



Dave Yost • Auditor of State



**CITY OF FAIRLAWN  
SUMMIT COUNTY**

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# Dave Yost • Auditor of State

## 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, 2011, 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, 2011, and the respective changes in financial position thereof and the budgetary comparison for the General for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended December 31, 2011, the City adopted the provision of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2012, 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.

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive, flowing style with a large loop at the end of the last name.

**Dave Yost**  
Auditor of State

June 29, 2012

## CITY OF FAIRLAWN, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2011 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, 2011. 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 2011 are as follows:

- The total net assets of the City increased \$910,114. Net assets of governmental activities increased \$910,114 or 1.25% from 2010, to a total of \$73,453,604 in 2011.
- General revenues accounted for \$14,682,933 of total governmental activities revenue. Program specific revenues accounted for \$1,432,587 or 8.89% of total governmental activities revenue.
- The City had \$15,205,406 in expenses related to governmental activities; \$1,432,587 of these expenses were offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$13,772,819 were offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements, including Joint Economic Development District (JEDD) revenues).
- The City has three major funds, the general fund, bond retirement fund and capital improvement fund. The general fund, the largest major fund, had revenues and other financing sources of \$13,208,738 in 2011. This represents an increase of \$456,408 from 2010 revenues and other financing sources, and is due to an increase in income tax collections and JEDD revenues. The expenditures and other financing uses of the general fund, which totaled \$11,189,344 in 2011, increased \$1,293,225 from 2010. The increase is due to the elimination, in 2010, of a liability for an anticipated income tax refund in the amount of \$1,112,868. The elimination reduced last year's expenditures. The net increase in fund balance for the general fund was \$2,092,775 or 21.33%.
- The bond retirement fund had revenues and other financing sources of \$294,171 in 2011. The expenditures of the bond retirement fund totaled \$299,316 in 2011. The net decrease in fund balance for the bond retirement fund was \$5,145 or 37.94%.
- The capital improvement fund had revenues of \$2,319,622 in 2011. The expenditures of the capital improvement fund totaled \$2,003,404 in 2011. The net increase in fund balance for the capital improvement fund was \$316,218 or 12.29%.

#### **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, 2011 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 2011?" 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.



**CITY OF FAIRLAWN, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
Unaudited

Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains a multitude of individual governmental funds. The City has segregated these funds into major funds and nonmajor funds. The City's major governmental funds are the general fund, 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 23-46 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 2011 compared to 2010:

	<b>Net Assets</b>	
	Governmental Activities 2011	Governmental Activities 2010
<u>Assets</u>		
Current and other assets	\$ 19,356,210	\$ 17,783,592
Capital assets, net	62,759,792	64,739,816
Total assets	82,116,002	82,523,408
<u>Liabilities</u>		
Current and other liabilities	1,720,208	1,898,822
Long-term liabilities	6,942,190	8,081,096
Total liabilities	8,662,398	9,979,918
<u>Net Assets</u>		
Invested in capital assets, net of related debt	57,009,118	58,076,467
Restricted	4,842,587	5,038,389
Unrestricted	11,601,899	9,428,634
Total net assets	\$ 73,453,604	\$ 72,543,490

**CITY OF FAIRLAWN, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
Unaudited

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2011, the City's assets exceeded liabilities by \$73,453,604.

Capital assets reported on the government-wide statements represent the largest portion of the City's assets. At year-end, capital assets represented 76.43% 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, 2011, were \$57,009,118. 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, \$4,842,587, 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 \$11,601,899 may be used to meet the government's ongoing obligations to citizens and creditors.

The table below shows the change in net assets for fiscal years 2011 and 2010.

