



Dave Yost • Auditor of State



**CITY OF FAIRLAWN  
SUMMIT COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

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

To the Honorable Mayor and Members of City Council:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, each major fund, and the discretely presented component unit and remaining fund information of City of Fairlawn, Summit County, Ohio (the City), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, the discretely presented component unit and the aggregate remaining fund information of City of Fairlawn, Summit County, Ohio, as of December 31, 2013, and the respective changes in financial position and the budgetary comparison for the General fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2014 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



**Dave Yost**  
Auditor of State  
Columbus, Ohio

November 28, 2014

## CITY OF FAIRLAWN, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2013 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, 2013. 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 2013 are as follows:

- The total net position of the City increased \$23,708. The net position of governmental activities increased \$23,708 or 0.03% from 2012, to a total of \$74,686,862 in 2013.
- General revenues accounted for \$14,575,101 of total governmental activities revenue. Program specific revenues accounted for \$1,563,482 or 9.69% of total governmental activities revenue.
- The City had \$16,114,875 in expenses related to governmental activities; \$1,563,482 of these expenses were offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$14,551,393 were offset by general revenues (primarily property taxes, income taxes, unrestricted grants and entitlements, and Joint Economic Development District (JEDD) revenues).
- The City has two major funds, the general fund and capital improvement fund. The general fund, the largest major fund, had revenues and other financing sources of \$13,154,830 in 2013. This represents a decrease of \$178,498 from 2012 revenues and other financing sources. The expenditures and other financing uses of the general fund, which totaled \$13,582,915 in 2013, increased \$2,303,185 from 2012. The net decrease in fund balance for the general fund was \$330,573 or 2.38%.
- The capital improvement fund had revenues and other financing sources of \$3,762,474 in 2013. The expenditures of the capital improvement fund totaled \$2,393,727 in 2013. The net increase in fund balance for the capital improvement fund was \$1,368,747 or 47.14%.

#### **Using this Annual Financial Report**

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

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

## CITY OF FAIRLAWN, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2013 Unaudited

#### **Reporting the City as a Whole**

##### *Statement of Net Position and the Statement of Activities*

While this document contains a large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2013?" The statement of net position 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 position and changes in net position. This change in net position is important because it tells the reader that, for the City as a whole, the financial position of the City has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the City's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required community programs and other factors.

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

The City's statement of net position and statement of activities can be found on pages 17-18 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 10.

##### *Governmental Funds*

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

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the readers may better understand the long-term impact of the government's near-term financing decisions.



## **CITY OF FAIRLAWN, OHIO**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2013 Unaudited**

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.

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 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 19-23 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 24 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 25-52 of this report.

**CITY OF FAIRLAWN, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2013  
Unaudited

**Government-Wide Financial Analysis**

The Statement of Net Position provides the perspective of the City as a whole. The table below provides a summary of the City's net position for 2013 compared to 2012:

	<b>Net Position</b>	
	Governmental Activities 2013	Governmental Activities 2012
<u>Assets</u>		
Current and other assets	\$ 22,298,957	\$ 21,750,038
Capital assets, net	60,095,459	61,153,632
Total assets	<u>82,394,416</u>	<u>82,903,670</u>
<u>Liabilities</u>		
Current and other liabilities	911,193	1,047,139
Long-term liabilities	6,041,984	6,431,535
Total liabilities	<u>6,953,177</u>	<u>7,478,674</u>
Total deferred inflows of resources	754,377	761,842
Total liabilities and deferred inflows of resources	<u>7,707,554</u>	<u>8,240,516</u>
<u>Net Position</u>		
Net investment in capital assets	55,442,354	56,075,250
Restricted	5,832,446	4,730,986
Unrestricted	13,412,062	13,856,918
Total net position	<u>\$ 74,686,862</u>	<u>\$ 74,663,154</u>

Over time, net position can serve as a useful indicator of a government's financial position. At December 31, 2013, the City's assets exceeded liabilities and deferred inflows of resources by \$74,686,862.

Capital assets reported on the government-wide statements represent the largest portion of the City's assets. At year-end, capital assets represented 72.94% of total assets. Capital assets include land, land improvements, buildings and improvements, machinery and equipment, licensed vehicles, infrastructure and construction in progress. Capital assets, net of related debt to acquire the assets at December 31, 2013, were \$55,442,354. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the City's net position, \$5,832,446, represents resources that are subject to external restriction on how they may be used. In the governmental activities, the remaining balance of unrestricted net position of \$13,412,062 may be used to meet the government's ongoing obligations to citizens and creditors.

**CITY OF FAIRLAWN, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2013  
Unaudited

The table below shows the change in net position for fiscal years 2013 and 2012.

	<b>Change in Net Position</b>	
	Governmental Activities 2013	Governmental Activities 2012
	<u>2013</u>	<u>2012</u>
<b>Revenues</b>		
Program revenues:		
Charges for services	\$ 1,018,191	\$ 1,033,478
Operating grants and contributions	411,981	331,545
Capital grants and contributions	133,310	720,988
Total program revenues	<u>1,563,482</u>	<u>2,086,011</u>
General revenues:		
Property and other taxes	1,012,195	998,924
Income taxes	9,145,788	10,227,345
Unrestricted grants and entitlements	1,155,970	1,028,872
JEDD revenues	3,129,020	2,823,033
Investment earnings	30,658	29,044
Miscellaneous	101,470	385,146
Total general revenues	<u>14,575,101</u>	<u>15,492,364</u>
Total revenues	<u>\$ 16,138,583</u>	<u>\$ 17,578,375</u>
<b>Expenses</b>		
General government	\$ 2,695,775	\$ 3,744,352
Security of persons and property	6,771,086	6,370,474
Public health and welfare	118,475	118,910
Transportation	4,148,177	4,115,746
Community environment	336,175	361,857
Leisure time activity	535,214	455,823
Economic development	335,200	10,000
Utility services	1,082,170	948,396
Interest and fiscal charges	92,603	243,267
Total expenses	<u>16,114,875</u>	<u>16,368,825</u>
Change in net position	23,708	1,209,550
Net position at beginning of year	<u>74,663,154</u>	<u>73,453,604</u>
Net position at end of year	<u>\$ 74,686,862</u>	<u>\$ 74,663,154</u>

**Governmental Activities**

Governmental activities net position increased \$23,708 in 2013.

**CITY OF FAIRLAWN, OHIO**

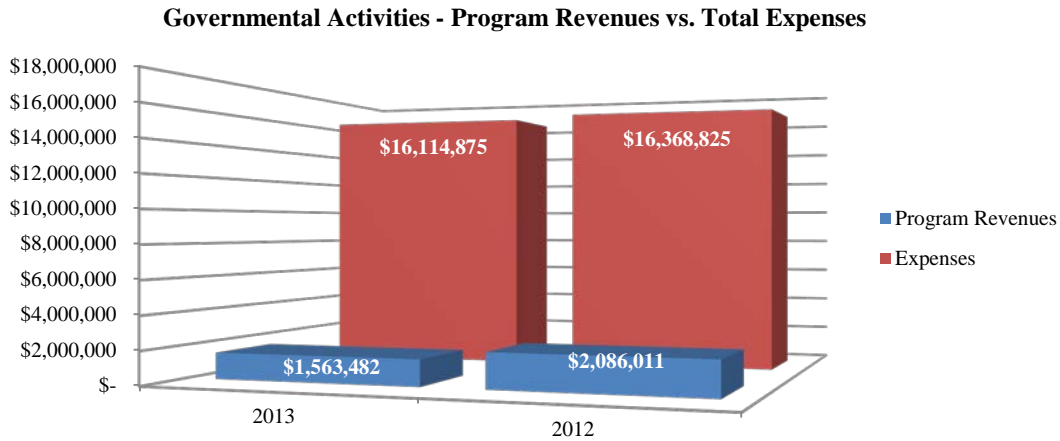
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2013  
Unaudited**

Security of persons and property, which primarily supports the operations of the police and fire departments accounted for \$6,771,086 of the total expenses of the City. These expenses were partially funded by \$408,473 in direct charges to users of the services \$19,600 in operating grants and contributions and \$26,636 in capital grants and contributions. Transportation expenses totaled \$4,148,177. Transportation expenses were partially funded by \$1,090 in direct charges to users of the services, \$383,647 in operating grants and contributions, and \$77,826 in capital grants and contributions.

