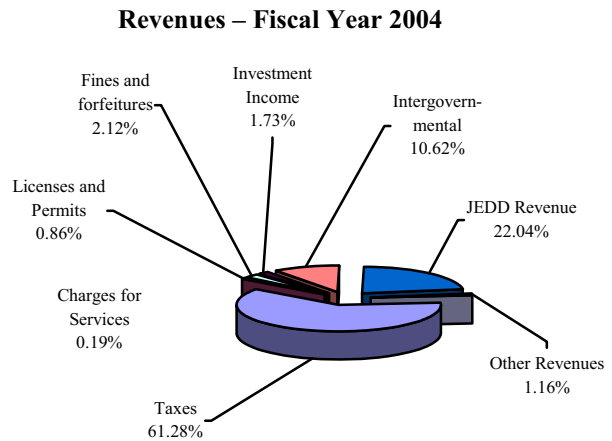
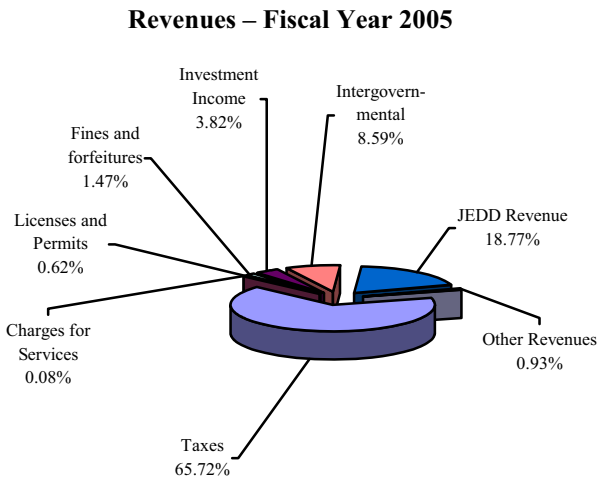
CITY OF FAIRLAWN, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED

General Fund

The City's general fund balance increased \$859,615. The table that follows assists in illustrating the revenues of the general fund.

	2005 <u>Amount</u>	Restated 2004 <u>Amount</u>	Percentage <u>Change</u>
Revenues			
Taxes	\$ 6,722,502	\$ 5,233,019	28.46 %
Charges for services	8,249	16,356	(49.57) %
Licenses and permits	63,213	73,108	(13.53) %
Fines and forfeitures	150,615	180,670	(16.64) %
Investment income	390,927	147,782	164.53 %
Intergovernmental	878,462	906,640	(3.11) %
JEDD revenue	1,919,336	1,882,346	1.97 %
Other	<u>95,406</u>	<u>99,495</u>	(4.11) %
Total	<u>\$ 10,228,710</u>	<u>\$ 8,539,416</u>	19.78 %

Tax revenue represents 65.72% of all general fund revenue. Tax revenue increased by 28.46% over prior year. The increase in investment income is due to increases in interest rates by the Federal Reserve Bank throughout the year. All other revenue remained comparable to 2004.



CITY OF FAIRLAWN, OHIO

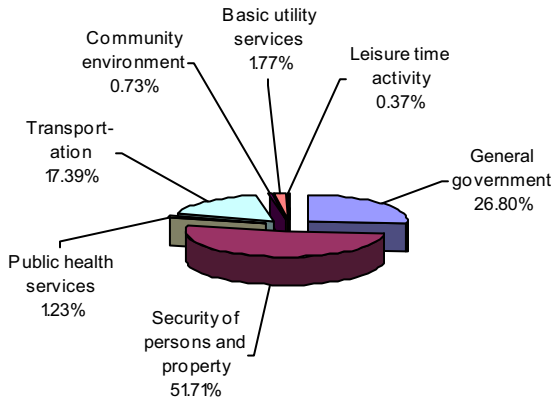
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED**

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

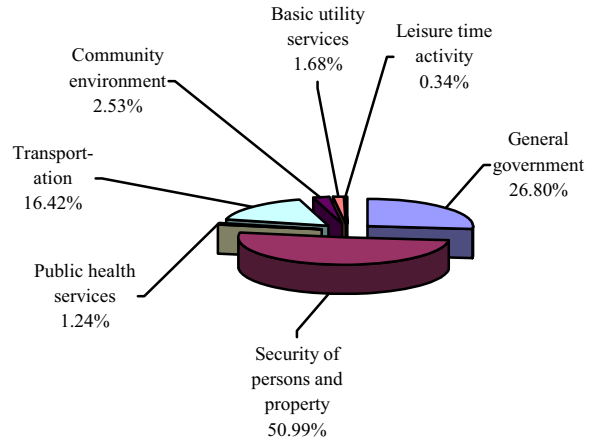
	<u>2005</u> <u>Amount</u>	<u>2004</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Expenditures</u>			
General government	\$ 2,443,661	\$ 2,399,962	1.82 %
Security of persons and property	4,714,322	4,565,846	3.25 %
Public health services	111,977	110,953	0.92 %
Transportation	1,585,956	1,470,856	7.83 %
Community environment	66,799	226,287	(70.48) %
Basic utility services	161,327	150,712	7.04 %
Leisure time activity	<u>33,458</u>	<u>30,618</u>	9.28 %
Total	<u>\$ 9,117,500</u>	<u>\$ 8,955,234</u>	1.81 %

The most significant change was in the area of community environment. The decrease is due to extensive sewer improvements made in 2004 to alleviate storm water flooding in the City. All other expenditures remained comparable to 2004. The largest expenditure line item, security of persons and property, increased due to wage and benefit increases and overall cost increases in purchased goods and services.

Expenditures - Fiscal Year 2005



Expenditures - Fiscal Year 2004



Bond Retirement Fund

The bond retirement fund had revenues of \$263,338 in 2005. The expenditures of the bond retirement fund totaled \$302,542 in 2005. The net decrease in fund balance for the bond retirement fund was \$39,204 or 16.39%.

Capital Improvement Fund

The capital improvement fund had revenues and other financing sources of \$2,347,457 in 2005. The expenditures of the capital improvement fund totaled \$2,944,273 in 2005. The net decrease in fund balance for the capital improvement fund was \$596,816 or 14.92%. The decrease is attributed to less general fund transfer into the capital improvement fund and less intergovernmental revenue for joint capital projects.

