



Mary Taylor, CPA
Auditor of State

**CITY OF FAIRLAWN
SUMMIT COUNTY**

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Mary Taylor, CPA

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INDEPENDENT ACCOUNTANTS' REPORT

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

To the Honorable Mayor and Members of City Council:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Fairlawn, Summit County, Ohio (the City), as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Fairlawn, Summit County, Ohio, as of December 31, 2009, and the respective changes in financial position thereof and the budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2010, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

Mary Taylor, CPA
Auditor of State

October 15, 2010

CITY OF FAIRLAWN, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2009 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, 2009. 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 2009 are as follows:

- The total net assets of the City decreased \$1,068,649. Net assets of governmental activities decreased \$1,068,649 or 1.48% from 2008, to a total of \$70,920,166 in 2009.
- General revenues accounted for \$12,942,620 of total governmental activities revenue. Program specific revenues accounted for \$1,370,459 or 9.57% of total governmental activities revenue.
- The City had \$15,381,728 in expenses related to governmental activities; \$1,370,459 of these expenses were offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$14,011,269 were offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements, including Joint Economic Development District (JEDD) revenue).
- The City has three major funds, the general fund, bond retirement fund and capital improvement fund. The general fund, the largest major fund, had revenues of \$11,533,284 in 2009. This represents an increase of \$1,027,694 from 2008 revenues and other financing sources, and is due to the elimination of several special revenue and capital improvement funds during 2009. Revenues formerly received by these funds are now deposited to the general fund. The expenditures and other financing uses of the general fund, which totaled \$11,198,971 in 2009, increased \$418,287 from 2008, also due to the elimination of funds as those expenditures are charged to the general fund as their respective fund balances are exhausted. The net increase in fund balance for the general fund was \$423,630 or 6.50%.
- The bond retirement fund had revenues of \$265,414 in 2009. The expenditures of the bond retirement fund totaled \$299,699 in 2009. The net decrease in fund balance for the bond retirement fund was \$34,285 or 38.68%.
- The capital improvement fund had revenues and other financing sources of \$2,006,651 in 2009. The expenditures of the capital improvement fund totaled \$2,916,566 in 2009. The net decrease in fund balance for the capital improvement fund was \$909,915 or 26.70%. The decrease is attributed to the severe restriction of transfers into the capital improvement fund.

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

CITY OF FAIRLAWN, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2009 UNAUDITED

Reporting the City as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains a large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2009?" The statement of net assets and the statement of activities answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

Reporting the City's Most Significant Funds

Fund Financial Statements

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

Fund financial reports provide detailed information about the City's major funds. The City uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the City's most significant funds. The analysis of the City's major governmental funds begins on page 9.

Governmental Funds

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

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

CITY OF FAIRLAWN, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009
UNAUDITED

The City maintains a multitude of individual governmental funds. The City has segregated these funds into major funds and nonmajor funds. The City's major governmental funds are the general fund, bond retirement fund and capital improvement fund. Information for major funds is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 17-21 of this report.

Fiduciary Funds

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 23-47 of this report.

Government-Wide Financial Analysis

The Statement of Net Assets provides the perspective of the City as a whole. The table below provides a summary of the City's net assets for 2009 compared to 2008:

	Net Assets	
	Governmental Activities <u>2009</u>	Governmental Activities <u>2008</u>
<u>Assets</u>		
Current and other assets	\$ 16,884,184	\$ 18,861,317
Capital assets, net	<u>66,086,316</u>	<u>65,912,702</u>
Total assets	<u>82,970,500</u>	<u>84,774,019</u>
<u>Liabilities</u>		
Current and other liabilities	3,195,887	3,186,903
Long-term liabilities	<u>8,854,447</u>	<u>9,598,301</u>
Total liabilities	<u>12,050,334</u>	<u>12,785,204</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	58,554,464	57,556,280
Restricted	5,450,323	7,681,819
Unrestricted	<u>6,915,379</u>	<u>6,750,716</u>
Total net assets	<u>\$ 70,920,166</u>	<u>\$ 71,988,815</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2009, the City's assets exceeded liabilities by \$70,920,166.

CITY OF FAIRLAWN, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009
UNAUDITED

Capital assets reported on the government-wide statements represent the largest portion of the City's assets. At year-end, capital assets represented 79.65% 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, 2009, were \$58,554,464. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the City's net assets, \$5,450,323, represents resources that are subject to external restriction on how they may be used. In the governmental activities, the remaining balance of unrestricted net assets of \$6,915,379 may be used to meet the government's ongoing obligations to citizens and creditors.

The table below shows the changes in net assets for fiscal years 2009 and 2008.

	Change in Net Assets	
	Governmental Activities <u>2009</u>	Governmental Activities <u>2008</u>
Revenues		
Program revenues:		
Charges for services	\$ 849,022	\$ 767,789
Operating grants and contributions	454,749	378,982
Capital grants and contributions	<u>66,688</u>	<u>81,690</u>
Total program revenues	<u>1,370,459</u>	<u>1,228,461</u>
General revenues:		
Property and other taxes	1,052,742	1,005,369
Income taxes	7,918,110	8,603,919
Unrestricted grants and entitlements	1,290,485	1,194,046
JEDD revenue	2,437,692	2,538,263
Investment earnings	138,731	430,426
Miscellaneous	<u>104,860</u>	<u>164,533</u>
Total general revenues	<u>12,942,620</u>	<u>13,936,556</u>
Total revenues	<u>\$ 14,313,079</u>	<u>\$ 15,165,017</u>

CITY OF FAIRLAWN, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009
UNAUDITED

	Change in Net Assets	
	Governmental Activities <u>2009</u>	Governmental Activities <u>2008</u>
Expenses		
General government	\$ 2,757,297	\$ 2,642,555
Security of persons and property	6,818,565	6,632,126
Public health services	116,288	113,303
Transportation	3,776,493	3,854,123
Community environment	76,961	65,780
Basic utility services	1,024,612	1,252,362
Leisure time activities	425,772	397,037
Interest and fiscal charges	<u>385,740</u>	<u>424,184</u>
Total expenses	<u>15,381,728</u>	<u>15,381,470</u>
Change in net assets	(1,068,649)	(216,453)
Net assets at beginning of year	<u>71,988,815</u>	<u>72,205,268</u>
Net assets at end of year	<u><u>\$ 70,920,166</u></u>	<u><u>\$ 71,988,815</u></u>

Governmental Activities

Governmental activities net assets decreased \$1,068,649 in 2009. This decrease is a result of lower revenues and an increase in operating and capital costs.

Security of persons and property, which primarily supports the operations of the police and fire departments accounted for \$6,818,565 of the total expenses of the City. These expenses were partially funded by \$204,050 in direct charges to users of the services and \$2,018 in operating grant and contributions. Transportation expenses totaled \$3,776,493. Transportation expenses were partially funded by \$670 in direct charges to users of the services, and \$452,731 in operating grants and contributions.

The county, state and federal governments contributed to the City a total of \$454,749 in operating grants and contributions. These revenues are restricted to a particular program or purpose. Of the total operating grants and contributions, \$2,018 subsidized security of persons and property and \$452,731 subsidized transportation programs.