The county, state, and federal governments contributed to the City a total of \$411,981 in operating grants and contributions. These revenues are restricted to a particular program or purpose. Of the total operating grants and contributions, \$19,600 subsidized security of persons and property, \$383,647 subsidized transportation programs, \$4,934 subsidized utility services, and \$3,800 subsidized community environment programs.

General revenues totaled \$14,575,101, and amounted to 90.31% of total governmental revenues. These revenues primarily consist of property and income tax revenues of \$10,157,983 and JEDD revenues of \$3,129,020.

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



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 grants and entitlements.

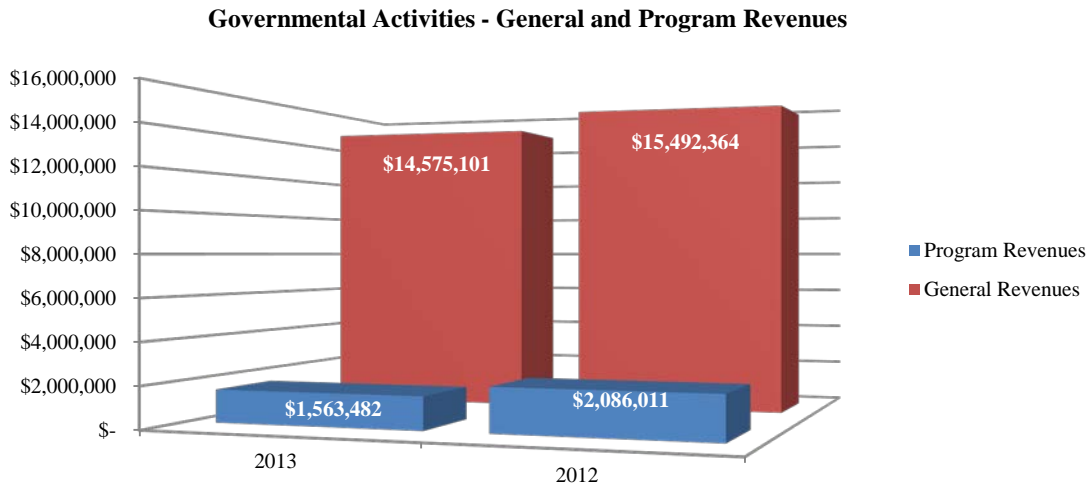
**CITY OF FAIRLAWN, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2013  
Unaudited

	<b>Governmental Activities</b>			
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2013	2013	2012	2012
Program Expenses:				
General government	\$ 2,695,775	\$ 2,337,533	\$ 3,744,352	\$ 3,362,012
Security of persons and property	6,771,086	6,316,377	6,370,474	5,973,748
Public health and welfare	118,475	118,475	118,910	118,910
Transportation	4,148,177	3,685,614	4,115,746	3,121,232
Community environment	336,175	272,785	361,857	310,371
Leisure time activity	535,214	519,243	455,823	440,735
Economic development	335,200	335,200	10,000	10,000
Utility services	1,082,170	873,563	948,396	702,539
Interest and fiscal charges	92,603	92,603	243,267	243,267
<b>Total</b>	<b>\$ 16,114,875</b>	<b>\$ 14,551,393</b>	<b>\$ 16,368,825</b>	<b>\$ 14,282,814</b>

The dependence upon general revenues for governmental activities is apparent, with 90.30% of expenses supported through taxes and other general revenues.

The chart below illustrates the City's program revenues versus general revenues for 2013 and 2012:



**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.

**CITY OF FAIRLAWN, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2013  
Unaudited

***Governmental Funds***

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance 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 19) reported a combined fund balance of \$18,666,326 which is \$860,255 more than last year's total of \$17,806,071. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2013 and 2012 for all major and nonmajor governmental funds.

	<u>Fund Balances</u> 12/31/13	<u>Fund Balances</u> 12/31/12	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
Major funds:				
General	\$ 13,583,556	\$ 13,914,129	\$ (330,573)	(2.38) %
Capital improvement	4,272,175	2,903,428	1,368,747	47.14 %
Other nonmajor governmental funds	810,595	988,514	(177,919)	(18.00) %
Total	<u>\$ 18,666,326</u>	<u>\$ 17,806,071</u>	<u>\$ 860,255</u>	4.83 %

***General Fund***

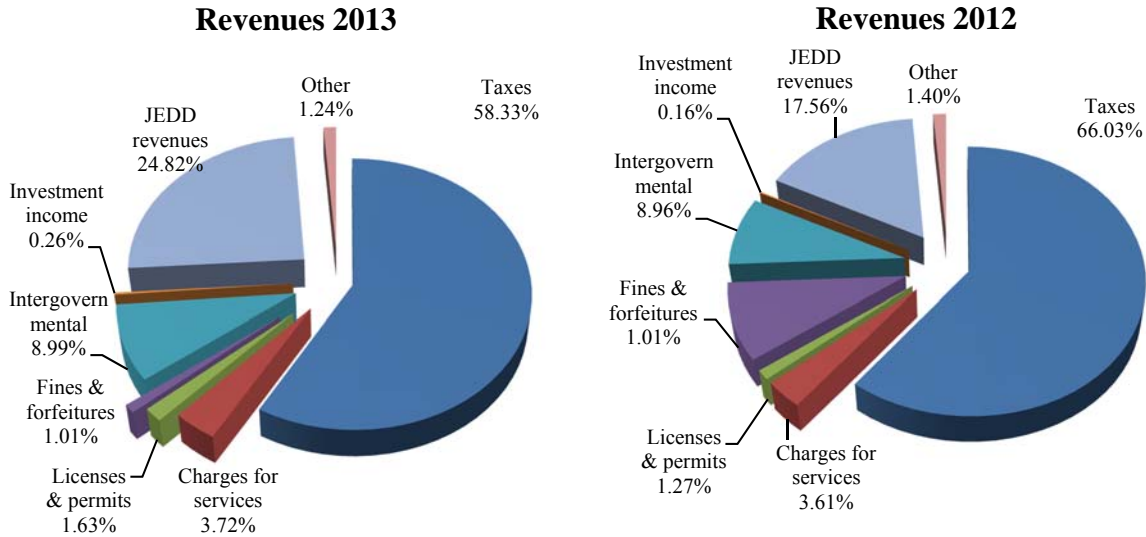
The City's general fund balance decreased by \$330,573. The table that follows assists in illustrating the revenues of the general fund.

	<u>2013</u> <u>Amount</u>	<u>2012</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<b><u>Revenues</u></b>			
Taxes	\$ 7,665,570	\$ 8,770,352	(12.60) %
Charges for services	489,027	479,868	1.91 %
Licenses and permits	214,065	168,593	26.97 %
Fines and forfeitures	132,528	134,159	(1.22) %
Intergovernmental	1,181,205	1,190,081	(0.75) %
Investment income	34,897	21,565	61.82 %
JEDD revenues	3,261,056	2,332,631	39.80 %
Other	162,582	186,079	(12.63) %
Total	<u>\$ 13,140,930</u>	<u>\$ 13,283,328</u>	(1.07) %

Tax revenue represents 58.33% of all general fund revenue. Tax revenue, as reported, decreased by 12.60% compared to the prior year. The decrease resulted from an income tax refund in excess of \$1,240,000 which was reported as a revenue reduction. The apparent increase in JEDD revenue is actually due to the timing of payments received during the available period.