	<b>Change in Net Assets</b>	
	Governmental Activities 2011	Governmental Activities 2010
	<u>2011</u>	<u>2010</u>
<b>Revenues</b>		
Program revenues:		
Charges for services	\$ 940,055	\$ 951,279
Operating grants and contributions	408,162	330,395
Capital grants and contributions	84,370	267,396
Total program revenues	<u>1,432,587</u>	<u>1,549,070</u>
General revenues:		
Property and other taxes	1,089,410	980,789
Income taxes	9,272,072	8,299,564
JEDD revenues	2,846,855	2,539,728
Unrestricted grants and entitlements	1,363,207	1,478,728
Investment earnings	25,129	36,171
Miscellaneous	86,260	231,754
Total general revenues	<u>14,682,933</u>	<u>13,566,734</u>
Total revenues	<u><u>\$ 16,115,520</u></u>	<u><u>\$ 15,115,804</u></u>

**CITY OF FAIRLAWN, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
Unaudited

	<b>Change in Net Assets</b>	
	Governmental Activities 2011	Governmental Activities 2010
	<u>2011</u>	<u>2010</u>
<b>Expenses</b>		
General government	\$ 2,669,058	\$ 1,537,614
Security of persons and property	6,369,280	6,707,077
Public health and welfare	117,996	122,137
Transportation	4,381,927	3,486,979
Community environment	58,394	44,161
Leisure time activity	423,062	358,449
Utility services	885,373	891,502
Interest and fiscal charges	<u>300,316</u>	<u>344,561</u>
Total expenses	<u>15,205,406</u>	<u>13,492,480</u>
Change in net assets	910,114	1,623,324
Net assets at beginning of year	<u>72,543,490</u>	<u>70,920,166</u>
Net assets at end of year	<u><u>\$ 73,453,604</u></u>	<u><u>\$ 72,543,490</u></u>

**Governmental Activities**

Governmental activities net assets increased \$910,114 in 2011. The increase is due an increase in income tax receipts.

Security of persons and property, which primarily supports the operations of the police and fire departments accounted for \$6,369,280 of the total expenses of the City. These expenses were partially funded by \$333,724 in direct charges to users of the services and \$7,250 in operating grants and contributions. Transportation expenses totaled \$4,381,927. Transportation expenses were partially funded by \$550 in direct charges to users of the services, \$395,978 in operating grants and contributions, and \$49,238 in capital grants and contributions.

The county and state governments contributed to the City a total of \$408,162 in operating grants and contributions. These revenues are restricted to a particular program or purpose. Of the total operating grants and contributions, \$7,250 subsidized security of persons and property, \$395,978 subsidized transportation programs, and \$4,934 subsidized utility services.

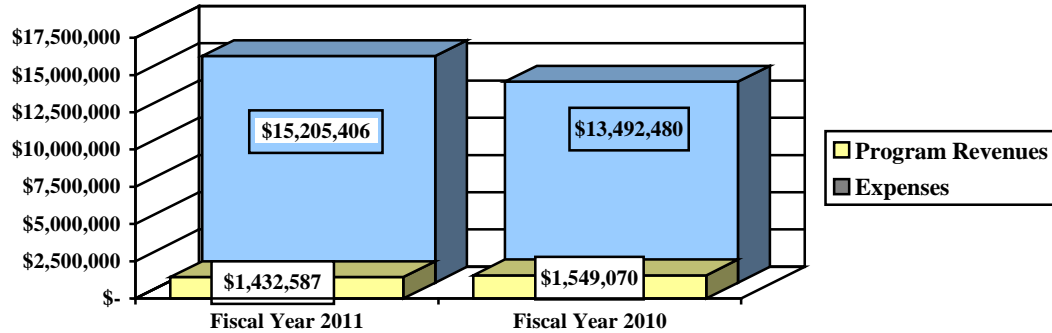
General revenues totaled \$14,682,933, and amounted to 91.11% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$10,361,482 and JEDD revenues of \$2,846,855.

**CITY OF FAIRLAWN, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
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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.

	<b>Governmental Activities</b>			
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2011	2011	2010	2010
Program Expenses:				
General government	\$ 2,669,058	\$ 2,179,538	\$ 1,537,614	\$ 789,147
Security of persons and property	6,369,280	6,028,306	6,707,077	6,384,963
Public health and welfare	117,996	117,996	122,137	122,137
Transportation	4,381,927	3,936,161	3,486,979	3,170,379
Community environment	58,394	58,394	44,161	39,227
Leisure time activity	423,062	408,193	358,449	337,696
Utility services	885,373	743,915	891,502	755,300
Interest and fiscal charges	300,316	300,316	344,561	344,561
<b>Total</b>	<b>\$ 15,205,406</b>	<b>\$ 13,772,819</b>	<b>\$ 13,492,480</b>	<b>\$ 11,943,410</b>