CITY OF FAIRLAWN, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED**

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 County 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. In the general fund, one of the most significant changes was between the original and final budgeted amount in the area of revenues, which decreased \$226,118 from \$9,102,870 to \$8,876,752. Actual revenues of \$10,735,743 exceeded final budgeted revenues by \$1,858,991. Budgeted revenue was reduced to reflect the decline in intergovernmental revenue, however increases in the amounts received for estate tax and local government revenues exceeded budget estimates. Income tax revenue received far exceeded the budgeted amount due to an overpayment of taxes, estimated to be \$1,112,868 in 2005 that is expected to be refunded in 2006. The other significant change was between the final budgeted expenditures and actual expenditures. Actual expenditures came in \$712,189 lower than the final budgeted amounts due to less than full staffing in the police, fire, dispatch and finance departments; less legal and consulting services than planned; less than anticipated utility expenses due to the City's aggregation programs; and overall prudent management.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2005, the City had \$70,456,951 (net of accumulated depreciation) invested in land, land improvements, buildings, machinery and equipment, licensed vehicles, infrastructure and construction in progress. The following table shows fiscal 2005 balances compared to 2004:

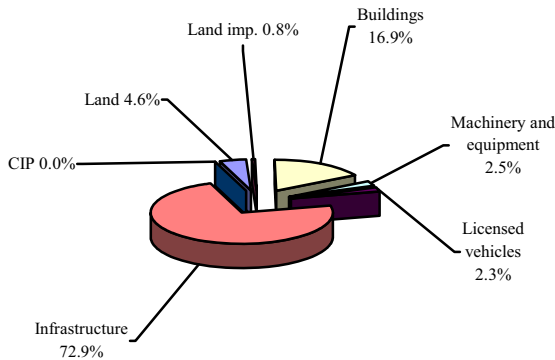
**Capital Assets at December 31
(Net of Depreciation)**

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
Land	\$ 3,234,757	\$ 3,234,757
Land improvements	549,815	564,331
Buildings	11,880,684	12,147,247
Machinery and equipment	1,798,812	1,871,886
Licensed vehicles	1,608,140	1,732,433
Infrastructure	51,376,507	51,513,661
Construction in progress	8,236	65,083
Totals	\$ 70,456,951	\$ 71,129,398

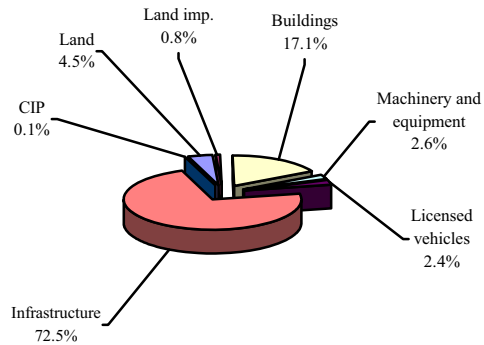
The following graphs show the breakdown of governmental capital assets by category for 2005 and 2004.

CITY OF FAIRLAWN, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED

Capital Assets - Governmental Activities 2005



Capital Assets - Governmental Activities 2004



The City's largest capital asset category is infrastructure which includes roads, bridges, culverts, sidewalks and curbs. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 72.9% of the City's total governmental capital assets at December 31, 2005.

See Note 10 for more detail on the City's capital assets.

Debt Administration

The City had the following long-term obligations outstanding at December 31, 2005 and 2004:

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
General obligation bonds	\$ 9,050,000	\$ 9,565,000
Special assessment bonds	940,000	1,065,000
OPWC loans	623,733	674,706
Compensated absences	<u>1,067,334</u>	<u>1,012,555</u>
Total long-term obligations	<u>\$ 11,681,067</u>	<u>\$ 12,317,261</u>

See Note 11 for more detail on the City's long-term obligations.

Economic Conditions and Next Year's General Fund Budget Outlook

The City of Fairlawn is a residential community with a strong diversified business base. The City is home to several large corporations, a multitude of small, diverse businesses, and five thriving retail centers, including Summit Mall, Rosemont Commons, the Shops at Fairlawn, the Fairlawn Towne Center, and Miller-Market Square. The City's convenient location continues to attract and retain growing businesses and it has recently welcomed Roadway Express and Yellow Trucking.

CITY OF FAIRLAWN, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2005 UNAUDITED

The City's Land Use Plan designated 200+ acres of former farmland as an office park in the City's southwest corner. The area now known as Fairlawn Corporate Park is currently booming with activity. Four office buildings presently under construction are expected to be completed by the end of the year and occupied by early next year. Five additional buildings have been proposed in the Corporate Park.

The City's primary revenue source is the 2% local income tax withheld on the estimated 40,000 people working in the City. The City is fortunate to be able to weather the economic conditions through its broad tax base and is projecting nominal growth for 2006.

The City is proud to offer outstanding city services to its residents. In addition to excellent police and fire protection, Fairlawn safety forces are active in the community offering education programs such as Drug Abuse Resistance Education (DARE), Fire Prevention, and Safety Town for our youngest residents. Fairlawn police support neighborhood Block Parent groups, offer residential checks and a Senior Call program to check on senior citizens living alone. The popular Special Traffic Enforcement Program boosts traffic control where residents most see a need. The City's highly trained emergency medical teams are outfitted with advanced medical equipment and provide free emergency medical care to Fairlawn residents. The Municipal Service Center Complex houses all public service functions and equipment in one area. The City provides trash and recycling services at no charge to residents at the Andrew Sombati Compactor site, an all-weather drive-thru trash compactor facility.

The City operates fifty-three (53) acres of parks which offer year-round recreational programs for children and adults. The Learning Resource Center, staffed with a full-time Naturalist, offers nature-related programs and lectures to groups of all ages. The City is currently exploring the feasibility of joining forces with neighboring communities to create a joint recreational center.

The City is projecting moderate growth in general fund revenue in 2006. Expenditures for 2006 are budgeted at 2.9% greater than the prior year due to general inflation and moderate wage increases for City employees. Programs supported by the general fund are budgeted at the same level of service as last year. There are no new hires planned for 2006.