**CITY OF FAIRLAWN, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2013  
Unaudited



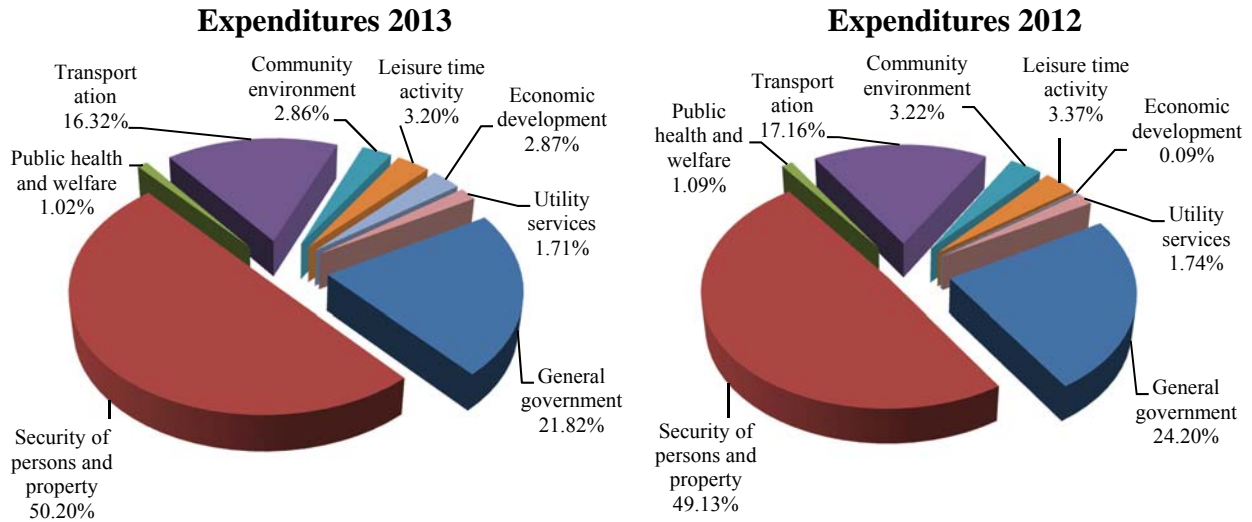
The table that follows assists in illustrating the expenditures of the general fund.

	2013 Amount	2012 Amount	Percentage Change
<b><u>Expenditures</u></b>			
General government	\$ 2,544,713	\$ 2,639,186	(3.58) %
Security of persons and property	5,853,773	5,358,420	9.24 %
Public health and welfare	118,475	118,910	(0.37) %
Transportation	1,902,790	1,871,835	1.65 %
Community environment	333,597	351,400	(5.07) %
Leisure time activity	373,588	367,426	1.68 %
Economic development	335,200	10,000	3,252.00 %
Utility services	198,879	190,053	4.64 %
<b>Total</b>	<b>\$ 11,661,015</b>	<b>\$ 10,907,230</b>	<b>6.91 %</b>

The increase in security of persons and property is a result of re-staffing efforts in the Police and Fire departments. Economic development reflects the City's subsidy to the Community Improvement Corporation of Fairlawn, a discretely presented component unit of the City. All other expenditures remained comparable to 2012.

**CITY OF FAIRLAWN, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2013  
Unaudited**



***Capital Improvement Fund***

The capital improvement fund had revenues and other financing sources of \$3,762,474 in 2013. The expenditures of the capital improvement fund totaled \$2,393,727 in 2013. The net increase in fund balance for the capital improvement fund was \$1,368,747 or 47.14%, mainly due to transfers-in from the general fund.

***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. Budgeted intergovernmental revenue was increased to reflect the estate tax received as well as a substantial refund from the Bureau of Workers Compensation. Likewise, budgeted JEDD revenue was increased to coincide with an increase in receipts. Actual income taxes, sewer tap-in fees, and ambulance fees were greater than anticipated. Actual expenditures for general government and security of persons and property were less than anticipated do less than full staffing and conservative spending throughout the year. Economic development expenditures decreased due to less subsidy than originally planned for the Community Improvement Corporation of Fairlawn, a discretely presented component unit of the City.



**CITY OF FAIRLAWN, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2013  
Unaudited

**Capital Assets and Debt Administration**

**Capital Assets**

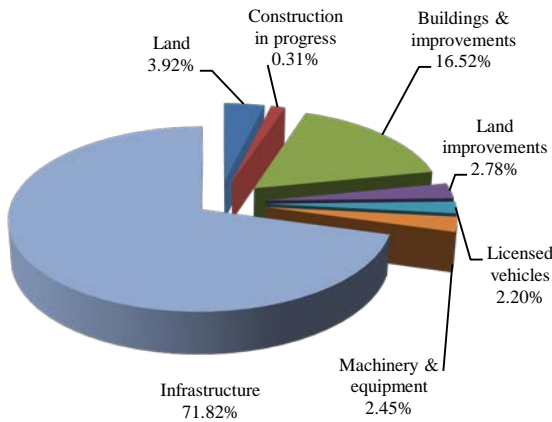
At the end of fiscal 2013, the City had \$60,095,459 (net of accumulated depreciation) invested in land, construction in progress, buildings and improvements, land improvements, machinery and equipment, licensed vehicles and infrastructure. The following table shows fiscal 2013 balances compared to 2012:

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

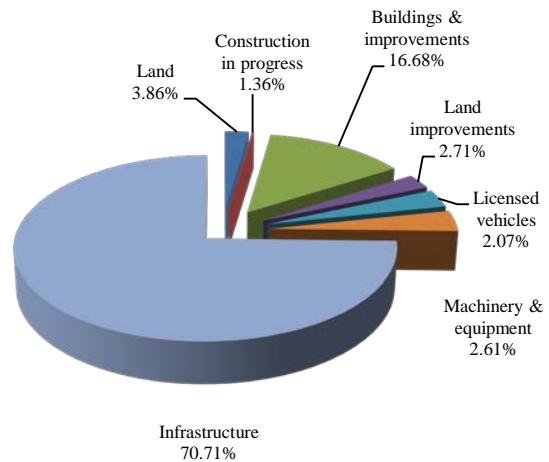
	Governmental Activities	
	2013	2012
Land	\$ 2,357,497	\$ 2,357,497
Construction in progress	185,921	829,507
Buildings and improvements	9,928,632	10,201,529
Land improvements	1,670,571	1,657,574
Licensed vehicles	1,321,330	1,266,336
Machinery and equipment	1,469,113	1,597,761
Infrastructure	43,162,395	43,243,428
<b>Totals</b>	<b>\$ 60,095,459</b>	<b>\$ 61,153,632</b>

The following graphs show the breakdown of governmental capital assets by category for 2013 and 2012.

**Capital Assets - Governmental Activities 2013**



**Capital Assets - Governmental Activities 2012**



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 71.82% of the City's total governmental capital assets at December 31, 2013.

**CITY OF FAIRLAWN, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2013  
Unaudited

See Note 9 for more detail on the City's capital assets.

***Debt Administration***

The City had the following long-term obligations outstanding at December 31, 2013 and 2012:

	Governmental Activities	
	2013	2012
General obligation bonds	\$ 4,400,000	\$ 4,725,000
OPWC loans	86,778	168,574
Compensated absences	1,388,879	1,353,153
Total long-term obligations	<u>\$ 5,875,657</u>	<u>\$ 6,246,727</u>

See Note 10 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.

The City's Land Use Plan designated 200+ acres of former farmland as an office park in the City's southwest corner. Fairlawn Corporate Park continues to develop as planned, work will begin on the A. Schulman building soon. The City has formed a Community Improvement Corporation (CIC) to expand its economic development capabilities and to attract and retain businesses. The CIC recently hired a commercial real estate firm to market the Fairlawn Corporate Park.

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 seventy (70) 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 recently added the adult and youth soccer fields and a community garden to the Fairlawn parks system.

The City's primary revenue source is the 2% local income tax withheld on the estimated 40,000 people working in the City. Income tax collections, net of shared revenue due to the City of Akron, increased 3.74% in 2013 as compared to the previous year.

**CITY OF FAIRLAWN, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2013  
Unaudited**

The City is projecting a slight increase in general fund revenue, net of interfund transfers and advances, in 2014. Expenditures for 2014, net of interfund transfers and advances, are budgeted at 1.71% greater than 2013 due to wage increases and general inflation. Programs supported by the general fund are budgeted at the same level of service as last year.