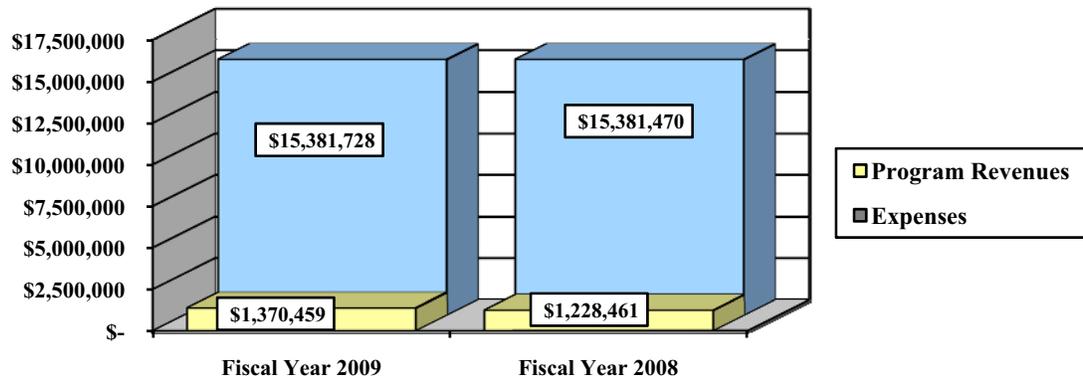
General revenues totaled \$12,942,620, and amounted to 90.43% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$8,970,852 and JEDD revenue of \$2,437,692.

CITY OF FAIRLAWN, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009
UNAUDITED

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

Governmental Activities – Program Revenues vs. Total 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.

	Governmental Activities			
	Total Cost of Services 2009	Net Cost of Services 2009	Total Cost of Services 2008	Net Cost of Services 2008
Program Expenses:				
General government	\$ 2,757,297	\$ 2,201,571	\$ 2,642,555	\$ 2,150,468
Security of persons and property	6,818,565	6,612,497	6,632,126	6,432,448
Public health services	116,288	116,288	113,303	113,303
Transportation	3,776,493	3,323,092	3,854,123	3,479,190
Community environment	76,961	72,027	65,780	60,780
Basic utility services	1,024,612	887,658	1,252,362	1,118,498
Leisure time activities	425,772	412,396	397,037	374,138
Interest and fiscal charges	385,740	385,740	424,184	424,184
Total	<u>\$ 15,381,728</u>	<u>\$ 14,011,269</u>	<u>\$ 15,381,470</u>	<u>\$ 14,153,009</u>

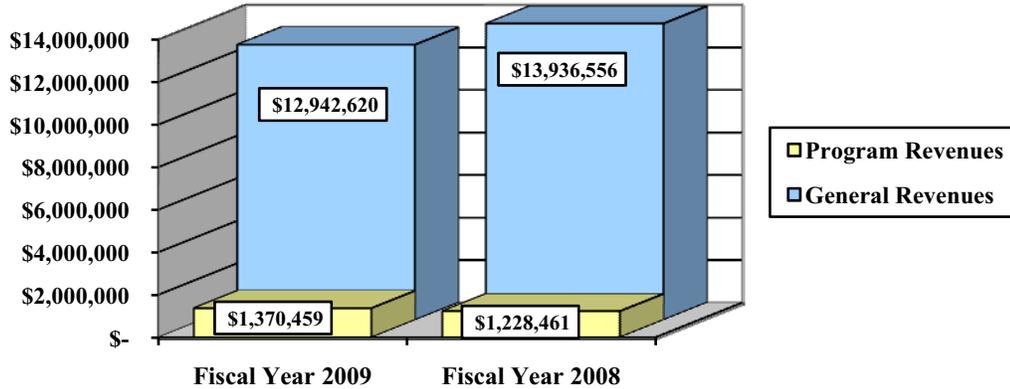
The dependence upon general revenues for governmental activities is apparent, with 91.09% of expenses supported through taxes and other general revenues.

CITY OF FAIRLAWN, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009
UNAUDITED

The chart below illustrates the City's program revenues versus general revenues for 2009 and 2008:

Governmental Activities – General and Program Revenues



Financial Analysis of the Government's Funds

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

Governmental Funds

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

The City's governmental funds (as presented on the balance sheet on page 17) reported a combined fund balance of \$10,899,435 which is \$1,469,687 less than last year's total of \$12,369,122. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2009 and 2008 for all major and nonmajor governmental funds.

	<u>Fund Balances</u> 12/31/09	<u>Fund Balances</u> 12/31/08	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
Major funds:				
General	\$ 6,943,962	\$ 6,520,332	\$ 423,630	6.50 %
Bond retirement	54,344	88,629	(34,285)	(38.68) %
Capital improvement	2,497,641	3,407,556	(909,915)	(26.70) %
Other nonmajor governmental funds	<u>1,403,488</u>	<u>2,352,605</u>	<u>(949,117)</u>	<u>(40.34) %</u>
Total	<u>\$ 10,899,435</u>	<u>\$ 12,369,122</u>	<u>\$ (1,469,687)</u>	<u>(11.88) %</u>

CITY OF FAIRLAWN, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009
UNAUDITED

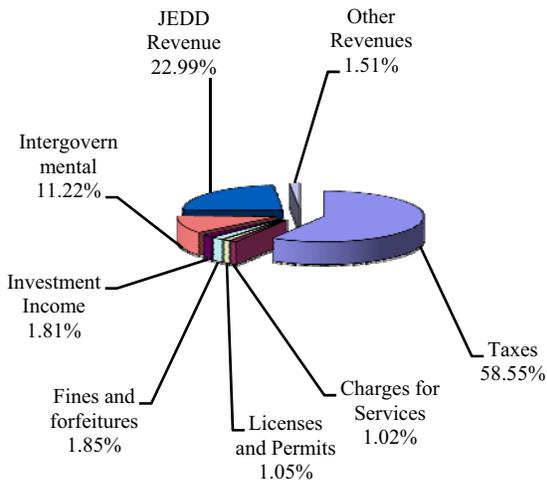
General Fund

The City's general fund balance increased by \$423,630. The table that follows assists in illustrating the revenues of the general fund.

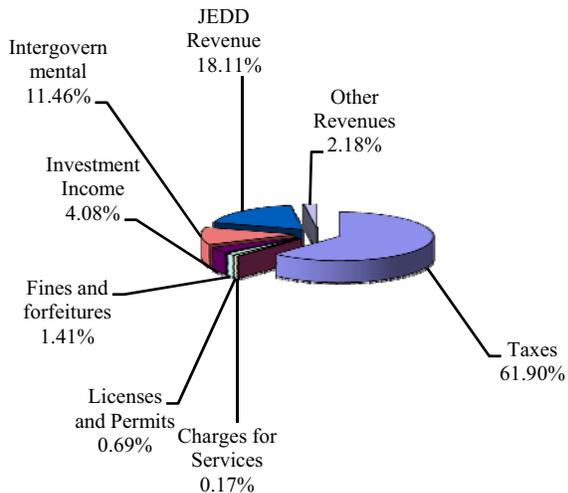
	<u>2009</u> <u>Amount</u>	<u>2008</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 6,752,892	\$ 6,497,157	3.94 %
Charges for services	117,869	18,030	553.74 %
Licenses and permits	120,853	72,001	67.85 %
Fines and forfeitures	213,569	147,682	44.61 %
Investment income	208,498	428,857	(51.38) %
Intergovernmental	1,294,609	1,202,903	7.62 %
JEDD revenue	2,650,980	1,900,815	39.47 %
Other	174,014	228,945	(23.99) %
Total	<u>\$ 11,533,284</u>	<u>\$ 10,496,390</u>	9.88 %

Tax revenue represents 58.55% of all general fund revenue. Overall, tax revenue increased by 3.94% as compared to the prior year. The decrease in income tax was offset by an increase in property and other taxes. During 2009 the City began the process of eliminating several special revenue and capital improvement funds. The revenue formerly received into those funds is now received by the general fund. This process accounts for the increase in charges for services, licenses and permits and fines and forfeitures. The decrease in investment income is due to interest rate reductions in the City's investment accounts. An increase of 39.47% in JEDD revenues is merely a timing issue. Several months of income from 2008 was received in 2009. Therefore the modified accrual statements reflect an increase in revenue, but the full accrual statements more accurately illustrate the decrease in JEDD revenue relative to 2008.