Contacting the City's Financial Management

This financial report is designed to provide our citizen's, taxpayers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Mr. Jerome E. Apple, Finance Director, City of Fairlawn, 3487 S. Smith Road, Fairlawn, Ohio 44333.

CITY OF FAIRLAWN, OHIO

STATEMENT OF NET ASSETS
DECEMBER 31, 2005

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 13,401,963
Cash and cash equivalents in segregated accounts	32,516
Receivables (net of allowances for uncollectibles):	
Income taxes	2,218,932
Real and other taxes	903,263
Accounts	38,931
Accrued interest	67,746
Special assessments	2,132,816
Due from other governments	1,020,194
Prepayments	111,740
Materials and supplies inventory.	237,162
Capital assets:	
Land and construction in progress.	3,242,993
Depreciable capital assets, net	<u>67,213,958</u>
Total capital assets.	<u>70,456,951</u>
 Total assets.	 <u>90,622,214</u>
Liabilities:	
Accounts payable.	2,377,377
Contracts payable.	50,350
Accrued wages and benefits	216,706
Due to other governments	336,528
Deferred revenue.	842,466
Deposits held and due to others.	25,000
Accrued interest payable.	57,104
Long-term liabilities:	
Due within one year	1,093,111
Due in more than one year	<u>10,587,956</u>
 Total liabilities	 <u>15,586,598</u>
Net assets:	
Invested in capital assets, net of related debt	59,943,218
Restricted for:	
Capital projects.	5,131,132
Debt service	1,786,432
Other purposes	1,439,827
Unrestricted.	<u>6,735,007</u>
 Total net assets	 <u>\$ 75,035,616</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FAIRLAWN, OHIO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005

	Program Revenues			Net (Expense)	
	Charges for	Operating	Capital	Revenue and	
	Services	Grants and	Grants and	Changes in	
Expenses	Contributions	Contributions	Contributions	Net Assets	
Governmental Activities:	Governmental				
	Activities				
General government	\$ 2,500,501	\$ 503,397	\$ -	\$ -	\$ (1,997,104)
Security of persons and property	5,843,983	196,710	132,464	-	(5,514,809)
Public health services	111,977	-	-	-	(111,977)
Transportation	3,575,269	3,460	307,877	252,348	(3,011,584)
Community environment	73,726	7,307	-	-	(66,419)
Basic utility services	1,064,861	135,291	-	-	(929,570)
Leisure time activity	364,696	19,003	-	-	(345,693)
Interest and fiscal charges	523,507	-	-	-	(523,507)
	<u>14,058,520</u>	<u>865,168</u>	<u>440,341</u>	<u>252,348</u>	<u>(12,500,663)</u>
General Revenues:					
Property and other taxes levied for:					
General purposes					629,482
Police and fire pension					179,258
Parks and recreation					181,388
Income taxes levied for:					
General purposes					6,338,892
Capital projects					2,139,719
JEDD revenue					1,919,336
Grants and entitlements not restricted to specific programs					1,147,523
Investment earnings					426,782
Miscellaneous					62,424
					<u>13,024,804</u>
Total general revenues					<u>13,024,804</u>
Change in net assets					524,141
Net assets at beginning of year (restated)					<u>74,511,475</u>
Net assets at end of year					<u>\$ 75,035,616</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FAIRLAWN, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2005

	<u>General</u>	<u>Bond Retirement</u>	<u>Capital Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:					
Equity in pooled cash and cash equivalents	\$ 7,260,246	\$ 199,987	\$ 3,789,016	\$ 2,152,714	\$ 13,401,963
Cash and cash equivalents in segregated accounts	32,516	-	-	-	32,516
Receivables (net of allowance for uncollectibles):					
Income taxes	1,497,779	-	721,153	-	2,218,932
Real and other taxes	694,333	-	-	208,930	903,263
Accounts	3,791	-	-	35,140	38,931
Accrued interest	65,238	-	-	2,508	67,746
Special assessments	-	1,562,250	570,566	-	2,132,816
Due from other funds	-	-	-	6,471	6,471
Due from other governments	865,135	-	-	155,059	1,020,194
Prepayments	111,740	-	-	-	111,740
Materials and supplies inventory	221,159	-	-	16,003	237,162
Total assets	<u>\$ 10,751,937</u>	<u>\$ 1,762,237</u>	<u>\$ 5,080,735</u>	<u>\$ 2,576,825</u>	<u>\$ 20,171,734</u>
Liabilities:					
Accounts payable	\$ 1,619,958	\$ -	\$ 724,967	\$ 32,452	\$ 2,377,377
Contracts payable	6,221	-	12,783	31,346	50,350
Accrued wages and benefits	209,005	-	-	7,701	216,706
Due to other funds	6,471	-	-	-	6,471
Due to other governments	201,897	-	-	134,631	336,528
Deposits held and due other funds	25,000	-	-	-	25,000
Deferred revenue	2,158,465	1,562,250	940,191	322,055	4,982,961
Total liabilities	<u>4,227,017</u>	<u>1,562,250</u>	<u>1,677,941</u>	<u>528,185</u>	<u>7,995,393</u>
Fund Balances:					
Reserved for encumbrances	212,069	-	178,277	275,995	666,341
Reserved for prepayments	111,740	-	-	-	111,740
Reserved for materials and supplies inventory	221,159	-	-	16,003	237,162
Reserved for unclaimed monies	16,810	-	-	-	16,810
Reserved for debt service	-	199,987	-	-	199,987
Unreserved:					
Undesignated, reported in:					
General fund	5,963,142	-	-	-	5,963,142
Special revenue funds	-	-	-	1,146,520	1,146,520
Capital projects funds	-	-	3,224,517	610,122	3,834,639
Total fund balances	<u>6,524,920</u>	<u>199,987</u>	<u>3,402,794</u>	<u>2,048,640</u>	<u>12,176,341</u>
Total liabilities and fund balances	<u>\$ 10,751,937</u>	<u>\$ 1,762,237</u>	<u>\$ 5,080,735</u>	<u>\$ 2,576,825</u>	<u>\$ 20,171,734</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FAIRLAWN, OHIO