**Contacting the City's Financial Management**

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

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**CITY OF FAIRLAWN, OHIO**

STATEMENT OF NET POSITION  
DECEMBER 31, 2013

	<b>Primary Government</b>	<b>Component Unit</b>
	<b>Governmental</b>	<b>Community</b>
	<b>Activities</b>	<b>Improvement</b>
		<b>Corporation</b>
		<b>of Fairlawn</b>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents	\$ 17,374,075	\$ 229,033
Cash and cash equivalents in segregated accounts	15,948	-
Receivables:		
Income taxes	2,129,010	-
Real and other taxes	806,687	-
Accounts	97,349	-
Special assessments	386,258	-
Accrued interest	5,659	-
Due from other governments	899,264	-
Materials and supplies inventory	506,204	-
Prepayments	78,503	841
Assets held for sale	-	87,234
Capital assets:		
Land and construction in progress	2,543,418	-
Depreciable capital assets, net	57,552,041	-
Total capital assets, net	60,095,459	-
Total assets	82,394,416	317,108
<b>Liabilities:</b>		
Accounts payable	202,807	3,281
Contracts payable	40,819	83,049
Accrued wages and benefits payable	188,032	-
Compensated absences payable	39,629	-
Due to other governments	430,351	-
Accrued interest payable	9,555	-
Long-term liabilities:		
Due within one year	1,058,036	-
Due in more than one year	4,983,948	-
Total liabilities	6,953,177	86,330
<b>Deferred inflows of resources:</b>		
Property taxes levied for the next fiscal year	754,377	-
Total deferred inflows of resources	754,377	-
Total liabilities and deferred inflows of resources	7,707,554	86,330
<b>Net position:</b>		
Net investment in capital assets	55,442,354	-
Restricted for:		
Debt service	102,984	-
Capital projects	4,791,473	-
Other purposes	937,989	-
Unrestricted	13,412,062	230,778
Total net position	\$ 74,686,862	\$ 230,778

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FAIRLAWN, OHIO**

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>Program Revenues</u>			<u>Net (Expense) Revenues and Changes in Net Position</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Governmental Activities</u>	<u>Component Unit Community Improvement Corporation of Fairlawn</u>
<b>Governmental activities:</b>						
Current:						
General government	\$ 2,695,775	\$ 329,394	\$ -	\$ 28,848	\$ (2,337,533)	\$ -
Security of persons and property	6,771,086	408,473	19,600	26,636	(6,316,377)	-
Public health and welfare	118,475	-	-	-	(118,475)	-
Transportation	4,148,177	1,090	383,647	77,826	(3,685,614)	-
Community environment	336,175	59,590	3,800	-	(272,785)	-
Leisure time activity	535,214	15,971	-	-	(519,243)	-
Economic development	335,200	-	-	-	(335,200)	-
Utility services	1,082,170	203,673	4,934	-	(873,563)	-
Interest and fiscal charges	92,603	-	-	-	(92,603)	-
Total governmental activities	<u>\$ 16,114,875</u>	<u>\$ 1,018,191</u>	<u>\$ 411,981</u>	<u>\$ 133,310</u>	<u>(14,551,393)</u>	<u>-</u>
<b>Component Unit:</b>						
Community Improvement Corporation of Fairlawn	<u>\$ 278,691</u>	<u>\$ -</u>	<u>\$ 335,200</u>	<u>\$ -</u>	<u>-</u>	<u>56,509</u>
			<b>General revenues:</b>			
			Property taxes levied for:			
			General purposes	847,728	-	
			Police and fire pension	164,467	-	
			Income taxes levied for:			
			General purposes	6,917,147	-	
			Capital outlay	2,228,641	-	
			Grants and entitlements not restricted to specific programs	1,155,970	-	
			JEDD revenues	3,129,020	-	
			Investment earnings	30,658	-	
			Miscellaneous	101,470	-	
			Total general revenues	<u>14,575,101</u>	<u>-</u>	
			Change in net position	23,708	56,509	
			<b>Net position at beginning of year</b>	<u>74,663,154</u>	<u>174,269</u>	
			<b>Net position at end of year</b>	<u>\$ 74,686,862</u>	<u>\$ 230,778</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FAIRLAWN, OHIO**

BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2013

	<u>General</u>	<u>Capital Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>				
Equity in pooled cash and cash equivalents	\$ 12,454,472	\$ 4,011,682	\$ 907,921	\$ 17,374,075
Cash and cash equivalents in segregated accounts	15,948	-	-	15,948
Receivables:				
Income taxes	1,596,757	532,253	-	2,129,010
Real and other taxes	631,189	-	175,498	806,687
Accounts	97,124	200	25	97,349
Special assessments	-	295,265	90,993	386,258
Accrued interest	5,553	-	106	5,659
Due from other funds	35,000	-	-	35,000
Due from other governments	739,805	-	159,459	899,264
Materials and supplies inventory	506,204	-	-	506,204
Prepayments	78,503	-	-	78,503
<b>Total assets</b>	<u>\$ 16,160,555</u>	<u>\$ 4,839,400</u>	<u>\$ 1,334,002</u>	<u>\$ 22,333,957</u>
<b>Liabilities:</b>				
Accounts payable	\$ 175,649	\$ 14,271	\$ 12,887	\$ 202,807
Contracts payable	14,115	26,704	-	40,819
Accrued wages and benefits payable	188,032	-	-	188,032
Compensated absences payable	39,629	-	-	39,629
Due to other funds	-	-	35,000	35,000
Due to other governments	355,451	-	74,900	430,351
<b>Total liabilities</b>	<u>772,876</u>	<u>40,975</u>	<u>122,787</u>	<u>936,638</u>
<b>Deferred inflows of resources:</b>				
Property taxes levied for the next fiscal year	586,738	-	167,639	754,377
Delinquent property tax revenue not available	27,432	-	7,859	35,291
Accrued interest not available	5,553	-	106	5,659
Special assessments revenue not available	-	295,265	90,993	386,258
Miscellaneous revenue not available	6,430	-	-	6,430
Income tax revenue not available	692,954	230,985	-	923,939
Intergovernmental revenue not available	126,650	-	134,023	260,673
JEDD revenues not available	358,366	-	-	358,366
<b>Total deferred inflows of resources</b>	<u>1,804,123</u>	<u>526,250</u>	<u>400,620</u>	<u>2,730,993</u>
<b>Total liabilities and deferred inflows of resources</b>	<u>2,576,999</u>	<u>567,225</u>	<u>523,407</u>	<u>3,667,631</u>
<b>Fund balances:</b>				
Nonspendable	611,448	-	-	611,448
Restricted	-	4,272,175	810,595	5,082,770
Committed	5,000	-	-	5,000
Assigned	436,824	-	-	436,824
Unassigned	12,530,284	-	-	12,530,284
<b>Total fund balances</b>	<u>13,583,556</u>	<u>4,272,175</u>	<u>810,595</u>	<u>18,666,326</u>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<u>\$ 16,160,555</u>	<u>\$ 4,839,400</u>	<u>\$ 1,334,002</u>	<u>\$ 22,333,957</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FAIRLAWN, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET POSITION OF GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2013

<b>Total governmental fund balances</b>		\$ 18,666,326
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		60,095,459
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds.		
Income taxes receivable	\$ 923,939	
Real and other taxes receivable	35,291	
Accounts receivable	6,430	
Special assessments receivable	386,258	
Accrued interest receivable	5,659	
Due from other governments	619,039	
Total	<u>1,976,616</u>	1,976,616
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.		(9,555)
Unamortized premiums on bond issuances are not recognized in the funds.		(166,327)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	(1,388,879)	
General obligation bonds payable	(4,400,000)	
Loans payable	(86,778)	
Total	<u>(5,875,657)</u>	(5,875,657)
<b>Net position of governmental activities</b>		<u><u>\$ 74,686,862</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, 2013