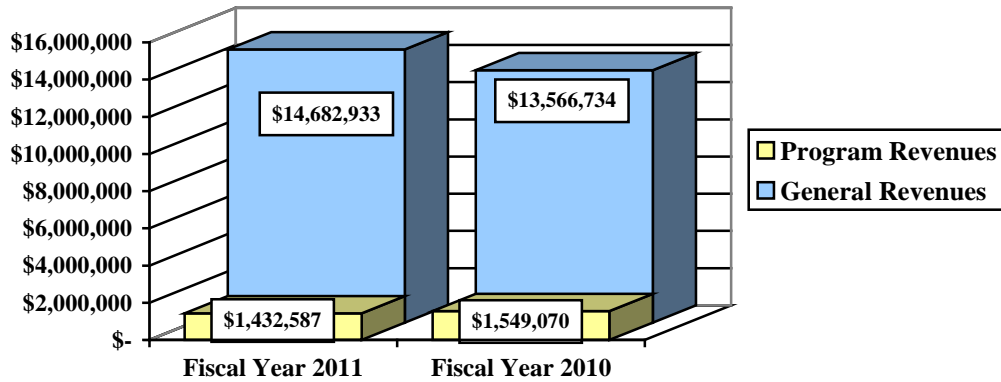
The dependence upon general revenues for governmental activities is apparent, with 90.58% of expenses supported through taxes and other general revenues.

**CITY OF FAIRLAWN, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
Unaudited

The chart below illustrates the City's program revenues versus general revenues for 2011 and 2010:

**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 \$15,816,349 which is \$2,170,885 more than last year's total of \$13,645,464. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2011 and 2010 for all major and nonmajor governmental funds.

	Fund Balances 12/31/11	Fund Balances 12/31/10	Increase (Decrease)	Percentage Change
Major funds:				
General	\$ 11,905,632	\$ 9,812,857	\$ 2,092,775	21.33 %
Bond retirement	8,416	13,561	(5,145)	(37.94) %
Capital improvement	2,888,310	2,572,092	316,218	12.29 %
Other nonmajor governmental funds	1,013,991	1,246,954	(232,963)	(18.68) %
<b>Total</b>	<b>\$ 15,816,349</b>	<b>\$ 13,645,464</b>	<b>\$ 2,170,885</b>	<b>15.91 %</b>

**CITY OF FAIRLAWN, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
Unaudited

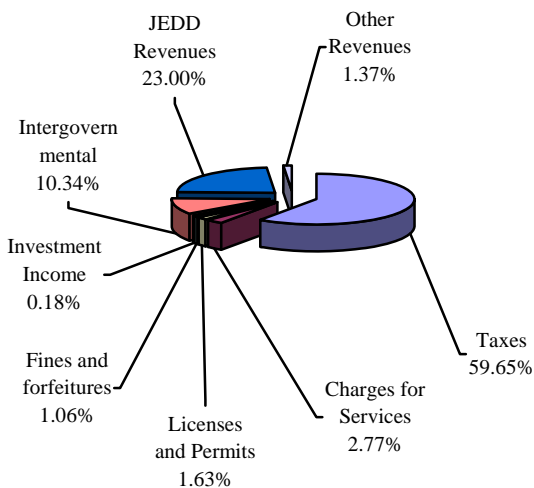
**General Fund**

The City's general fund balance increased by \$2,092,775. The table that follows assists in illustrating the revenues of the general fund.