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2005

Total governmental fund balances		\$ 12,176,341
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		70,456,951
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Income taxes	\$ 1,137,308	
Investment income	74,185	
Special assessments	2,132,816	
Other	895	
Intergovernmental revenues	<u>795,291</u>	
Total		4,140,495
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. The long-term liabilities are as follows:		
Accrued interest payable	(57,104)	
General obligation bonds	(9,050,000)	
Special assessment bonds	(940,000)	
OPWC loans	(623,733)	
Compensated absences	<u>(1,067,334)</u>	
		<u>(11,738,171)</u>
Net assets of governmental activities		<u><u>\$ 75,035,616</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FAIRLAWN, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>General</u>	<u>Bond Retirement</u>	<u>Capital Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
Income taxes	\$ 6,093,020	\$ -	\$ 2,021,336	\$ -	\$ 8,114,356
Property and other taxes	629,482	-	-	360,646	990,128
Charges for services	8,249	-	-	276,878	285,127
Licenses and permits	63,213	-	-	94,942	158,155
Fines and forfeitures	150,615	-	-	67,892	218,507
Intergovernmental	878,462	-	253,682	429,941	1,562,085
Special assessments	-	263,338	72,439	-	335,777
Investment income	390,927	-	-	12,556	403,483
Rentals	46,563	-	-	10,697	57,260
Contributions and donations	2,085	-	-	9,010	11,095
JEDD revenue	1,919,336	-	-	-	1,919,336
Other	46,758	-	-	4,571	51,329
Total revenues	<u>10,228,710</u>	<u>263,338</u>	<u>2,347,457</u>	<u>1,267,133</u>	<u>14,106,638</u>
Expenditures:					
Current:					
General government	2,443,661	12,291	-	298	2,456,250
Security of persons and property	4,714,322	-	-	793,062	5,507,384
Public health services	111,977	-	-	-	111,977
Transportation	1,585,956	-	-	211,675	1,797,631
Community environment	66,799	-	-	-	66,799
Basic utility services	161,327	-	-	168,076	329,403
Leisure time activities	33,458	-	-	278,696	312,154
Other	-	-	-	-	-
Capital outlay	-	-	2,016,278	235,951	2,252,229
Debt service:					
Principal retirement	-	175,973	515,000	-	690,973
Interest and fiscal charges	-	114,278	412,995	-	527,273
Total expenditures	<u>9,117,500</u>	<u>302,542</u>	<u>2,944,273</u>	<u>1,687,758</u>	<u>14,052,073</u>
Excess (deficiency) of revenues over (under) expenditures	1,111,210	(39,204)	(596,816)	(420,625)	54,565
Other financing sources (uses):					
Proceeds from sale of capital assets	22,405	-	-	-	22,405
Transfers in	-	-	-	274,000	274,000
Transfers out	(274,000)	-	-	-	(274,000)
Total other financing sources (uses)	<u>(251,595)</u>	<u>-</u>	<u>-</u>	<u>274,000</u>	<u>22,405</u>
Net change in fund balances	859,615	(39,204)	(596,816)	(146,625)	76,970
Fund balances at beginning of year (restated) . .	5,662,776	239,191	3,999,610	2,194,159	12,095,736
Increase (decrease) in reserve for inventory . .	2,529	-	-	1,106	3,635
Fund balances at end of year	<u>\$ 6,524,920</u>	<u>\$ 199,987</u>	<u>\$ 3,402,794</u>	<u>\$ 2,048,640</u>	<u>\$ 12,176,341</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FAIRLAWN, 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, 2005

Net change in fund balances - total governmental funds	\$	76,970
<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 are allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense (\$1,958,741) exceeded capital outlays (\$1,675,162) in the current period.		(283,579)
Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.		(388,868)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		476,023
Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed.		3,635
Repayment of bond and loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		690,973
In the statement of activities, interest is accrued on outstanding bonds and loans whereas in governmental funds, an interest expenditure is reported when due.		3,766
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.		<u>(54,779)</u>
Change in net assets of governmental activities	\$	<u>524,141</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FAIRLAWN, 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, 2005

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Income taxes	\$ 5,141,248	\$ 4,974,248	\$ 6,732,418	\$ 1,758,170
Property and other taxes	673,803	603,561	605,335	1,774
Charges for services	14,411	14,411	10,674	(3,737)
Licenses and permits	77,446	77,446	63,213	(14,233)
Fines and forfeitures	220,000	220,000	153,305	(66,695)
JEDD revenue	2,000,000	2,247,699	1,919,336	(328,363)
Intergovernmental	697,466	465,741	755,135	289,394
Investment income	198,000	193,149	380,147	186,998
Rentals	44,850	44,850	46,563	1,713
Contributions and donations	-	-	2,085	2,085
Other	35,646	35,647	67,532	31,885
Total revenues	<u>9,102,870</u>	<u>8,876,752</u>	<u>10,735,743</u>	<u>1,858,991</u>
Expenditures:				
Current:				
General government	2,864,063	2,991,530	2,655,785	335,745
Security of persons and property	4,939,371	4,936,315	4,684,662	251,653
Public health services	116,110	112,189	111,977	212
Transportation	1,694,713	1,719,447	1,629,865	89,582
Community environment	32,200	91,140	58,090	33,050
Basic utility services	148,075	165,382	164,306	1,076
Leisure time activities	36,076	36,076	35,205	871
Total expenditures	<u>9,830,608</u>	<u>10,052,079</u>	<u>9,339,890</u>	<u>712,189</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(727,738)</u>	<u>(1,175,327)</u>	<u>1,395,853</u>	<u>2,571,180</u>
Other financing sources (uses):				
Proceeds from sale of capital assets	-	-	27,200	27,200
Transfers out	(273,500)	(274,020)	(274,000)	20
Total other financing sources (uses)	<u>(273,500)</u>	<u>(274,020)</u>	<u>(246,800)</u>	<u>27,220</u>
Net change in fund balance	(1,001,238)	(1,449,347)	1,149,053	2,598,400
Fund balance at beginning of year	5,258,503	5,258,503	5,258,503	-
Prior year encumbrances appropriated	<u>467,691</u>	<u>467,691</u>	<u>467,691</u>	<u>-</u>
Fund balance at end of year	<u>\$ 4,724,956</u>	<u>\$ 4,276,847</u>	<u>\$ 6,875,247</u>	<u>\$ 2,598,400</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FAIRLAWN, OHIO

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2005

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 56,916
Total assets.	<u>56,916</u>
Liabilities:	
Undistributed monies.	<u>56,916</u>
Total liabilities	<u><u>\$ 56,916</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 1 - DESCRIPTION OF THE CITY

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.