	<u>General</u>	<u>Capital Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
Income taxes	\$ 6,805,293	\$ 2,191,356	\$ -	\$ 8,996,649
Real and other taxes	860,277	-	168,040	1,028,317
Charges for services	489,027	-	136,608	625,635
Licenses and permits	214,065	-	-	214,065
Fines and forfeitures	132,528	-	1,620	134,148
Intergovernmental	1,181,205	-	397,893	1,579,098
Special assessments	-	57,836	92,006	149,842
Investment income	34,897	-	968	35,865
Rental income	70,196	-	-	70,196
Contributions and donations	32,431	-	-	32,431
JEDD revenues	3,261,056	-	-	3,261,056
Other	59,955	10,677	3,860	74,492
Total revenues	<u>13,140,930</u>	<u>2,259,869</u>	<u>800,995</u>	<u>16,201,794</u>
<b>Expenditures:</b>				
Current:				
General government	2,544,713	-	1,000	2,545,713
Security of persons and property	5,853,773	-	580,812	6,434,585
Public health and welfare	118,475	-	-	118,475
Transportation	1,902,790	-	595,044	2,497,834
Community environment	333,597	-	-	333,597
Leisure time activity	373,588	-	-	373,588
Economic development	335,200	-	-	335,200
Utility services	198,879	-	91,954	290,833
Capital outlay	-	1,961,347	41,302	2,002,649
Debt service:				
Principal retirement	-	325,000	81,796	406,796
Interest and fiscal charges	-	107,380	8,906	116,286
Total expenditures	<u>11,661,015</u>	<u>2,393,727</u>	<u>1,400,814</u>	<u>15,455,556</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,479,915</u>	<u>(133,858)</u>	<u>(599,819)</u>	<u>746,238</u>
<b>Other financing sources (uses):</b>				
Sale of capital assets.	13,900	2,605	-	16,505
Transfers in	-	1,500,000	421,900	1,921,900
Transfers (out)	<u>(1,921,900)</u>	-	-	<u>(1,921,900)</u>
Total other financing sources (uses)	<u>(1,908,000)</u>	<u>1,502,605</u>	<u>421,900</u>	<u>16,505</u>
Net change in fund balances	(428,085)	1,368,747	(177,919)	762,743
<b>Fund balances at beginning of year</b>	13,914,129	2,903,428	988,514	17,806,071
<b>Increase in reserve for inventory</b>	97,512	-	-	97,512
<b>Fund balances at end of year</b>	<u>\$ 13,583,556</u>	<u>\$ 4,272,175</u>	<u>\$ 810,595</u>	<u>\$ 18,666,326</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, 2013

**Net change in fund balances - total governmental funds** \$ 762,743

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeds capital outlays in the current period.

Capital asset additions	\$ 1,223,845	
Current year depreciation	(2,220,886)	
Total	(997,041)	(997,041)

The net effect of various transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets. (61,132)

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

Income taxes	149,139	
Real and other taxes	(16,122)	
Licenses and permits	(25,853)	
Intergovernmental revenues	(21,824)	
Special assessments	(120,994)	
Investment income	(5,207)	
JEDD revenues	(132,036)	
Other	(230)	
Total	(173,127)	(173,127)

Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed. 97,512

Repayment of bond and lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position. 406,796

In the statement of activities, interest is accrued on outstanding bonds and loans, whereas in governmental funds, an interest expenditure is reported when due. 23,683

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. (35,726)

**Change in net position of governmental activities** \$ 23,708

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, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
				<u>Positive</u>
				<u>(Negative)</u>
<b>Revenues:</b>				
Income taxes	\$ 5,779,211	\$ 5,753,747	\$ 6,878,754	\$ 1,125,007
Real and other taxes	822,655	809,755	859,979	50,224
Charges for services	372,500	360,700	483,520	122,820
Licenses and permits	170,200	171,500	183,041	11,541
Fines and forfeitures	132,000	122,000	128,975	6,975
Intergovernmental	814,440	1,204,140	1,222,059	17,919
Investment income	22,000	32,000	37,399	5,399
Rental income	71,500	64,500	69,881	5,381
Contributions and donations	-	26,200	32,431	6,231
JEDD revenues	2,650,000	3,042,500	3,042,551	51
Other	59,000	53,000	59,562	6,562
Total revenues	<u>10,893,506</u>	<u>11,640,042</u>	<u>12,998,152</u>	<u>1,358,110</u>
<b>Expenditures:</b>				
Current:				
General government	3,481,345	3,450,495	2,993,350	457,145
Security of persons and property	6,303,565	6,582,715	5,955,752	626,963
Public health and welfare	123,300	123,300	118,475	4,825
Transportation	2,061,918	2,097,195	1,985,099	112,096
Community environment	345,822	401,822	376,954	24,868
Leisure time activity	379,726	390,460	378,996	11,464
Economic development	420,000	420,000	335,200	84,800
Utility services	249,969	249,969	209,666	40,303
Total expenditures	<u>13,365,645</u>	<u>13,715,956</u>	<u>12,353,492</u>	<u>1,362,464</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,472,139)</u>	<u>(2,075,914)</u>	<u>644,660</u>	<u>2,720,574</u>
<b>Other financing sources (uses):</b>				
Sale of capital assets	-	7,900	8,100	200
Advances in	35,000	-	-	-
Advances (out)	(35,000)	(35,000)	(35,000)	-
Transfers (out)	(1,921,900)	(1,921,900)	(1,921,900)	-
Total other financing sources (uses)	<u>(1,921,900)</u>	<u>(1,949,000)</u>	<u>(1,948,800)</u>	<u>200</u>
Net change in fund balances	(4,394,039)	(4,024,914)	(1,304,140)	2,720,774
<b>Fund balances at beginning of year</b>	12,309,320	12,309,320	12,309,320	-
<b>Prior year encumbrances appropriated</b>	720,560	720,560	720,560	-
<b>Fund balance at end of year</b>	<u>\$ 8,635,841</u>	<u>\$ 9,004,966</u>	<u>\$ 11,725,740</u>	<u>\$ 2,720,774</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FAIRLAWN, OHIO**

STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
DECEMBER 31, 2013

	<u>Agency</u>
<b>Assets:</b>	
Current assets:	
Equity in pooled cash and cash equivalents	\$ 48,613
Receivables:	
Accounts	<u>301</u>
Total assets	<u>\$ 48,914</u>
<b>Liabilities:</b>	
Undistributed monies	<u>48,914</u>
Total liabilities	<u>\$ 48,914</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, 2013

#### 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 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. The City has one component unit.

*Community Improvement Corporation of Fairlawn, Ohio* - The Community Improvement Corporation of Fairlawn, Ohio (the "CIC") was formed pursuant to Ordinance 2010-030 passed June 21, 2010 and incorporated as a corporation not-for-profit under Title XVII, Chapters 1702 and 1724 of the Ohio Revised Code for the purpose to advance, encourage, and promote industrial, economic, commercial and civic development of the City of Fairlawn. The CIC has been designated as the City of Fairlawn's agent for industrial, commercial, distribution, and research development. The Board of Trustees of the CIC is to be comprised of no less than five members: three City representatives (the Mayor, the Council President, and the Finance Director) and two or more additional members appointed by a majority of the Board of Trustees. At all times no less than two-fifths of the members shall be elected or appointed officials of the City. The CIC is also dependent on the City for financial support and is therefore presented as a component unit of the City. The CIC began operations on July 24, 2012. Financial statements can be obtained from the City of Fairlawn, Department of Finance, 3487 S. Smith Road, Fairlawn, Ohio 44333, and further disclosures for the discretely presented component unit can be found in Note 19.

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.

## CITY OF FAIRLAWN, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013

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

The Copley/Fairlawn City School District and the Akron-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 2013 JEDD revenues were the result of the income tax levied by the JEDD effective January 1, 1999.

#### **B. Basis of Presentation - Fund Accounting**

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

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

The statement of net position presents the financial condition of the governmental activities of the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain 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.

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

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

***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 and deferred outflows are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities and deferred inflows 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.

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

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; and (c) for grants and other resources whose use is restricted to a particular purpose.

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

**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 deferred outflows and all liabilities and deferred inflows associated with the operation of the City are included on the statement of net position.

***Fund Financial Statements*** - All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and deferred outflows and current liabilities and deferred inflows 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 reconciliation with brief explanations to better identify the relationship between the government-wide statements and the financial statements for governmental funds.

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

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

**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 outflows 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.

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 Inflows** – Deferred inflows arise 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, 2013, but which were levied to finance year 2014 operations, and other revenues received in advance of the fiscal year for which they were intended to finance, have been recorded as deferred inflows. Income taxes and special assessments not received within the available period, grants and entitlements received before the eligibility requirements are met, and delinquent property taxes due at December 31, 2013, are recorded as deferred inflows in the governmental funds.

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

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



## CITY OF FAIRLAWN, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013

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

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.

**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 original and final amended official certificate of estimated resources issued during 2013.

**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 original and final appropriation amounts, including all amendments and modifications legally enacted by Council.

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

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

*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 2013, investments were limited to certificates of deposit.

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.

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 2013, interest revenue credited to the general fund amounted to \$34,897, which includes \$9,812 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.

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

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

**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 position but are not reported in the governmental 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.