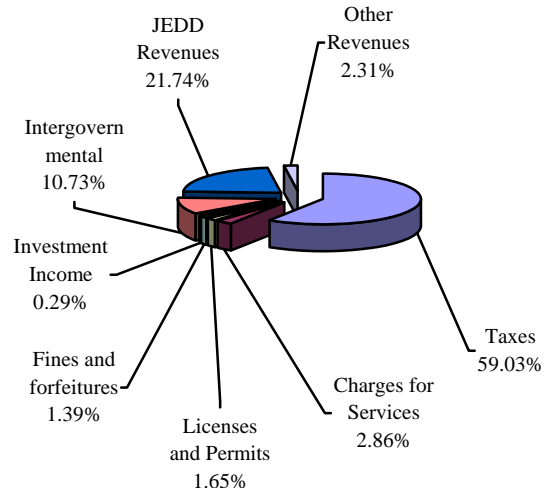
<u>Revenues</u>	<u>2011 Amount</u>	<u>2010 Amount</u>	<u>Percentage Change</u>
Taxes	\$ 7,878,863	\$ 7,527,776	4.66 %
Charges for services	366,067	364,532	0.42 %
Licenses and permits	215,213	210,198	2.39 %
Fines and forfeitures	139,783	177,787	(21.38) %
Intergovernmental	1,365,859	1,367,781	(0.14) %
Investment income	23,202	37,458	(38.06) %
JEDD revenues	3,038,493	2,772,250	9.60 %
Other	180,608	294,548	(38.68) %
<b>Total</b>	<b>\$ 13,208,088</b>	<b>\$ 12,752,330</b>	<b>3.57 %</b>

Tax revenue represents 59.65% of all general fund revenue. Overall, tax revenue increased by 4.66% as compared to the prior year. The reduction of fines and forfeitures is due to less activity in Mayor's Court as more cases are being referred to Akron Municipal Court. The decrease in investment income is due to the continued interest rate decline.

**Revenues – Fiscal Year 2011**



**Revenues – Fiscal Year 2010**



**CITY OF FAIRLAWN, OHIO**

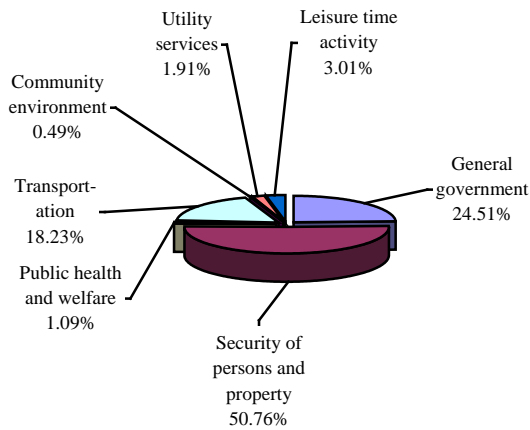
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
Unaudited

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

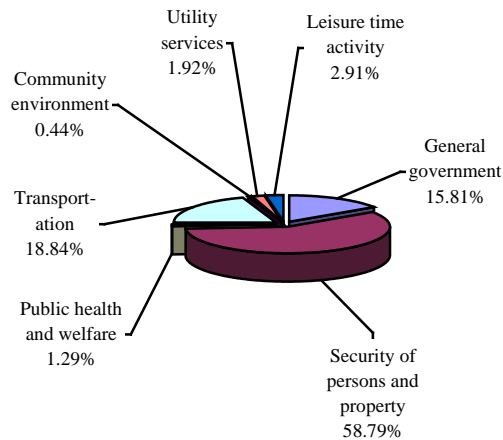
<u>Expenditures</u>	<u>2011</u> Amount	<u>2010</u> Amount	<u>Percentage</u> <u>Change</u>
General government	\$ 2,660,926	\$ 1,503,749	76.95 %
Security of persons and property	5,511,267	5,592,117	(1.45) %
Public health and welfare	117,996	122,137	(3.39) %
Transportation	1,979,052	1,792,325	10.42 %
Community environment	53,598	41,806	28.21 %
Leisure time activity	326,847	277,175	17.92 %
Utility services	207,572	182,337	13.84 %
<b>Total</b>	<b>\$ 10,857,258</b>	<b>\$ 9,511,646</b>	<b>14.15 %</b>

Expenditure for general government appears to have increased but the change between years is due to the cancellation of a large income tax refund, recorded as a payable, which was eliminated in 2010. Community environment expenditure increased in 2011 due to increased utilization of the flood prevention program. Increases in leisure time activity and utility services are due to the lifting of expenditure restrictions in 2011. All other expenditures remained comparable to 2010.