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 City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental funds provided they do not conflict with or contradict GASB pronouncements. The most significant of the City's accounting policies are described below.

A. Reporting Entity

For financial reporting purposes, the City's BFS include all funds, agencies, boards, commissions, and departments for which the City is financially accountable. Financial accountability, as defined by the GASB, exists if the City appoints a voting majority of an organization's governing board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific burdens on, the City. The City may also be financially accountable for governmental organizations with a separately elected governing board, a governing board appointed by another government, or a jointly appointed board that is fiscally dependent on the City. The City also took into consideration other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's basic financial statements to be misleading or incomplete. Based on these criteria, the City has no component units. 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.

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 imposes a financial burden nor provides 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 degree of control is limited to its representation on the board. All 2005 JEDD revenues were the result of the income tax levied by the JEDD effective January 1, 1999.

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

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

B. Basis of Presentation - Fund Accounting

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

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The statement of net assets presents the financial condition of the governmental activities of the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental functions are self-financing or draw 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 fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

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 two categories of funds: governmental and fiduciary.

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

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

Bond Retirement - The bond retirement fund accounts for the accumulation of resources for, and payment of, long-term debt principal, interest and related costs.

Capital Improvement - This fund is used to account for the acquisition and construction of major capital facilities.

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

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

Other governmental funds of the City are used to account for (a) the accumulation of resources for, and payment of, general long-term debt principal, interest and related costs; (b) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary funds; and (c) for grants and other resources whose use is restricted to a particular purpose.

Fiduciary Funds - Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's only fiduciary funds are agency funds.

D. Measurement Focus and Basis of Accounting

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

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

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. Agency funds also use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within thirty-one days of year-end.

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

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

Nonexchange 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 7). Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 6). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from nonexchange 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, local government funds and permissive tax), fines and forfeitures, fees and special assessments.

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

Property taxes for which there is an enforceable legal claim as of December 31, 2005, but which were levied to finance year 2006 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

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 tax budget, the certificate of estimated resources and the appropriations resolution, 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 appropriations cannot exceed estimated resources, as certified. For all funds, Council appropriations are made at the object level within each department. This is known as the legal level of budgetary control. Budgetary modifications may only be made by resolution of the City Council at the legal level of control. All funds, other than agency funds, are legally required to be budgeted and appropriated.

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

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

Tax Budget – Alternative tax budget information of estimated revenue and expenditures for all funds is submitted to the Summit 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. All funds, except agency funds, are legally required to be budgeted; however, only governmental funds are legally required to be reported.

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 appropriations measure. On or about January 1, the certificate of estimated resources is amended to include encumbered cash balances at December 31 of the preceding year. The certificate may be further amended during the year if the City 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 2005.

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 appropriations for a fund may only be modified during the year by an ordinance of Council. The amounts on the budgetary statement reflect the final appropriation amounts, including all amendments and modifications legally enacted by Council.

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. Encumbrances are carried forward and are not reappropriated as part of the subsequent year appropriations.

G. Cash and Cash Equivalents

Cash balances of the City’s funds are pooled and invested in investments maturing within five years in order to provide improved cash management. Individual fund integrity is maintained through City records. Each fund’s interest in the pooled bank account is presented on the balance sheet as “Equity in Pooled Cash and Cash Equivalents” on the financial statements.

During fiscal year 2005, investments were limited to overnight repurchase agreements, certificates of deposit, money market funds and investments in a Federal Home Loan Bank Bond and the State Treasury Asset Reserve of Ohio (STAR Ohio).

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.

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

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

The City invested funds in STAR Ohio during fiscal 2005. 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 investment could be sold for on December 31, 2005.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. During fiscal 2005, interest revenue credited to the general fund amounted to \$390,927 which includes \$254,021 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 financial statements as "cash and cash equivalents in segregated accounts" since they are not required to be deposited into the City treasury.

For purpose of presentation on the financial statements, 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.

An analysis of the City's investment account at year-end is provided in Note 4.

H. Inventories of Materials and Supplies

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

On the fund financial statements, reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

Inventory consists of expendable supplies held for consumption.

I. Capital Assets

These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$5,000. The City's infrastructure consists of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

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

All reported capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

Description	Governmental Activities Estimated Lives
Land improvements	25 - 75 years
Buildings and improvements	15 - 50 years
Machinery and Equipment	5 - 30 years
Licensed Vehicles	3 - 25 years
Infrastructure	10 - 60 years

J. 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.

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.

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide 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, compensated absences, and contractually required pension contributions 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.

CITY OF FAIRLAWN, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

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

L. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans or goods and services are classified as "Due to/from other funds." On fund financial statements, long-term interfund loans are classified as "advances to/from other funds" on the balance sheet and are equally offset by a fund balance reserve account which indicates that they do not constitute available expendable resources. These amounts are eliminated in the governmental columns of the statement of net assets.

M. 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. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the BFS.

N. Fund Balance Reserves and Designations

Reserved or designated fund balances indicate that portion of fund equity which is not available for current appropriation or use. The unreserved and undesignated portions of fund equity reflected in the governmental funds are available for use within the specific purposes of the funds.

The City reports a reservation of fund balance for amounts representing encumbrances outstanding, prepayments, unclaimed monies, debt service and materials and supplies inventory, in the governmental fund financial statements.

O. Estimates

The preparation of the BFS in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the BFS and accompanying notes. Actual results may differ from those estimates.

P. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 3 – ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principle

For fiscal year 2005, the City has implemented GASB Statement No. 40, “Deposit and Investment Risk Disclosures”. GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modifies disclosure requirements for custodial credit risk on deposits.