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:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and improvements	15 – 50 years
Land improvements	25 – 75 years
Licensed vehicles	3 – 25 years
Machinery and equipment	5 – 30 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, 1998.

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. The City had compensated absences payable of \$39,629 in 2013.

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

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

**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 and compensated absences that will be paid from governmental funds are reported as a liability in the governmental fund financial statements only to the extent that they are due for payment during the current year.

**L. Interfund Balances**

On fund financial statements, receivables and payables resulting from goods and services provided between funds are classified as “due to/from other funds.” These amounts are eliminated in the governmental column of the statement of net position.

**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**

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

*Nonspendable* - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable, unclaimed monies and year-end balances of materials and supplies inventories and prepaid assets.

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

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

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

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

*Assigned* - Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the City Council.

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

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

**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 Position**

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component "net investment in capital assets," consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for other purposes include unclaimed monies. The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

**Q. Prepaid Items**

Prepayments made to vendors for services that will benefit future periods beyond December 31, 2013 are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which it was consumed.

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

- A. For fiscal year 2013, the City has implemented GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34" and GASB Statement No. 66, "Technical Corrections-2012".

GASB Statement No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity. The Statement amends the criteria for reporting component units as if they were part of the primary government in certain circumstances. Finally, the Statement also clarifies the reporting of equity interests in legally separate organizations. The implementation of GASB Statement No. 61 did not have an effect on the financial statements of the City.

GASB Statement No. 66 improves accounting and financial reporting by resolving conflicting guidance that resulted from the issuance of two pronouncements; GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" and GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA pronouncements". The implementation of GASB Statement No. 66 did not have an effect on the financial statements of the City.

- B. In June 2012, the GASB issued Statement No. 68, "Accounting and Financial Reporting for Pensions". Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the City's financial statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The Statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this Statement are effective for financial statements for the year ending December 31, 2015.

**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, 2013

**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 items (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State 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.

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the 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 \$1,200 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, 2013, the City had \$15,948 in bank accounts outside of the City Treasury related to Mayor's Court operations. These amounts are included on the financial statements as "cash and cash equivalents in segregated accounts" and are included in deposits with financial institutions below.

**C. Deposits with Financial Institutions**

At December 31, 2013, the carrying amount of the City's deposits was \$17,437,436. As of December 31, 2013, \$7,122,796 of the City's bank balance of \$17,895,356 was exposed to custodial risk as discussed below, while \$10,772,560 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**

The City had no investments at December 31, 2013.



**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

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

**E. Reconciliation of Cash and Investment to the Statement of Net Position**

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 position as of December 31, 2013:

<u>Cash and Investments per Footnote</u>	
Carrying amount of deposits	\$ 17,437,436
Cash on hand	1,200
Total	<u><u>\$ 17,438,636</u></u>
 <u>Cash and Investments per Statement of Net Position</u>	
Governmental activities	\$ 17,390,023
Agency funds	48,613
Total	<u><u>\$ 17,438,636</u></u>

**NOTE 5 - INTERFUND TRANSACTIONS**

A. Interfund transfers for the year ended December 31, 2013 consisted of the following, as reported in the fund financial statements:

	<u>Transfers from</u>
<u>Transfers to</u>	<u>General</u>
Major	
Capital Improvement	\$ 1,500,000
Nonmajor	
Governmental funds	421,900
	<u><u>\$ 1,921,900</u></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. Transfers between governmental funds made in compliance with ORC Sections 5705.14-16, are eliminated for reporting on the government-wide statement of activities.

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

**NOTE 5 - INTERFUND TRANSACTIONS - (Continued)**

- B.** Due from/to other funds consisted of the following at December 31, 2013, as reported in the governmental fund financial statements:

Due to Other Funds	Due from Other Funds
General	Governmental funds
	\$ 35,000

Amounts due from/to other funds represent an advance from the General Fund to the Bond Retirement Fund in anticipation of special assessment revenue.

Amounts due from/to other funds between governmental funds are eliminated on the government-wide financial statements.

**NOTE 6 - PROPERTY TAXES**

Property taxes include amounts levied against all real and public utility property located in the City. Taxes collected from real property taxes (other than public utility) in one calendar year are levied in the preceding calendar year on the assessed value as of January 1 of that preceding year, the lien date. Assessed values are established by the County Fiscal Officer at 35 percent of appraised market value. All property is required to be revaluated every six years. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Public utility tangible personal property is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2013 public utility property taxes became a lien December 31, 2012, are levied after October 1, 2013, and are collected in 2014 with real property taxes. Public utility property taxes are payable on the same dates as real property taxes described previously.

The Fiscal Officer collects property taxes on behalf of all taxing districts in the County, including the City of Fairlawn. The Fiscal Officer periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real property taxes, public utility taxes, delinquent tangible personal property taxes and other outstanding delinquencies which are measurable as of December 31, 2012 and for which there is an enforceable legal claim. In the governmental funds, the current portion receivable has been offset by a deferred inflow of resources since the current taxes were not levied to finance 2012 operations and the collection of delinquent taxes has been offset by deferred revenue since the collection of the taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue is a deferred inflow of resources.

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

**NOTE 6 - PROPERTY TAXES - (Continued)**

The full tax rate for all City operations for the year ended December 31, 2013 was \$2.70 per \$1,000 of assessed value. The assessed values of real and public utility property upon which 2013 property tax receipts were based are as follows:

<u>Real property</u>	
Residential/agricultural	\$ 161,250,130
Commercial/industrial/mineral	146,891,960
 <u>Public utility</u>	
Personal	3,122,550
Total assessed value	\$ 311,264,640

**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. The general fund receives 75 percent and the capital improvement fund receives 25 percent of income tax proceeds, net of collection expenditures.

**NOTE 8 - RECEIVABLES**

Receivables at December 31, 2013, 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 financial statements. Receivables have been recorded to the extent that they are measurable at December 31, 2013.

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

<b><u>Governmental Activities:</u></b>	
Income taxes	\$ 2,129,010
Real and other taxes	806,687
Accounts	97,349
Special assessments	386,258
Accrued interest	5,659
Due from other governments	899,264
Total	\$ 4,324,227

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.

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

**NOTE 9 - CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2013 was as follows:

<b><u>Governmental Activities:</u></b>	Balance 12/31/12	Additions	Disposals	Balance 12/31/13
<i>Capital assets, not being depreciated:</i>				
Land	\$ 2,357,497	\$ -	\$ -	\$ 2,357,497
Construction in progress	829,507	185,921	(829,507)	185,921
Total capital assets, not being depreciated	<u>3,187,004</u>	<u>185,921</u>	<u>(829,507)</u>	<u>2,543,418</u>
<i>Capital assets, being depreciated:</i>				
Buildings and improvements	14,084,223	-	-	14,084,223
Land improvements	2,604,212	93,590	(27,089)	2,670,713
Licensed vehicles	3,179,361	239,903	(161,541)	3,257,723
Machinery and equipment	3,772,153	99,274	(50,512)	3,820,915
Infrastructure	76,713,831	1,539,126	(726,314)	77,526,643
Total capital assets, being depreciated	<u>100,353,780</u>	<u>1,971,893</u>	<u>(965,456)</u>	<u>101,360,217</u>
<i>Less: accumulated depreciation:</i>				
Buildings and improvements	(3,882,694)	(272,897)	-	(4,155,591)
Land improvements	(946,638)	(79,593)	26,089	(1,000,142)
Licensed vehicles	(1,913,025)	(177,909)	154,541	(1,936,393)
Machinery and equipment	(2,174,392)	(225,922)	48,512	(2,351,802)
Infrastructure	(33,470,403)	(1,464,565)	570,720	(34,364,248)
Total accumulated depreciation	<u>(42,387,152)</u>	<u>(2,220,886)</u>	<u>799,862</u>	<u>(43,808,176)</u>
Total capital assets, being depreciated, net	<u>57,966,628</u>	<u>(248,993)</u>	<u>(165,594)</u>	<u>57,552,041</u>
Total capital assets, net	<u>\$ 61,153,632</u>	<u>\$ (63,072)</u>	<u>\$ (995,101)</u>	<u>\$ 60,095,459</u>