Revenues – Fiscal Year 2009



Revenues – Fiscal Year 2008



CITY OF FAIRLAWN, OHIO

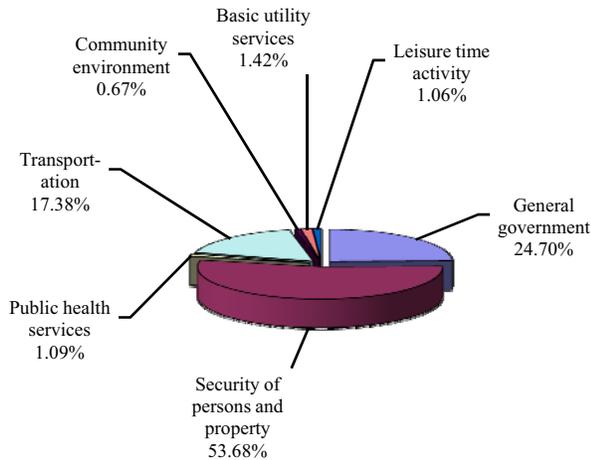
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009
UNAUDITED

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

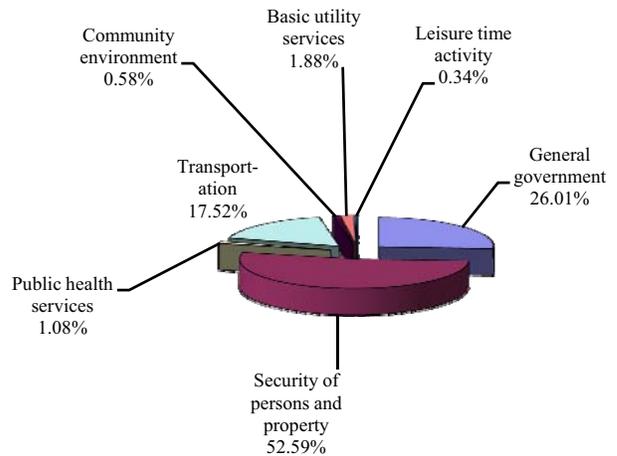
	<u>2009</u> <u>Amount</u>	<u>2008</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Expenditures</u>			
General government	\$ 2,639,835	\$ 2,725,401	(3.14) %
Security of persons and property	5,736,067	5,510,246	4.10 %
Public health services	116,288	113,303	2.63 %
Transportation	1,857,902	1,836,374	1.17 %
Community environment	71,674	61,304	16.92 %
Basic utility services	151,955	197,103	(22.91) %
Leisure time activities	<u>112,781</u>	<u>35,613</u>	216.68 %
Total	<u>\$ 10,686,502</u>	<u>\$ 10,479,344</u>	1.98 %

Expenditures for community environment increased in 2009 due to the flood prevention and tree removal programs introduced in 2008. Basic utility services decreased due to a reduction in disposal costs for the City's trash compactor program. Leisure time activities have increased due to the elimination of Parks and Recreation fund. All other expenditures remained comparable to 2008.

Expenditures - Fiscal Year 2009



Expenditures - Fiscal Year 2008



Bond Retirement Fund

The bond retirement fund had revenues of \$265,414 in 2009. The expenditures of the bond retirement fund totaled \$299,699 in 2009. The net decrease in fund balance for the bond retirement fund was \$34,285 or 38.68%.

CITY OF FAIRLAWN, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009
UNAUDITED

Capital Improvement Fund

The capital improvement fund had revenues and other financing sources of \$2,006,651 in 2009. The expenditures of the capital improvement fund totaled \$2,916,566 in 2009. The net decrease in fund balance for the capital improvement fund was \$909,915 or 26.70%.

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 income tax revenue was decreased to reflect the decrease in income tax, however the amount recorded as revenue was much greater because the City did not make the anticipated refund of over one million dollars, which is recorded as a revenue adjustment. The amount budgeted for investment income was increased to reflect actual earnings. All other changes in budgeted revenue are related to the elimination of funds process that began in 2009. The general fund now receives numerous revenues previously receipted to other funds, such as; hotel tax from the parks and recreation fund; ambulance fees from the fire equipment fund; cable franchise fees from the park capital fund, and mayor's court costs from the children adolescent education fund. Likewise, budgeted expenditures were changed to reflect activities absorbed by the general fund, previously paid from special revenue or capital improvement funds; most notably park expenditures now recorded in the general fund as leisure time activities. Cost saving measures and restrictions imposed by the Mayor in 2009 resulted in savings in every type of expenditure category in the general fund.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2009, the City had \$66,086,316 (net of accumulated depreciation) invested in land, land improvements, buildings and improvements, machinery and equipment, licensed vehicles, infrastructure and construction in progress. The following table shows fiscal 2009 balances compared to 2008:

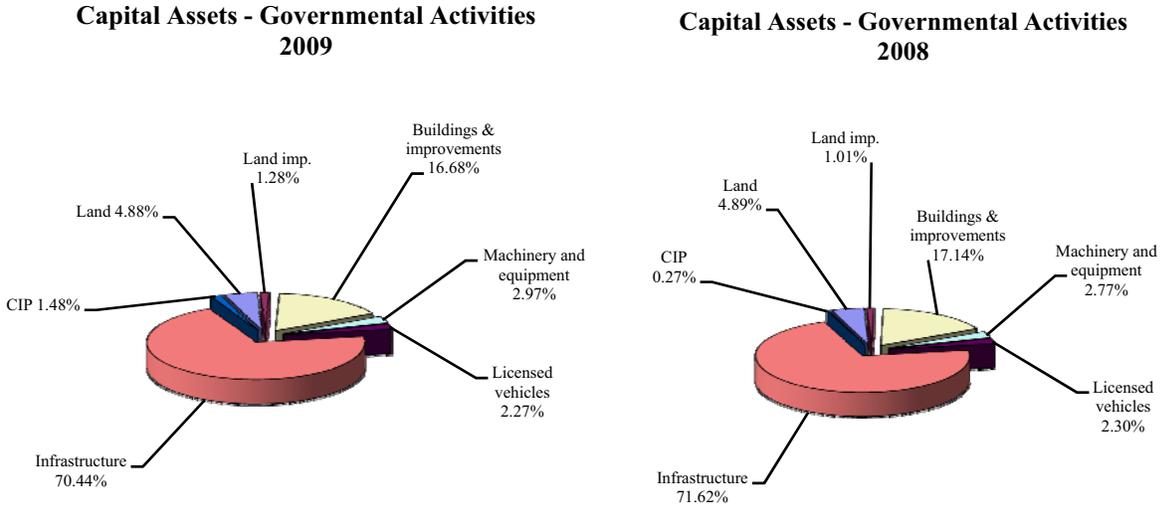
**Capital Assets at December 31
(Net of Depreciation)**

	<u>Governmental Activities</u>	
	<u>2009</u>	<u>2008</u>
Land	\$ 3,224,888	\$ 3,224,888
Land improvements	845,282	665,165
Buildings and improvements	11,020,221	11,300,063
Machinery and equipment	1,960,986	1,826,777
Licensed vehicles	1,503,360	1,514,755
Infrastructure	46,550,472	47,203,555
Construction in progress	<u>981,107</u>	<u>177,499</u>
Totals	<u>\$ 66,086,316</u>	<u>\$ 65,912,702</u>

CITY OF FAIRLAWN, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009
UNAUDITED

The following graphs show the breakdown of governmental capital assets by category for 2009 and 2008.