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the City, however additional note disclosure can be found in Note 4.

B. Restatement

A restatement is required to properly report a liability for income tax refunds related to fiscal years 2002 through 2004. Through the State of Ohio Department of Taxation, the City erroneously received income taxes from public utility companies that were not located within the City limits. This adjustment had the following effect on fund balances of the governmental funds and net assets of the governmental activities:

	Governmental Funds		Governmental Activities
	General	Capital Improvement	
Fund Balance/Net Assets at December 31, 2004	\$ 6,413,962	\$ 4,361,292	\$ 75,624,343
Adjustment of income tax refunds	(751,186)	(361,682)	(1,112,868)
Restated Fund Balance/Net Assets at December 31, 2004	\$ 5,662,776	\$ 3,999,610	\$ 74,511,475

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

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 Council has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must 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, but not limited to, passbook accounts.

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

Interim monies may be deposited or invested in the following:

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 or 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) 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 Treasury Asset Reserve of Ohio investment pool (STAR Ohio);
7. High grade commercial paper for a period not to exceed 180 days in an amount not to exceed twenty-five percent of the City's interim monies available for investment; and
8. Bankers acceptances for a period not to exceed 180 days and in an amount not to exceed twenty-five percent of the City's interim monies available for investment.

The City may also invest any monies not required to be used for a period of six months or more in the following:

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

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

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

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

A. Cash on Hand

At year-end, the City had \$1,550 in un-deposited cash on hand which is included on the financial statements of the City as part of "Equity in Pooled Cash and Cash Equivalents".

B. Cash in Segregated Accounts

At December 31, 2005, the City had \$32,516 in bank accounts outside of the City Treasury related to Mayor's Court operations and income tax refunds. These amounts are included on the financial statements as "cash in segregated accounts" and are included in deposits with financial institutions below.

C. Deposits with Financial Institutions

At December 31, 2005, the carrying amount of the City's deposits was \$7,830,614 exclusive of the \$2,361,332 repurchase agreement included in investments below. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2005, \$7,800,000 of the City's bank balance of \$8,092,044 was exposed to custodial risk as discussed below, while \$292,044 was covered by Federal Deposit Insurance Corporation.

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. As permitted by Ohio Revised Code, the City's deposits are collateralized by a pool of eligible securities deposited with Federal Reserve Banks, or at member banks of the Federal Reserve System, in the name of the depository bank and pledged as a pool of collateral against all public deposits held by the depository. The City has no deposit policy for custodial credit risk beyond the requirements of the State statute. Although the securities were held by the pledging institutions' trust department and 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.

D. Investments

As of December 31, 2005, the City had the following investments and maturities:

<u>Investment type</u>	<u>Balance at Fair Value</u>	<u>Investment Maturities</u>	
		<u>6 months or less</u>	<u>7 to 12 months</u>
FHLB	\$ 1,489,890	\$ -	\$ 1,489,890
STAR Ohio	1,808,009	1,808,009	-
Repurchase Agreement	2,361,332	2,361,332	-
	<u>\$ 5,659,231</u>	<u>\$ 4,169,341</u>	<u>\$ 1,489,890</u>

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

Interest Rate Risk: The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The City's investment policy addresses interest rate risk by requiring the consideration of market conditions and cash flow requirements in determining the term of the investment.

Custodial Credit Risk: For an investment, custodial risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The City has no investment policy dealing with investment custodial risk beyond the requirement in Ohio law that prohibits payments for investments prior to the delivery of the securities representing such investments to the finance director or qualified trustee. The City's investment in repurchase agreements is collateralized by underlying securities pledged by the investment's counterparty, not in the name of the City. Ohio law requires that market value of the securities subject to a repurchase agreement must exceed the principal value of the securities subject to a repurchase agreement by 2 percent.

Credit Risk: STAR Ohio carries a rating of AAA by Standard & Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard service rating. The City's FHLB investment carries a rating of AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. The custodial credit risk associated with the repurchase agreement is discussed above.

Concentration of Credit Risk: The City's investment policy addresses concentration of credit risk by requiring investments to be diversified to reduce the risk of loss resulting from over concentration of assets in a specific issue or specific class of securities. The following table includes the percentage of each investment type held by the City at December 31, 2005:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
FHLB	\$ 1,489,890	26.33
Repurchase Agreement	2,361,332	41.73
STAR Ohio	<u>1,808,009</u>	<u>31.95</u>
	<u>\$ 5,659,231</u>	<u>100.00</u>

E. Reconciliation of Cash and Investment to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of December 31, 2005:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 7,830,614
Investments	5,659,231
Cash on hand	<u>1,550</u>
Total	<u>\$ 13,491,395</u>

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

<u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 13,434,479
Agency funds	<u>56,916</u>
Total	<u>\$ 13,491,395</u>

NOTE 5 - INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2005 consisted of the following, as reported in the fund financial statements:

<u>Transfers to</u>	<u>Transfers from</u>
	<u>General</u>
Nonmajor	
Special Revenue	<u>274,000</u>
	<u>\$ 274,000</u>

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 funds 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.

NOTE 6 - PROPERTY TAXES

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Real property taxes and public utility taxes are levied after October 1 on the assessed value as of the prior January 1, the tax lien date. Assessed values are established by state law at 35 percent of appraised market value, as established by the County Fiscal Officer. All real property is required to be revalued every six years. The last revaluation was completed in 2000. Real property taxes are payable annually or semiannually. The first payment for 2005 was due January 1, with the remainder payable June 20.

Public utility real and tangible personal property taxes collected in one calendar year are levied on assessed values as of the prior January 1, the lien date. Public utility tangible personal property currently is assessed at varying percentages of true value for taxable transmission and distribution property and 25% of true value for all other taxable property. Public utility property taxes are payable on the same dates as real property taxes described previously.

Taxes collected on tangible personal property (other than public utility) in one calendar year are levied on the assessed values and at the close of the most recent fiscal year of the taxpayer (for businesses in operation more than one year) or December 31. Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 23 percent of true value for inventory and 25 percent of true value for capital assets. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30, and if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. The first \$10,000 of taxable value is exempt from taxation for each business by state law.