**Expenditures - Fiscal Year 2011**



**Expenditures - Fiscal Year 2010**



***Bond Retirement Fund***

The bond retirement fund had revenues and other financing sources of \$294,171 in 2011. The expenditures of the bond retirement fund totaled \$299,316 in 2011. The net decrease in fund balance for the bond retirement fund was \$5,145 or 37.94%. Proceeds from special assessments are collected in the bond retirement fund and used to pay the debt service for two special assessed projects. The final maturity for bonds issued for the largest project was December 1, 2011 and the fund balance is depleting as expected.

**CITY OF FAIRLAWN, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
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***Capital Improvement Fund***

The capital improvement fund had revenues of \$2,319,622 in 2011. The expenditures of the capital improvement fund totaled \$2,003,404 in 2011. The net increase in fund balance for the capital improvement fund was \$316,218 or 12.29%.

***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. There were no significant changes to budgeted revenues in the general fund. Actual income tax and estate revenue was greater than anticipated. JEDD revenues, however, were less than expected. The budget for transportation expenditures was increased for the anticipated personnel costs due to several retirements during the year. One such termination payment was not made until 2012. The budget for utility services was increased to cover escalating charges for waste disposal, mostly relating to fuel surcharges. Expenditures for general government, security of persons and property and transportation were less than budgeted as several departments were understaffed during 2011.

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal 2011, the City had \$62,759,792 (net of accumulated depreciation) invested in land, construction in progress, buildings and improvements, land improvements, machinery and equipment, licensed vehicles and infrastructure. The following table shows fiscal 2011 balances compared to 2010:

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

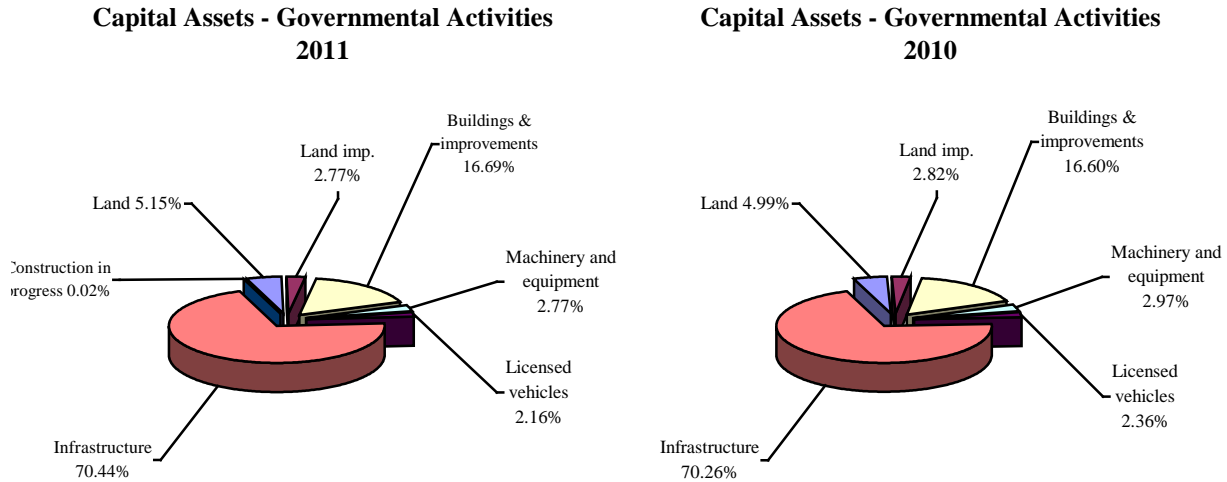
	Governmental Activities	
	2011	2010
Land	\$ 3,229,638	\$ 3,229,638
Construction in progress	10,927	-
Buildings and improvements	10,474,426	10,747,324
Land improvements	1,740,401	1,823,873
Machinery and equipment	1,738,969	1,921,330
Licensed vehicles	1,356,528	1,527,150
Infrastructure	44,208,903	45,490,501
Totals	\$ 62,759,792	\$ 64,739,816

The following graphs show the breakdown of governmental capital assets by category for 2011 and 2010.



**CITY OF FAIRLAWN, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
Unaudited



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, 2011.