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 70.44% of the City's total governmental capital assets at December 31, 2009.

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

Debt Administration

The City had the following long-term obligations outstanding at December 31, 2009 and 2008:

	<u>Governmental Activities</u>	
	<u>2009</u>	<u>2008</u>
General obligation bonds	\$ 6,785,000	\$ 7,385,000
Special assessment bonds	360,000	520,000
OPWC loans	386,852	451,422
Compensated absences	<u>1,322,595</u>	<u>1,241,879</u>
Total long-term obligations	<u>\$ 8,854,447</u>	<u>\$ 9,598,301</u>

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

Economic Conditions and Next Year's General Fund Budget Outlook

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

CITY OF FAIRLAWN, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2009 UNAUDITED

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 and the City is applying for Ohio Jobs Ready Sites funds to expand the 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 fifty-three (53) acres of parks which offer year-round recreational programs for children and adults. The Learning Resource Center, staffed with a full-time Naturalist, offers nature-related programs and lectures to groups of all ages. The City is completing the addition of adult and youth soccer fields to the Fairlawn parks system. The new fields will be fully operational next spring.

The City's primary revenue source is the 2% local income tax withheld on the estimated 40,000 people working in the City. Due to the economic conditions in our area, income tax receipts fell by 5.44% in 2009 as compared to the previous year.

The City is projecting a slight decrease in general fund revenue in 2010. Expenditures for 2010 are budgeted at 3.6% greater than 2009 actual expenditures due to moderate wage increases, general inflation and the elimination of several special revenue and capital improvement funds. The City is taking steps to further reduce 2010 expenditures. Programs supported by the general fund are budgeted at the same level of service as last year. The City has instituted a hiring freeze and is finalizing a voluntary separation incentive aimed at reducing personnel costs.

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. Jerome E. Apple, Finance Director, City of Fairlawn, 3487 S. Smith Road, Fairlawn, Ohio 44333.

CITY OF FAIRLAWN, OHIO

STATEMENT OF NET ASSETS
DECEMBER 31, 2009

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents	\$ 11,333,286
Cash and cash equivalents in segregated accounts	49,835
Receivables (net of allowances for uncollectibles):	
Income taxes	1,825,411
Real and other taxes	1,018,847
Accounts	89,591
Accrued interest	15,422
Special assessments	1,182,034
Due from other governments	890,937
Prepayments	95,057
Materials and supplies inventory	383,764
Capital assets:	
Land and construction in progress	4,205,995
Depreciable capital assets, net	61,880,321
Total capital assets	<u>66,086,316</u>
 Total assets	 <u>82,970,500</u>
Liabilities:	
Accounts payable	1,363,738
Contracts payable	234,264
Accrued wages and benefits	104,208
Due to other governments	584,655
Unearned revenue	870,106
Accrued interest payable	38,916
Long-term liabilities:	
Due within one year	1,292,713
Due in more than one year	<u>7,561,734</u>
 Total liabilities	 <u>12,050,334</u>
Net assets:	
Invested in capital assets, net of related debt	58,554,464
Restricted for:	
Capital projects	3,224,297
Debt service	782,569
Security of persons and property	587,742
Transportation projects	734,859
Leisure time activities	1,019
Other purposes	119,837
Unrestricted	<u>6,915,379</u>
 Total net assets	 <u>\$ 70,920,166</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FAIRLAWN, OHIO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2009

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
Governmental Activities:					
General government	\$ 2,757,297	\$ 489,038	\$ -	\$ 66,688	\$ (2,201,571)
Security of persons and property	6,818,565	204,050	2,018	-	(6,612,497)
Public health services	116,288	-	-	-	(116,288)
Transportation	3,776,493	670	452,731	-	(3,323,092)
Community environment	76,961	4,934	-	-	(72,027)
Basic utility services	1,024,612	136,954	-	-	(887,658)
Leisure time activity	425,772	13,376	-	-	(412,396)
Interest and fiscal charges	385,740	-	-	-	(385,740)
Total governmental activities	<u>\$ 15,381,728</u>	<u>\$ 849,022</u>	<u>\$ 454,749</u>	<u>\$ 66,688</u>	<u>(14,011,269)</u>
 General Revenues:					
Property and other taxes levied for:					
General purposes					775,135
Police and fire pension					194,344
Parks and recreation					83,263
Income taxes levied for:					
General purposes					6,064,251
Capital projects					1,853,859
JEDD revenue					2,437,692
Grants and entitlements not restricted to specific programs					1,290,485
Investment earnings					138,731
Miscellaneous					104,860
Total general revenues					<u>12,942,620</u>
Change in net assets					(1,068,649)
Net assets at beginning of year					71,988,815
Net assets at end of year					<u>\$ 70,920,166</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FAIRLAWN, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2009

	<u>General</u>	<u>Bond Retirement</u>	<u>Capital Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:					
Equity in pooled cash and cash equivalents	\$ 7,041,420	\$ 54,344	\$ 2,488,433	\$ 1,749,089	\$ 11,333,286
Cash and cash equivalents in segregated accounts	49,835	-	-	-	49,835
Receivables (net of allowance for uncollectibles):					
Income taxes	1,369,058	-	456,353	-	1,825,411
Real and other taxes	794,586	-	-	224,261	1,018,847
Accounts	84,368	-	-	5,223	89,591
Accrued interest	14,245	-	-	1,177	15,422
Special assessments	-	741,930	440,104	-	1,182,034
Due from other funds	-	-	-	50	50
Due from other governments	740,351	-	-	150,586	890,937
Prepayments	95,057	-	-	-	95,057
Materials and supplies inventory	367,728	-	-	16,036	383,764
Total assets	<u>\$ 10,556,648</u>	<u>\$ 796,274</u>	<u>\$ 3,384,890</u>	<u>\$ 2,146,422</u>	<u>\$ 16,884,234</u>
Liabilities:					
Accounts payable	\$ 1,257,032	\$ -	\$ 92,469	\$ 14,237	\$ 1,363,738
Contracts payable	9,200	-	154,275	70,789	234,264
Accrued wages and benefits	103,513	-	-	695	104,208
Due to other funds	50	-	-	-	50
Due to other governments	247,955	-	-	336,700	584,655
Unearned revenue	676,749	-	-	193,357	870,106
Deferred revenue	1,318,187	741,930	640,505	127,156	2,827,778
Total liabilities	<u>3,612,686</u>	<u>741,930</u>	<u>887,249</u>	<u>742,934</u>	<u>5,984,799</u>
Fund Balances:					
Reserved for encumbrances	454,942	-	134,785	79,216	668,943
Reserved for prepayments	95,057	-	-	-	95,057
Reserved for materials and supplies inventory	367,728	-	-	16,036	383,764
Reserved for unclaimed monies	24,175	-	-	-	24,175
Reserved for debt service	-	54,344	-	-	54,344
Unreserved:					
Undesignated, reported in:					
General fund	6,002,060	-	-	-	6,002,060
Special revenue funds	-	-	-	1,242,099	1,242,099
Capital projects funds	-	-	2,362,856	66,137	2,428,993
Total fund balances	<u>6,943,962</u>	<u>54,344</u>	<u>2,497,641</u>	<u>1,403,488</u>	<u>10,899,435</u>
Total liabilities and fund balances	<u>\$ 10,556,648</u>	<u>\$ 796,274</u>	<u>\$ 3,384,890</u>	<u>\$ 2,146,422</u>	<u>\$ 16,884,234</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FAIRLAWN, OHIO