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 6 - PROPERTY TAXES - (Continued)

Public utility property taxes are assessed on tangible personal property, as well as land and improvements.

The County Fiscal Officer collects property taxes on behalf of all taxing districts in the County, including the City. The County Fiscal Officer periodically remits to the City its portion of the taxes collected. The full rate for all City operations for the year ended December 31, 2005 was \$2.70 per \$1,000 of assessed value. The assessed values of real and tangible personal property, upon which taxes for 2005 were collected, are as follows:

<u>Category</u>	<u>Assessed Value</u>
Residential	\$ 171,199,670
Commercial	<u>141,562,780</u>
Total real estate	312,762,450
Public utility property	4,184,820
Tangible personal property	<u>16,180,035</u>
Grand total	<u>\$ 333,127,305</u>

Accrued taxes receivable represent delinquent taxes outstanding and real, tangible personal, and public utility taxes which were measurable and unpaid as of December 31, 2005. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31 and are not intended to finance 2005 operations. Accordingly, the receivable is offset by a credit to "Deferred Revenue."

NOTE 7 - LOCAL INCOME TAX

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.

NOTE 8 – ESTIMATED INCOME TAX REFUNDS PAYABLE

In 2005, the City erroneously received estimated income tax payments for public utility companies partially located in the City. The allocation of income taxable to the City was incorrectly calculated. The City will issue refunds to the public utility companies for the overpayment upon receiving verification from the State of Ohio Department of Taxation that proper corrected tax returns have been filed. The estimated overpayment is \$1,112,868. A liability has been recorded in the General and Capital Improvement funds for the estimated refund due. This liability is a component of "accounts payable" reported on the financial statements.

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 9 - RECEIVABLES

Receivables at December 31, 2005, consisted of taxes, accounts (billings for user charged services), accrued interest, special assessments, and intergovernmental receivables arising from grants, entitlements, and shared revenue. 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, 2005, as well as intended to finance fiscal 2005 operations.

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

Income taxes	\$ 2,218,932
Real and other taxes	903,263
Accounts	38,931
Accrued interest	67,746
Special assessments	2,132,816
Due from other governments	<u>1,020,194</u>
Total	<u>\$ 6,381,882</u>

Receivables have been disaggregated on the face of the BFS. The only receivable not expected to be collected within the subsequent year are the special assessments which are collected over the life of the assessment. Delinquent special assessments due to the City were \$25,314 as of December 31, 2005.

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 10 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2005, was as follows:

<u>Governmental Activities:</u>	<u>Balance</u>			<u>Balance</u>
	<u>12/31/04</u>	<u>Additions</u>	<u>Disposals</u>	<u>12/31/05</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 3,234,757	\$ -	\$ -	\$ 3,234,757
Construction in progress	<u>65,083</u>	<u>8,236</u>	<u>(65,083)</u>	<u>8,236</u>
Total capital assets, not being depreciated	<u>3,299,840</u>	<u>8,236</u>	<u>(65,083)</u>	<u>3,242,993</u>
<i>Capital assets, being depreciated:</i>				
Buildings	13,977,886	-	(5,050)	13,972,836
Land Improvements	1,245,408	21,395	(46,042)	1,220,761
Machinery and Equipment	2,702,086	78,640	(8,200)	2,772,526
Licensed Vehicles	2,658,543	77,001	(81,868)	2,653,676
Infrastructure	<u>71,019,508</u>	<u>1,554,973</u>	<u>(557,626)</u>	<u>72,016,855</u>
Total capital assets, being depreciated	<u>91,603,431</u>	<u>1,732,009</u>	<u>(698,786)</u>	<u>92,636,654</u>
<i>Less: accumulated depreciation:</i>				
Buildings	(1,830,639)	(266,563)	5,050	(2,092,152)
Land Improvements	(681,077)	(34,948)	45,079	(670,946)
Machinery and Equipment	(830,200)	(151,714)	8,200	(973,714)
Licensed Vehicles	(926,110)	(169,673)	50,247	(1,045,536)
Infrastructure	<u>(19,505,847)</u>	<u>(1,335,843)</u>	<u>201,342</u>	<u>(20,640,348)</u>
Total accumulated depreciation	<u>(23,773,873)</u>	<u>(1,958,741)</u>	<u>309,918</u>	<u>(25,422,696)</u>
Total capital assets, being depreciated, net	<u>67,829,558</u>	<u>(226,732)</u>	<u>(388,868)</u>	<u>67,213,958</u>
Governmental activities capital assets, net	<u>\$ 71,129,398</u>	<u>\$ (218,496)</u>	<u>\$ (453,951)</u>	<u>\$ 70,456,951</u>

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 10 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to functions/programs of the City as follows:

Governmental activities:

General government	\$ 43,797
Basic Utilities	538,499
Security of persons and property	275,522
Transportation	1,042,873
Community environment	4,710
Leisure time activity	<u>53,340</u>
 Total depreciation expense - governmental activities	 <u><u>\$ 1,958,741</u></u>

NOTE 11 - LONG-TERM OBLIGATIONS

A. During the fiscal year 2005, the following changes occurred in governmental activities long-term obligations:

<u>Governmental Activities:</u>	<u>Interest</u> Rate	<u>Balance</u> 12/31/04	<u>Additions</u>	<u>Reductions</u>	<u>Balance at</u> 12/31/05	<u>Due in</u> One Year
General obligation bonds	2.80-5.75%	\$ 9,565,000	\$ -	\$(515,000)	\$ 9,050,000	\$ 540,000
Special assessment bonds	4.80-7.00%	1,065,000	-	(125,000)	940,000	130,000
OPWC loans	6.00%	674,706	-	(50,973)	623,733	54,077
Compensated absences		<u>1,012,555</u>	<u>95,969</u>	<u>(41,190)</u>	<u>1,067,334</u>	<u>369,034</u>
Total		<u><u>\$12,317,261</u></u>	<u><u>\$ 95,969</u></u>	<u><u>\$(732,163)</u></u>	<u><u>\$ 11,681,067</u></u>	<u><u>\$ 1,093,111</u></u>

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 "long-term liabilities" account will be paid from the fund from which the employees' salaries are paid.