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

<b><u>Governmental activities:</u></b>	
General government	\$ 40,739
Security of persons and property	350,347
Transportation	1,169,747
Community environment	2,311
Leisure time activity	80,148
Utility services	577,594
Total depreciation expense	<u>\$ 2,220,886</u>

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

**NOTE 10 - LONG-TERM OBLIGATIONS**

**A. Description of Long-Term Obligations**

The maturity date, interest rate, and original issue amount for the City's long-term obligations are as follows:

	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Original Issue Amount</u>
<u>General obligation bonds</u>			
1993 Sewer System Improvement	2013	2.80 - 5.75%	\$ 2,875,000
2012 Various Purpose Refunding	2022	1.25 - 2.00%	4,500,000
<u>OPWC loans</u>			
West Market Street Roadway Reconstruction	2014	6.00%	1,048,277

**B. Changes in Long-Term Obligations**

During 2013, the following changes occurred in governmental activities long-term obligations:

<u>Governmental Activities:</u>	<u>Balance 12/31/12</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/13</u>	<u>Due in One Year</u>
<u>General obligation bonds</u>					
1993 Sewer System Improvement	\$ 225,000	\$ -	\$ (225,000)	\$ -	\$ -
2012 Various Purpose Refunding	4,500,000	-	(100,000)	4,400,000	465,000
Total General Obligation Bonds	4,725,000	-	(325,000)	4,400,000	465,000
<u>OPWC loans</u>					
West Market Street Roadway Reconstruction	168,574	-	(81,796)	86,778	86,778
<u>Other Long-Term Obligations</u>					
Compensated absences	1,353,153	36,817	(1,091)	1,388,879	506,258
Total long-term obligations	\$ 6,246,727	<u>\$ 36,817</u>	<u>\$ (407,887)</u>	\$ 5,875,657	<u>\$ 1,058,036</u>
Add: Unamortized premium on bond issue	184,808			166,327	
Total reported on the Statement of Net Position	<u>\$ 6,431,535</u>			<u>\$ 6,041,984</u>	

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

**NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)**

The general obligation bonds will be paid from income taxes receipted into the capital improvement fund. The 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; the general fund.

**C. Debt Service Requirements**

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2013 are as follows:

Year	General Obligation Bonds			OPWC Loan		
	Principal	Interest	Total	Principal	Interest	Total
2014	\$ 465,000	\$ 83,425	\$ 548,425	\$ 86,778	\$ 3,924	\$ 90,702
2015	610,000	74,125	684,125	-	-	-
2016	620,000	66,500	686,500	-	-	-
2017	635,000	54,100	689,100	-	-	-
2018	640,000	41,400	681,400	-	-	-
2019 - 2022	1,430,000	72,000	1,502,000	-	-	-
Total	\$ 4,400,000	\$ 391,550	\$ 4,791,550	\$ 86,778	\$ 3,924	\$ 90,702

**D. Conduit Debt Obligations**

From time to time, the City has issued Health Care Facilities Revenue Bonds to provide financial assistance to a private, non-profit sector entity for the acquisition and construction of health care facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the City, the State of Ohio, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of December 31, 2013, there were two series of Health Care Facilities Revenue Bonds with an aggregate outstanding principal amount payable of \$10,665,000 and an original issue amount of \$12,105,000.

**CITY OF FAIRLAWN, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**NOTE 11 - OTHER EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining vested vacation and sick leave components are derived from negotiated agreements and state laws. Employees earn ten to thirty days of vacation per year, depending upon length of service. Vacation accumulation is typically limited to one year. Employees may carry over vacation earned for three years prior to their 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. Upon retirement, employees hired before 1998 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 a maximum of 90 days. Employees with a hire date subsequent to 1998 are not eligible to receive termination payments for sick leave. As of December 31, 2013 the total liability for unpaid compensated absences was \$1,388,879.

**B. Health Care Benefits**

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

**NOTE 12 - 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 2013, the City contracted with Wichert Insurance Service, Inc. for property and general liability insurance, including boiler and machinery provided by Selective Insurance Company. Police and professional liability policies are provided by Scottsdale Indemnity Company with a \$1,000,000 limit and a \$10,000 deductible. Selective Insurance Company covers Firemen and EMT professional liability with a limit of \$1,000,000 and no deductible. A commercial umbrella policy through Selective Insurance Company provides additional general liability and auto liability insurance up to a \$10,000,000 limit.

Vehicles are covered by Selective 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 combined limit for bodily injury and property damage. 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.

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

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

**NOTE 13 - PENSION PLANS**

**A. Ohio Public Employees Retirement System**

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

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional Pension and the 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 which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

Funding Policy - The Ohio Revised Code provides statutory authority for member and employer contributions. For 2013, member and contribution rates were consistent across all three plans. The 2013 member contribution rates were 10.00% for members. The City's contribution rate for 2013 was 14.00% of covered payroll.

The City's contribution rate for pension benefits for members in the Traditional Plan for 2013 was 13.00%. The City's contribution rate for pension benefits for members in the Combined Plan for 2013 was 13.00%. The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2013, 2012, and 2011 were \$381,966, \$276,424 and \$278,349, respectively; 91.28% has been contributed for 2013 and 100% for 2012 and 2011. Contributions to the member-directed plan for 2013 were \$2,700 made by the City and \$1,929 made by the plan members.

**B. Ohio Police and Fire Pension Fund**

Plan Description - The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability 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 OP&F, 140 East Town Street, Columbus, Ohio 43215-5164 or by visiting the website at [www.op-f.org](http://www.op-f.org).



**CITY OF FAIRLAWN, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**NOTE 13 - PENSION PLANS - (Continued)**

Funding Policy – From January 1, 2013 through July 1, 2013, plan members were required to contribute 10.00% of their annual covered salary. From July 2, 2013 through December 31, 2013, plan members were required to contribute 10.75% of their annual covered salary. Throughout 2013, the City was required to contribute 19.50% and 24.00% for police officers and firefighters, respectively. Contribution rates are established by State statute.

For 2013, the portion of the City's contributions to fund pension obligations was 14.81% for January 1, 2013 through May 31, 2013 and 16.65% for June 1, 2013 through December 31, 2013 for police officers and 19.31% for January 1, 2013 through May 31, 2013 and 21.15% for June 1, 2013 through December 31, 2013 for firefighters. The City's required contributions for pension obligations to OP&F for police officers and firefighters were \$258,005 and \$208,854 for the year ended December 31, 2013, \$204,674 and \$164,450 for the year ended December 31, 2012, and \$197,448 and \$178,967 for the year ended December 31, 2011. The full amount has been contributed for 2012 and 2011. 91.07% has been contributed for police and 91.94% has been contributed for firefighters for 2013. The remaining 2013 pension liability has been reported as due to other governments on the basic financial statements.

**NOTE 14 - POSTRETIREMENT BENEFIT PLANS**

**A. Ohio Public Employees Retirement System**

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

To qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have ten years or more of qualifying Ohio service credit. The Ohio Revised Code permits, but does not mandate, OPERS to provide other post-employment benefits (OPEB) to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

Funding Policy - The post-employment health care plan was established under, and is administered in accordance with, Internal Revenue Code Section 401(h). State statute requires that public employers fund post-employment health care through contributions to OPERS. A portion of each employer's contribution to the Traditional or Combined Plans is set aside for the funding of post-employment health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2013, local government employers contributed 14.00% of covered payroll. Each year the OPERS' Retirement Board determines the portion of the employer contribution rate that will be set aside for the funding of the post-employment health care benefits. The portion of employer contributions allocated to fund post-employment health care for members in the Traditional Plan for 2013 was 1.00%.

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

**NOTE 14 - POSTRETIREMENT BENEFIT PLANS - (Continued)**

The portion of employer contributions allocated to fund post-employment health care for members in the Combined Plan for 2013 was 1.00%.

The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the post-employment health care plan.

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2013, 2012, and 2011 were \$29,369, \$112,331 and \$113,619, respectively; 91.28% has been contributed for 2013 and 100% has been contributed for 2012 and 2011. The remaining 2013 post-employment health care benefits liability has been reported as due to other governments on the basic financial statements.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under State Bill 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4 percent of the employer contributions toward the health care fund after the end of the transition period.

**B. Ohio Police and Fire Pension Fund**

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

OP&F provides access to post-employment 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.