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2009

Total governmental fund balances		\$ 10,899,435
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		66,086,316
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Income taxes receivable	\$ 801,603	
Property & other taxes receivable	9,687	
Licenses and permits receivable	50,935	
Intergovernmental receivable	767,452	
Special assessments receivable	1,182,034	
Investment income receivable	6,949	
Other receivable	9,118	
Total		2,827,778
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. The long-term liabilities are as follows:		
Accrued interest payable	(38,916)	
General obligation bonds	(6,785,000)	
Special assessment bonds	(360,000)	
OPWC loans	(386,852)	
Compensated absences	(1,322,595)	
		(8,893,363)
Net assets of governmental activities		\$ 70,920,166

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, 2009

	<u>General</u>	<u>Bond Retirement</u>	<u>Capital Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
Income taxes	\$ 5,987,444	\$ -	\$ 1,905,945	\$ -	\$ 7,893,389
Property and other taxes	765,448	-	-	277,607	1,043,055
Charges for services	117,869	-	-	222,112	339,981
Licenses and permits	120,853	-	-	23,682	144,535
Fines and forfeitures	213,569	-	-	36,652	250,221
Intergovernmental	1,294,609	-	-	485,947	1,780,556
Special assessments.	-	265,414	63,606	-	329,020
Investment income	208,498	-	-	12,500	220,998
Rentals	66,948	-	-	3,992	70,940
Contributions and donations	1,400	-	-	15	1,415
JEDD revenue	2,650,980	-	-	-	2,650,980
Other	105,666	-	-	3,765	109,431
Total revenues	<u>11,533,284</u>	<u>265,414</u>	<u>1,969,551</u>	<u>1,066,272</u>	<u>14,834,521</u>
Expenditures:					
Current:					
General government.	2,639,835	12,597	-	112,135	2,764,567
Security of persons and property	5,736,067	-	-	742,794	6,478,861
Public health services	116,288	-	-	-	116,288
Transportation.	1,857,902	-	-	512,995	2,370,897
Community environment	71,674	-	-	-	71,674
Basic utility services.	151,955	-	-	196,903	348,858
Leisure time activities	112,781	-	-	222,726	335,507
Capital outlay	-	-	1,988,346	698,388	2,686,734
Debt service:					
Principal retirement	-	224,570	600,000	-	824,570
Interest and fiscal charges	-	62,532	328,220	-	390,752
Total expenditures.	<u>10,686,502</u>	<u>299,699</u>	<u>2,916,566</u>	<u>2,485,941</u>	<u>16,388,708</u>
 Excess (deficiency) of revenues over (under) expenditures	 <u>846,782</u>	 <u>(34,285)</u>	 <u>(947,015)</u>	 <u>(1,419,669)</u>	 <u>(1,554,187)</u>
Other financing sources (uses):					
Transfers in	-	-	37,100	475,369	512,469
Transfers out	(512,469)	-	-	-	(512,469)
Total other financing sources (uses)	<u>(512,469)</u>	<u>-</u>	<u>37,100</u>	<u>475,369</u>	<u>-</u>
Net change in fund balances	334,313	(34,285)	(909,915)	(944,300)	(1,554,187)
Fund balances at beginning of year	6,520,332	88,629	3,407,556	2,352,605	12,369,122
Increase (decrease) in reserve for inventory . .	89,317	-	-	(4,817)	84,500
Fund balances at end of year	<u>\$ 6,943,962</u>	<u>\$ 54,344</u>	<u>\$ 2,497,641</u>	<u>\$ 1,403,488</u>	<u>\$ 10,899,435</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, 2009

Net change in fund balances - total governmental funds \$ (1,554,187)

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

Government funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$2,405,748) exceeded depreciation expense (\$2,166,958) in the current period.	238,790
Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.	(65,176)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(521,442)
Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed.	84,500
Repayment of bond and loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	824,570
In the statement of activities, interest is accrued on outstanding bonds and loans whereas in governmental funds, an interest expenditure is reported when due.	5,012
Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	<u>(80,716)</u>

Change in net assets of governmental activities \$ (1,068,649)

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, 2009

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Income taxes	\$ 5,251,720	\$ 4,751,720	\$ 5,913,767	\$ 1,162,047
Property and other taxes	617,500	735,989	727,469	(8,520)
Charges for services	30,000	75,000	94,651	19,651
Licenses and permits	68,750	120,750	120,853	103
Fines and forfeitures	144,200	167,200	207,488	40,288
Intergovernmental	704,000	1,121,521	1,332,560	211,039
Investment income	120,000	232,422	237,207	4,785
Rentals	71,700	59,497	66,948	7,451
Contributions and donations	200	200	1,400	1,200
JEDD revenue	2,000,000	2,275,000	2,650,980	375,980
Other	121,000	121,000	105,566	(15,434)
Total revenues	<u>9,129,070</u>	<u>9,660,299</u>	<u>11,458,889</u>	<u>1,798,590</u>
Expenditures:				
Current:				
General government	3,821,111	4,133,865	3,136,946	996,919
Security of persons and property	6,437,657	6,272,421	5,928,124	344,297
Public health services	116,500	116,500	116,288	212
Transportation	1,994,912	2,047,887	1,992,464	55,423
Community environment	105,036	109,508	71,674	37,834
Basic utility services	229,212	235,212	179,306	55,906
Leisure time activities	44,901	158,855	105,634	53,221
Total expenditures	<u>12,749,329</u>	<u>13,074,248</u>	<u>11,530,436</u>	<u>1,543,812</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(3,620,259)</u>	<u>(3,413,949)</u>	<u>(71,547)</u>	<u>3,342,402</u>
Other financing sources (uses):				
Proceeds from sale of capital assets	17,000	17,000	-	(17,000)
Transfers out	(1,664,271)	(1,115,434)	(512,469)	602,965
Total other financing sources (uses)	<u>(1,647,271)</u>	<u>(1,098,434)</u>	<u>(512,469)</u>	<u>585,965</u>
Net change in fund balance	(5,267,530)	(4,512,383)	(584,016)	3,928,367
Fund balance at beginning of year	6,305,713	6,305,713	6,305,713	-
Prior year encumbrances appropriated	701,972	701,972	701,972	-
Fund balance at end of year	<u>\$ 1,740,155</u>	<u>\$ 2,495,302</u>	<u>\$ 6,423,669</u>	<u>\$ 3,928,367</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FAIRLAWN, OHIO

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2009

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 34,204
Total assets.	<u>34,204</u>
Liabilities:	
Undistributed monies.	<u>34,204</u>
Total liabilities	<u>\$ 34,204</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, 2009

NOTE 1 - DESCRIPTION OF THE CITY

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements (BFS) of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The City also applies Financial Accounting Standards Board (FASB) guidance issued on or before November 30, 1989, to its governmental funds provided they do not conflict with or contradict GASB pronouncements. The most significant of the City's accounting policies are described below.