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2005 are follows:

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

Year	General Obligation Bonds			Special Assessment Bond		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 540,000	\$ 394,898	\$ 934,898	\$ 130,000	\$ 65,800	\$ 195,800
2007	550,000	374,070	924,070	140,000	56,700	196,700
2008	575,000	352,140	927,140	150,000	46,900	196,900
2009	600,000	328,220	928,220	160,000	36,400	196,400
2010	625,000	302,530	927,530	175,000	25,200	200,200
2011 - 2015	3,080,000	1,078,997	4,158,997	185,000	12,950	197,950
2016 - 2020	2,375,000	451,950	2,826,950	-	-	-
2021	705,000	50,055	755,055	-	-	-
Total	<u>\$ 9,050,000</u>	<u>\$3,332,860</u>	<u>\$12,382,860</u>	<u>\$ 940,000</u>	<u>\$ 243,950</u>	<u>\$ 1,183,950</u>

Year	OPWC Loans		
	Principal	Interest	Total
2006	\$ 54,077	\$ 36,625	\$ 90,702
2007	57,370	33,332	90,702
2008	60,864	29,838	90,702
2009	64,571	26,131	90,702
2010	68,503	22,199	90,702
2011-2014	318,348	44,457	362,805
Total	<u>\$ 623,733</u>	<u>\$ 192,582</u>	<u>\$ 816,315</u>

NOTE 12 - OTHER EMPLOYEE BENEFITS

A. Compensated Absence

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, 2005, the total liability for unpaid compensated absences was \$1,067,334.

CITY OF FAIRLAWN, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 12 - OTHER EMPLOYEE BENEFITS - (Continued)

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 United Healthcare. The employees share the cost of the monthly premium. Dental insurance is provided by the City through Guardian Dental.

NOTE 13 - 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. During 2005, 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 \$1,000 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 participates in the Ohio Municipal League (OML) public entity insurance purchasing pool for workers' compensation. The Group Rating Plan is administered by Gates McDonald Company. The OML Group Rating Plan is intended to achieve lower workers' compensation premium rates for the participants, and result in the establishment of a safer working environment. There are no additional contributions required by a participant other than their annual fee. 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.

NOTE 14 - DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-6701.

For the year ended December 31, 2005, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The City's contribution rate for pension benefits for 2005 was 9.55 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2005, 2004, and 2003 were \$253,088, \$237,521, and \$204,257, respectively; 92 percent has been contributed for 2005 and 100 percent for 2004 and 2003. \$29,811 has been recorded as a liability. The City and plan members did not make any contributions to the member-directed plan for 2005.

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 defined benefit pension plan. 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 are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations while the City is required to contribute 11.75 percent for police officers and 16.25 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the fund for police and firefighters were \$153,936 and \$146,142 for the year ended December 31, 2005, \$147,186 and \$138,222 for the year ended December 31, 2004 and \$146,130 and \$126,157 for the year ended December 31, 2003. The full amount has been contributed for 2004 and 2003. 76 percent for police and 76 percent for firefighters has been contributed for 2005 with the remainder being reported as a liability.

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.

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 15 - POSTRETIREMENT BENEFIT PLANS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2005 local government employer contribution rate was 13.55 percent of covered payroll (16.70 percent for public safety and law enforcement); 4.00 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2004, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1.00 to 6.00 percent annually for the next eight years and 4.00 percent annually after eight years.

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 annually.

The number of active contributing participants in the traditional and combined plans was 376,109. Actual employer contributions for 2005 which were used to fund postemployment benefits were \$106,005. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2004 (the latest information available) were \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs. Member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 15 - POSTRETIREMENT BENEFIT PLANS – (Continued)

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 service, disability or survivor 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 (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". 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 funds of OP&F 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 7.75 percent of covered payroll was applied to the postemployment health care program during 2005. 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. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2005 that were used to fund postemployment benefits was \$101,532 for police and \$69,699 for firefighters. The OP&F's total health care expense for the year ended December 31, 2004 (the latest information available) was \$102,173,796, which was net of member contributions of \$55,665,341. The number of OP&F participants eligible to receive health care benefits as of December 31, 2004 (the latest information available), was 13,812 for police and 10,528 for firefighters.

NOTE 16 - 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 Budgetary Basis) presented for the general fund 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 are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
4. Unreported cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statement.

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING – (Continued)

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements (as reported in the fund financial statements) to the budgetary basis statements for all governmental funds for which a budgetary basis statement is presented.

Net Change in Fund Balance

	<u>General</u>
Budget basis	\$ 1,149,053
Net adjustment for revenue accruals	(511,828)
Net adjustment for expenditure accruals	(99,929)
Adjustment for encumbrances	<u>322,319</u>
GAAP basis	<u><u>\$ 859,615</u></u>

NOTE 17 - CONTINGENCIES

A. Grants

The City receives significant financial assistance from numerous 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 is 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 any of the financial statements of the individual fund types included herein or on the overall financial position of the City at December 31, 2005.

B. Litigation

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

NOTE 18 - CONTRACTUAL COMMITMENTS

As of December 31, 2005, the City had various contractual commitments; for road maintenance and improvements of \$164,370; sewer cleaning and improvements of \$176,569; sidewalks \$4,939; consulting services of \$21,881; purchases of various capital equipment of \$13,377; and park equipment and improvements of \$34,788.

This page intentionally left blank.



Auditor of State Betty Montgomery

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

City of Fairlawn
Summit County
3487 South Smith Road
Fairlawn, Ohio 44333-3007

To the Honorable Mayor and Members of City Council:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Fairlawn, Summit County, Ohio, (the City) as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 9, 2006 in which we noted the City restated the fund balances of the General and Capital Improvements Funds and net assets of Governmental Activities as of December 31, 2004 for public utility income taxes erroneously sent to the City. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the City's management dated August 9, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the City's management dated August 9, 2006, we reported other matters related to noncompliance we deemed immaterial.

101 Central Plaza South / 700 Chase Tower / Canton, OH 44702
Telephone: (330) 438-0617 (800) 443-9272 Fax: (330) 471-0001
www.auditor.state.oh.us

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

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

Betty Montgomery
Auditor of State

August 9, 2006



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

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 21, 2006**