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

OP&F issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to the OP&F, 140 East Town Street, Columbus, Ohio 43215-5164 or by visiting the website at [www.op-f.org](http://www.op-f.org).

Funding Policy - The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F (defined benefit pension plan). Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.50% and 24.00% of covered payroll for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.50% of covered payroll for police employer units and 24.00% of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

**NOTE 14 - POSTRETIREMENT BENEFIT PLANS - (Continued)**

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan into the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. The portion of employer contributions allocated to health care was 4.69% of covered payroll from January 1, 2013 through May 31, 2013 and 2.85% of covered payroll from June 1, 2013 through December 31, 2013. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that the pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

The City's contributions to OP&F which were allocated to fund post-employment health care benefits for police officers and firefighters were \$59,291 and \$36,979 for the year ended December 31, 2013, \$108,357 and \$64,350 for the year ended December 31, 2012, and \$104,531 and \$70,031 for the year ended December 31, 2011. The full amount has been contributed for 2012 and 2011. 91.07% has been contributed for police and 91.94% has been contributed for firefighters for 2013. The remaining 2013 post-employment health care benefits liability has been reported as due to other governments on the basic financial statements.

**NOTE 15 - 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 committed or assigned 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, 2013

**NOTE 15 - 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	\$ (1,304,140)
Net adjustment for revenue accruals	148,578
Net adjustment for expenditure accruals	(1,255)
Adjustment for encumbrances	<u>728,732</u>
GAAP basis	<u><u>\$ (428,085)</u></u>

**NOTE 16 - FUND BALANCE**

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of resources in the governmental funds. The constraints placed on the fund balances for the governmental funds follows:

<u>Fund Balance</u>	<u>General</u>	<u>Capital Improvement</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
Nonspendable:				
Materials and supplies				
inventory	\$ 506,204	\$ -	\$ -	\$ 506,204
Prepayments	78,503	-	-	78,503
Unclaimed monies	<u>26,741</u>	<u>-</u>	<u>-</u>	<u>26,741</u>
Total nonspendable	<u>611,448</u>	<u>-</u>	<u>-</u>	<u>611,448</u>
Restricted:				
Capital Improvements	-	4,272,175	-	4,272,175
Debt service	-	-	14,594	14,594
Law enforcement	-	-	129,999	129,999
Police and fire pensions	-	-	103,418	103,418
Sewer maintenance	-	-	282,323	282,323
Streets and highways	<u>-</u>	<u>-</u>	<u>280,261</u>	<u>280,261</u>
Total restricted	<u>-</u>	<u>4,272,175</u>	<u>810,595</u>	<u>5,082,770</u>
Committed:				
Law enforcement	<u>5,000</u>	<u>-</u>	<u>-</u>	<u>5,000</u>
Assigned:				
Encumbrances	<u>436,824</u>	<u>-</u>	<u>-</u>	<u>436,824</u>
Unassigned	<u>12,530,284</u>	<u>-</u>	<u>-</u>	<u>12,530,284</u>
Total fund balances	<u><u>\$ 13,583,556</u></u>	<u><u>\$ 4,272,175</u></u>	<u><u>\$ 810,595</u></u>	<u><u>\$ 18,666,326</u></u>

**CITY OF FAIRLAWN, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**NOTE 17 - CONTINGENCIES**

**A. Grants**

The City receives 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 the 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, 2013.

**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 AND OTHER COMMITMENTS**

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

<u>Fund</u>	<u>Year-End Encumbrances</u>
General	\$ 436,824
Capital Improvement	244,415
Other governmental	100,941
Total	<u>\$ 782,180</u>

**NOTE 19 - COMMUNITY IMPROVEMENT CORPORATION OF FAIRLAWN, OHIO**

The Community Improvement Corporation of Fairlawn, Ohio (the "CIC") was formed pursuant to Ordinance 2010-030 passed June 21, 2010 and incorporated as a corporation not-for-profit under Title XVII, Chapters 1702 and 1724 of the Ohio Revised Code for the purpose to advance, encourage, and promote industrial, economic, commercial and civic development of the City of Fairlawn (the "City"). The CIC has been designated as the City's agent for industrial, commercial, distribution, and research development.

The Board of Trustees is to be comprised of no less than five members, and at all times no less than two-fifths of the members shall be elected or appointed officials of the City. The following three elected or appointed officials of the City ("City Representatives") constitute three of the members of the Board of Trustees: President of Council, Mayor, and Director of Finance. The City Representatives hold office for as long as they hold their position at the City. In addition to the three City Representatives, two or more additional members may be appointed by a majority vote of the Board of Trustees ("Community Representatives"). The Community Representatives serve two year terms.

**CITY OF FAIRLAWN, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**NOTE 19 - COMMUNITY IMPROVEMENT CORPORATION OF FAIRLAWN, OHIO - (Continued)**

**Summary of Significant Accounting Policies**

The basic financial statements (BFS) of the CIC have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The most significant of the CIC's accounting policies are described below.

**A. Basis of Accounting**

The basic financial statements of the CIC are prepared using the accrual basis of accounting in conformity with GAAP.

**B. Basis of Presentation**

The CIC's basic financial statements consist of a statement of net position and a statement of activities.

The CIC distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the CIC's principal ongoing operation. The principal operating revenues of the CIC are proceeds from the sale of assets held for sale and contributions from the City. Operating expenses for the CIC primarily include construction costs for improvements made to City infrastructure and other contract services. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses. The CIC did not have any nonoperating revenues or expenses in 2013.

**C. Federal Income Tax**

The CIC has applied for an exemption from federal income tax under Section 501 (c) (3) of the Internal Revenue Code.

**D. Cash and Cash Equivalents**

All cash in the CIC's checking account is considered to be cash and cash equivalents. All monies received by the CIC are deposited in a demand deposit account.

**E. Assets Held for Sale**

Assets held for sale represent real property donated to the CIC by the City, which will be sold for development purposes.

During 2013, the CIC purchased 4.89 acres of real property for \$87,234 and sold 0.28 acres for \$296,000. The balance remaining in assets held for sale at December 31, 2013 was \$87,234.

**CITY OF FAIRLAWN, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**NOTE 19 - COMMUNITY IMPROVEMENT CORPORATION OF FAIRLAWN, OHIO - (Continued)**

**F. Prepayments**

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in the statement of net position. These items are reported as assets on the statement of net position using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expense is reported in the year in which services are consumed.

**G. Accrued Liabilities**

The CIC has recognized certain expenses due, but unpaid as of December 31, 2013. These expenses are reported as accrued liabilities in the accompanying financial statements.

**H. Net Position**

Net position represents the difference between assets and liabilities. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the CIC or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The CIC has no net position restrictions.

**I. Estimates**

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

**J. Deposits**

At December 31, 2013, the carrying amount of the CIC's deposits was \$229,033. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2013, the entire bank balance of \$229,033 was covered by the Federal Deposit Insurance Corporation. There are no significant statutory restrictions regarding the deposits and investments of funds held by the not-for-profit corporation.

**K. Contributions from the City of Fairlawn**

**Cash**

The CIC received \$335,200 in contributions from the City during the year.

**Services**

Pursuant to City of Fairlawn Resolution 2012-046 passed June 4, 2012, an agreement was executed June 5, 2012, between the City and the CIC, whereby the City will provide technical and administrative services and assistance at no cost to the CIC. No amounts have been reflected in the financial statements for these services, because the CIC has not estimated their value.

**CITY OF FAIRLAWN, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**L. Risk Management**

The CIC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to contracted personnel; and natural disasters. For 2013, the CIC had general liability insurance through Auto-Owners Insurance Company and directors and officers insurance through Darwin Selective Insurance Company.

Settled claims have not exceeded commercial coverage in either of the past two years.

**M. Litigation**

The CIC is involved in no material litigation as either plaintiff or defendant.





# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S 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

To the Honorable Mayor and Members of City Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the discretely presented component unit and remaining fund information of City of Fairlawn, Summit County, (the City) as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 28, 2014.

### ***Internal Control Over Financial Reporting***

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the City's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

***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, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

***Purpose of this Report***

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

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

**Dave Yost**  
Auditor of State  
Columbus, Ohio

November 28, 2014



# Dave Yost • Auditor of State

**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  
DECEMBER 16, 2014**