A. Reporting Entity

For financial reporting purposes, the City's BFS include all funds, agencies, boards, commissions, and departments for which the City is financially accountable. Financial accountability, as defined by the GASB, exists if the City appoints a voting majority of an organization's governing board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific burdens on, the City. The City may also be financially accountable for governmental organizations with a separately elected governing board, a governing board appointed by another government, or a jointly appointed board that is fiscally dependent on the City. The City also took into consideration other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's basic financial statements to be misleading or incomplete. Based on these criteria, the City has no component units. The City provides various services including police and fire protection, emergency medical, recreation (including parks), planning, zoning, street maintenance and repair, and general administrative services. The operation of each of these activities is directly controlled by the Council through the budgetary process. None of these services are provided by a legally separate organization; therefore, these operations are included in the primary government.

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

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

Each participant's degree of control is limited to its representation on the board. All 2009 JEDD revenues were the result of the income tax levied by the JEDD effective January 1, 1999.

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009

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

B. Basis of Presentation - Fund Accounting

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

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

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

Fund Financial Statements - During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

C. Fund Accounting

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

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

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

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

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

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009

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

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

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

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

E. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Agency funds also use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

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

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009

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

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned (See Note 7). Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 6). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: income tax, state-levied locally shared taxes (including gasoline tax, local government funds and permissive tax), fines and forfeitures, fees and special assessments.

Unearned Revenue and Deferred Revenue – Unearned revenue and deferred revenue 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, 2009, but which were levied to finance year 2010 operations, and other revenues received in advance of the fiscal year for which they were intended to finance, have been recorded as unearned revenue. 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, 2009, are recorded as deferred revenue in the governmental funds.

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

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

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

F. Budgetary Data

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations ordinance are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. For all funds, Council appropriations are made at the object level within each department. This is known as the legal level of budgetary control. Budgetary modifications may only be made by resolution of the City Council at the legal level of control. All funds, other than agency funds, are legally required to be budgeted and appropriated.

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009

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

Tax Budget – Alternative tax budget information of estimated revenue and expenditures for all funds is submitted to the Summit County Fiscal Officer, as Secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year. All funds, except agency funds, are legally required to be budgeted; however, only governmental funds are legally required to be reported.

Estimated Resources - The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include encumbered cash balances at December 31 of the preceding year. The certificate may be further amended during the year if the City Finance Director determines, and the Budget Commission agrees, that an estimate needs to be either increased or decreased. The amounts reported on the budgetary statement reflect the amounts in the original and final amended official certificate of estimated resources issued during 2009.

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.

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 2009, investments were limited to overnight repurchase agreements, certificates of deposit, and the State Treasury Asset Reserve of Ohio (STAR Ohio).

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

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009

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

The City invested funds in STAR Ohio during fiscal 2009. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 2009.

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 2009, interest revenue credited to the general fund amounted to \$208,498, which includes \$110,072 assigned from other City funds.

The City has segregated bank accounts for monies held separate from the City's central bank account. These interest bearing depository accounts are presented in the financial statements as "Cash and Cash Equivalents in Segregated Accounts" since they are not required to be deposited into the City treasury.

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

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

H. Inventories of Materials and Supplies

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

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

Inventory consists of expendable supplies held for consumption.

I. Capital Assets

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

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

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

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

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

J. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees’ rights to receive compensation are attributable to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. The City records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes employees currently eligible to receive termination benefits and those the City has identified as probable of receiving benefits in the future. The amount is based on accumulated sick leave and the employees’ wage rates at fiscal year end, taking into consideration any limits specified in the City’s termination policy. The City records a liability for accumulated unused sick leave for all employees hired before December 31, 1994.

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 no compensated absences payable in 2009.

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.

CITY OF FAIRLAWN, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009**

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

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 assets.

M. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the BFS.

N. Fund Balance Reserves and Designations

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

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

O. Estimates

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

P. Net Assets

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

Q. Prepaid Items

Prepayments made to vendors for services that will benefit future periods beyond December 31, 2009 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, 2009

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

Change in Accounting Principles

For 2009, the City has implemented GASB Statement No. 52, "Land and Other Real Estate Held as Investments by Endowments", GASB Statement No. 55, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", GASB Statement No. 56, "Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards", and GASB Statement No. 57 "Other Postemployment Benefit (OPEB) Measurements by Agent Employers and Agent Multiple-Employers".

GASB Statement No. 52 improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income. The implementation of GASB Statement No. 52 did not have an effect on the financial statements of the City.

GASB Statement No. 55 incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the GASB's authoritative literature. The implementation of GASB Statement No. 55 did not have an effect on the financial statements of the City.

GASB Statement No. 56 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' (AICPA) Statements on Accounting Standards. The implementation of GASB Statement No. 56 did not have an effect on the financial statements of the City.

GASB Statement No. 57 establishes standards for the measurement and financial reporting of actuarially determined information by agent employers with individual-employer OPEB plans that have fewer than 100 total plan members and by the agent multiple-employer OPEB plans in which they participate. The implementation of GASB Statement No. 57 did not have an effect on the financial statements of the City.

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, 2009

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, 2009**

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 \$1,550 in un-deposited cash on hand which is included on the financial statements of the City as part of "equity in pooled cash and cash equivalents".

B. Cash in Segregated Accounts

At December 31, 2009, the City had \$49,835 in bank accounts outside of the City Treasury related to Mayor's Court operations and income tax refunds. These amounts are included on the financial statements as "cash and cash equivalents in segregated accounts" and are included in deposits with financial institutions below.

C. Deposits with Financial Institutions

At December 31, 2009, the carrying amount of the City's deposits was \$8,258,784 exclusive of the \$1,579,110 repurchase agreement included in investments below. As of December 31, 2009, \$7,585,144 of the City's bank balance of \$8,473,374 was exposed to custodial risk as discussed below, while \$888,230 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.

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

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

D. Investments

As of December 31, 2009, the City had the following investments and maturities:

<u>Investment type</u>	<u>Balance at Fair Value</u>	<u>Investment Maturity 6 months or less</u>
Repurchase Agreement	\$ 1,579,110	\$ 1,579,110
STAR Ohio	<u>1,577,881</u>	<u>1,577,881</u>
	<u>\$ 3,156,991</u>	<u>\$ 3,156,991</u>

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

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

Credit Risk: STAR Ohio carries a rating of AAA by Standard & Poor’s. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard service rating. The federal agency securities that underlie the City’s repurchase agreement were rated AAA and Aaa by Standard & Poor’s and Moody’s Investor Services, respectively.

Concentration of Credit Risk: The City’s investment policy addresses concentration of credit risk by requiring investments to be diversified to reduce the risk of loss resulting from over concentration of assets in a specific issue or specific class of securities. The following table includes the percentage of each investment type held by the City at December 31, 2009:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
Repurchase Agreement	\$ 1,579,110	50.02
STAR Ohio	<u>1,577,881</u>	<u>49.98</u>
	<u>\$ 3,156,991</u>	<u>100.00</u>

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

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

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

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of December 31, 2009:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 8,258,784
Investments	3,156,991
Cash on hand	<u>1,550</u>
Total	<u>\$ 11,417,325</u>

<u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 11,383,121
Agency funds	<u>34,204</u>
Total	<u>\$ 11,417,325</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund transfers for the year ended December 31, 2009 consisted of the following, as reported in the fund financial statements:

<u>Transfers to</u>	<u>Transfers from</u>
	<u>General</u>
Capital Improvement Fund	\$ 37,100
Nonmajor	
Governmental funds	<u>475,369</u>
	<u>\$ 512,469</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.

- B. Due from/to other funds consisted of the following at December 31, 2009, as reported in the governmental fund financial statements:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Nonmajor governmental funds	General fund	\$ 50

Amounts due from/to other funds represent Mayor's Court fines collected by the court and due to the DUI Enforcement and Education fund.

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

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 Auditor 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. 2009 public utility property taxes became a lien December 31, 2008, are levied after October 1, 2009, and are collected in 2010 with real property taxes. Public utility property taxes are payable on the same dates as real property taxes described previously.

Beginning in calendar year 2009 tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. The October 2008 tangible personal property tax settlement was the last property tax settlement for general personal property taxes. Tangible personal property tax collections in calendar year 2009 represent delinquent collections.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the City due to the phasing out of the tax. In calendar years 2008-2010, the City will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

The County Fiscal Officer collects property taxes on behalf of all taxing districts in the County, including the City of Fairlawn. The County Fiscal Officer periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2009 and for which there is an enforceable legal claim. In the governmental funds, the current portion receivable has been offset by unearned revenue since the current taxes were not levied to finance 2009 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 deferred.

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

NOTE 6 - PROPERTY TAXES – (Continued)

The full tax rate for all City operations for the year ended December 31, 2009 was \$2.70 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2009 property tax receipts were based are as follows:

<u>Category</u>	<u>Assessed Value</u>
Residential	\$ 176,408,070
Commercial	168,920,320
	<hr/>
Total real estate	345,328,390
Public utility property	2,448,140
Remaining TPP telephone value	432,603
	<hr/>
Grand total	<u>\$ 348,209,133</u>

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. In 2009 the City changed the amount of income tax proceeds credited to the general and capital improvement funds. Beginning in 2009 the general fund receives 75 percent and the capital improvement fund receives 25 percent of income tax proceeds. In the past, the general fund received 67.5 percent and the capital improvement fund received 32.5 percent of the income tax.

NOTE 8 - ESTIMATED INCOME TAX REFUNDS PAYABLE

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

NOTE 9 - RECEIVABLES

Receivables at December 31, 2009, 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, 2009.

CITY OF FAIRLAWN, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009**

NOTE 9 - RECEIVABLES – (Continued)

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

Governmental Activities:	
Income taxes	\$ 1,825,411
Real and other taxes	1,018,847
Accounts	89,591
Accrued interest	15,422
Special assessments	1,182,034
Due from other governments	<u>890,937</u>
Total	<u>\$ 5,022,242</u>

Receivables have been disaggregated on the face of the BFS. The only receivable not expected to be collected within the subsequent year are the special assessments which are collected over the life of the assessment. Delinquent special assessments due to the City were \$3,313 as of December 31, 2009.

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

NOTE 10 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2009 was as follows:

<u>Governmental Activities:</u>	<u>Balance</u> <u>12/31/08</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/09</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 3,224,888	\$ -	\$ -	\$ 3,224,888
Construction in progress	<u>177,499</u>	<u>981,107</u>	<u>(177,499)</u>	<u>981,107</u>
Total capital assets, not being depreciated	<u>3,402,387</u>	<u>981,107</u>	<u>(177,499)</u>	<u>4,205,995</u>
<i>Capital assets, being depreciated:</i>				
Buildings and Improvements	14,109,223	-	(25,000)	14,084,223
Land Improvements	1,326,030	222,916	-	1,548,946
Machinery and Equipment	3,320,442	367,766	(65,048)	3,623,160
Licensed Vehicles	2,913,118	212,220	(117,108)	3,008,230
Infrastructure	<u>75,033,809</u>	<u>799,238</u>	<u>(122,904)</u>	<u>75,710,143</u>
Total capital assets, being depreciated	<u>96,702,622</u>	<u>1,602,140</u>	<u>(330,060)</u>	<u>97,974,702</u>
<i>Less: accumulated depreciation:</i>				
Buildings and Improvements	(2,809,160)	(273,095)	18,253	(3,064,002)
Land Improvements	(660,865)	(42,799)	-	(703,664)
Machinery and Equipment	(1,493,665)	(229,457)	60,948	(1,662,174)
Licensed Vehicles	(1,398,363)	(206,925)	100,418	(1,504,870)
Infrastructure	<u>(27,830,254)</u>	<u>(1,414,682)</u>	<u>85,265</u>	<u>(29,159,671)</u>
Total accumulated depreciation	<u>(34,192,307)</u>	<u>(2,166,958)</u>	<u>264,884</u>	<u>(36,094,381)</u>
Total capital assets, being depreciated, net	<u>62,510,315</u>	<u>(564,818)</u>	<u>(65,176)</u>	<u>61,880,321</u>
Governmental activities capital assets, net	<u>\$65,912,702</u>	<u>\$ 416,289</u>	<u>\$ (242,675)</u>	<u>\$66,086,316</u>

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

NOTE 10 - CAPITAL ASSETS - (Continued)

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

Governmental activities:

General government	\$	43,164
Basic utility services		562,951
Security of persons and property		366,937
Transportation		1,136,436
Community environment		2,625
Leisure time activity		<u>54,845</u>
 Total depreciation expense - governmental activities	 \$	 <u>2,166,958</u>

NOTE 11 - LONG-TERM OBLIGATIONS

A. During the fiscal year 2009, the following changes occurred in governmental activities long-term obligations:

<u>Governmental Activities:</u>	<u>Interest</u>	<u>Balance</u>			<u>Balance</u>	<u>Due in</u>
	<u>Rate</u>	<u>12/31/08</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/09</u>	<u>One Year</u>
General obligation bonds	2.80-5.75%	\$ 7,385,000	\$ -	\$(600,000)	\$ 6,785,000	\$ 625,000
Special assessment bond	4.80-7.00%	520,000	-	(160,000)	360,000	175,000
OPWC loans	6.00%	451,422	-	(64,570)	386,852	68,503
Compensated absences		<u>1,241,879</u>	<u>81,053</u>	<u>(337)</u>	<u>1,322,595</u>	<u>424,210</u>
 Total		 <u>\$ 9,598,301</u>	 <u>\$ 81,053</u>	 <u>\$(824,907)</u>	 <u>\$ 8,854,447</u>	 <u>\$ 1,292,713</u>

The general obligation bonds will be paid from income taxes receipted into the capital improvement fund. The special assessment bond and OPWC loans will be paid from the proceeds of special assessments levied against the benefited property owners. In the event that a property owner fails to pay the assessment, payment will be made by the City. Compensated absences reported in the "long-term liabilities" account will be paid from the fund from which the employees' salaries are paid; the General Fund and the Children/Adolescent Fund, a nonmajor governmental fund.

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

B. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2009 are follows:

Year	General Obligation Bonds			Special Assessment Bond		
	Principal	Interest	Total	Principal	Interest	Total
2010	\$ 625,000	\$ 302,530	\$ 927,530	\$ 175,000	\$ 25,200	\$ 200,200
2011	655,000	275,030	930,030	185,000	12,950	197,950
2012	680,000	245,845	925,845	-	-	-
2013	710,000	214,943	924,943	-	-	-
2014	505,000	182,173	687,173	-	-	-
2015 - 2019	2,575,000	564,973	3,139,973	-	-	-
2020 - 2022	<u>1,035,000</u>	<u>98,040</u>	<u>1,133,040</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 6,785,000</u>	<u>\$1,883,534</u>	<u>\$ 8,668,534</u>	<u>\$ 360,000</u>	<u>\$ 38,150</u>	<u>\$ 398,150</u>

Year	OPWC Loans		
	Principal	Interest	Total
2010	\$ 68,503	\$ 22,199	\$ 90,702
2011	72,675	18,027	90,702
2012	77,101	13,601	90,702
2013	81,796	8,906	90,702
2014	<u>86,777</u>	<u>3,924</u>	<u>90,701</u>
Total	<u>\$ 386,852</u>	<u>\$ 66,657</u>	<u>\$ 453,509</u>

NOTE 12 - OTHER EMPLOYEE BENEFITS

A. Compensated Absence

The criteria for determining vested vacation and sick leave components are derived from negotiated agreements and state laws. Employees earn ten to thirty days of vacation per year, depending upon length of service. Vacation accumulation is typically limited to one year. Employees may carry over vacation earned for three years prior to 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 1994 are eligible to receive payment for accumulated unused sick days. The exact terms vary in accordance with the negotiated collective bargaining agreement in effect. In most cases, the sick leave termination payment is limited to 90 days. Employees with a hire date subsequent to 1994 are not eligible to receive termination payments for sick leave. As of December 31, 2009 the total liability for unpaid compensated absences was \$1,322,595.

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009

NOTE 12 - OTHER EMPLOYEE BENEFITS - (Continued)

B. Health Care Benefits

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

NOTE 13 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2009, the City contracted with Wichert Insurance Service, Inc. for property and general liability insurance, including boiler and machinery. Police and professional liability policies are provided by Scottsdale Indemnity Company with a \$1,000,000 limit and a \$10,000 deductible. A commercial umbrella policy through Selective Insurance Company provides additional general liability and auto liability insurance up to an \$11,000,000 limit.

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

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

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

The City participates in the Ohio Municipal League (OML) public entity insurance purchasing pool for workers' compensation. The Group Rating Plan is administered by Gates McDonald Company. The OML Group Rating Plan is intended to achieve lower workers' compensation premium rates for the participants, and result in the establishment of a safer working environment. There are no additional contributions required by a participant other than their annual fee. The City pays the State Workers' Compensation system a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

NOTE 14 - 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 percent per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the Combined Plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the Traditional 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.

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009

NOTE 14 - PENSION PLANS - (Continued)

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 that may be obtained by writing to OPERS, Attention: Finance Director, 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 2009, member and contribution rates were consistent across all three plans. While members in the State and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Plan. The 2009 member contribution rates were 10.00 percent for members in the State and local classifications. The City's contribution rate for 2009 was 14.00 percent.

The City's contribution rate for pension benefits for 2009 was 7 percent from January 1 through March 31, 2009 and 8.5 percent from April 1 through December 31, 2009. The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2009, 2008, and 2007 were \$246,865, \$197,378, and \$221,691, respectively; 91.39 percent has been contributed for 2009 and 100 percent for 2008 and 2007.

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 Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary while the City is required to contribute 19.50 and 24.00 percent for police officers and firefighters, respectively. Contribution rates are established by State statute. For 2009, the portion of the City's contributions to fund pension obligations was 12.75 percent for police officers and 17.25 percent for firefighters. The City's required contributions for pension obligations to OP&F for police officers and firefighters were \$205,137 and \$180,975 for the year ended December 31, 2009, \$195,027 and \$168,470 for the year ended December 31, 2008, and \$176,094 and \$153,083 for the year ended December 31, 2007. 72.16 percent has been contributed for police and firefighters for 2009.

C. Social Security System

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

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

NOTE 15 - POST RETIREMENT 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 OPEB benefits 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 writing to OPERS, Attention: Finance Director, 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 contributions 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 2009, local government employers contributed 14 percent of covered payroll (17.63 percent for public safety and law enforcement). 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 amount of the employer contributions which was allocated to fund post-employment health care for 2009 was 7 percent from January 1 through March 31, 2009 and 5.5 percent from April 1 through December 31, 2009.

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, 2009, 2008, and 2007 were \$176,702, \$197,378, and \$147,845, respectively; 92.22 percent has been contributed for 2009 and 100 percent has been contributed for 2008 and 2007.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007 and January 1, 2008, which will allow additional funds to be allocated to the health care plan.

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

NOTE 15 - POST RETIREMENT BENEFIT PLANS - (Continued)

B. Ohio Police & 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 healthcare 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.

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 a percentage 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 percent of covered payroll for police employer units and 24 percent of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

OP&F maintains funds for health care in two separate accounts. One for health care benefits under an IRS Code Section 115 trust and one for Medicare Part B reimbursements administered as an Internal Revenue Code 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. For the year ended December 31, 2009, the employer contribution allocated to the health care plan was 6.75% of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that 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 \$108,602 and \$70,816 for the year ended December 31, 2009, \$103,249 and \$65,923 for the year ended December 31, 2008, and \$93,226 and \$59,902, for the year ended December 31, 2007. The full amount has been contributed for 2008 and 2007. 72.16 percent has been contributed for police and firefighters for 2009.

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING

While the City is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

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

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	\$ (584,016)
Net adjustment for revenue accruals	74,395
Net adjustment for expenditure accruals	206,345
Adjustment for encumbrances	<u>637,589</u>
GAAP basis	<u><u>\$ 334,313</u></u>

NOTE 17 - CONTINGENCIES

A. Grants

The City receives significant financial assistance from numerous federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with 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, 2009.

CITY OF FAIRLAWN, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009**

NOTE 17 – CONTINGENCIES – (Continued)

B. Litigation

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

NOTE 18 - CONTRACTUAL COMMITMENTS

As of December 31, 2009, the City had various contractual commitments; for road maintenance and improvements of \$440,794; sewer cleaning and improvements of \$20,250; land development \$51,920; building improvements of \$9,958; purchases of various capital equipment of \$119,711; and park equipment and improvements of \$98,148.

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Mary Taylor, CPA

Auditor of State

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

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

To the Honorable Mayor and Members of City Council:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Fairlawn, Summit County, (the City) as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 15, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the City's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the City's internal control over financial reporting.

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 more than a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

Compliance and Other Matters

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

We intend this report solely for the information and use of management, City Council and others within the City. We intend it for no one other than these specified parties.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

October 15, 2010



Mary Taylor, CPA
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
NOVEMBER 4, 2010**