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

**Debt Administration**

The City had the following long-term obligations outstanding at December 31, 2011 and 2010:

	Governmental Activities	
	2011	2010
General obligation bonds	\$ 5,505,000	\$ 6,160,000
Special assessment bonds	-	185,000
OPWC loans	245,674	318,349
Compensated absences	1,191,516	1,417,747
<b>Total long-term obligations</b>	<b>\$ 6,942,190</b>	<b>\$ 8,081,096</b>

See Note 10 for more detail on the City's long-term obligations.

**Economic Conditions and Next Year's General Fund Budget Outlook**

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

## CITY OF FAIRLAWN, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2011 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 as planned, work will begin on the A. Schulman building soon. The City has formed a Community Improvement Corporation (CIC) to expand its economic development capabilities and to attract and retain businesses. The CIC recently hired a commercial real estate firm to market the Fairlawn Corporate Park.

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

The City operates seventy (70) acres of parks which offer year-round recreational programs for children and adults. The Learning Resource Center, staffed with a full-time Naturalist, offers nature-related programs and lectures to groups of all ages. The City recently added the adult and youth soccer fields and a community garden to the Fairlawn parks system.

The City's primary revenue source is the 2% local income tax withheld on the estimated 40,000 people working in the City. Income tax receipts increased 6.2% in 2011 as compared to the previous year.

The City is projecting a decrease in general fund revenue in 2012 due to the elimination of estate tax and reductions in other intergovernmental revenues. Expenditures for 2012 are budgeted at 14.55% greater than 2011 due to the resumption of full staffing, increased legal fees and general inflation. Programs supported by the general fund are budgeted at the same level of service as last year.

#### **Contacting the City's Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Mr. 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, 2011

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents	\$ 14,171,614
Cash and cash equivalents in segregated accounts	16,265
Receivables:	
Income taxes	1,740,364
Real and other taxes	851,663
Accounts	49,543
Special assessments	624,491
Accrued interest	9,152
Due from other governments	1,338,800
Materials and supplies inventory	472,168
Prepayments	82,150
Capital assets:	
Land and construction in progress	3,240,565
Depreciable capital assets, net	59,519,227
Total capital assets, net	62,759,792
 Total assets	 82,116,002
<b>Liabilities:</b>	
Accounts payable	198,817
Contracts payable	29,455
Accrued wages and benefits payable	140,113
Compensated absences payable	80,952
Due to other governments	476,239
Accrued interest payable	27,857
Unearned revenue	766,775
Long-term liabilities:	
Due within one year	1,209,215
Due in more than one year	5,732,975
Total liabilities	8,662,398
<b>Net assets:</b>	
Invested in capital assets, net of related debt	57,009,118
Restricted for:	
Debt service	253,942
Capital projects	3,483,555
Other purposes	1,105,090
Unrestricted (deficit)	11,601,899
Total net assets	\$ 73,453,604

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FAIRLAWN, OHIO**

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Revenue and Changes in Net Assets</u>
<b>Governmental activities:</b>					<b>Governmental Activities</b>
Current:					
General government	\$ 2,669,058	\$ 454,388	\$ -	\$ 35,132	\$ (2,179,538)
Security of persons and property	6,369,280	333,724	7,250	-	(6,028,306)
Public health and welfare	117,996	-	-	-	(117,996)
Transportation	4,381,927	550	395,978	49,238	(3,936,161)
Community environment	58,394	-	-	-	(58,394)
Leisure time activity	423,062	14,869	-	-	(408,193)
Utility services	885,373	136,524	4,934	-	(743,915)
Interest and fiscal charges	300,316	-	-	-	(300,316)
<b>Total governmental activities</b>	<b>15,205,406</b>	<b>940,055</b>	<b>408,162</b>	<b>84,370</b>	<b>(13,772,819)</b>
<b>General revenues:</b>					
Property taxes levied for:					
General purposes 898,810					
Police and fire pension 190,600					
Income taxes levied for:					
General purposes 7,049,819					
Capital outlay 2,222,253					
JEDD revenues 2,846,855					
Grants and entitlements not restricted					
to specific programs 1,363,207					
Investment earnings 25,129					
Miscellaneous 86,260					
<b>Total general revenues 14,682,933</b>					
Change in net assets 910,114					
<b>Net assets at beginning of year 72,543,490</b>					
<b>Net assets at end of year \$ 73,453,604</b>					

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FAIRLAWN, OHIO**

BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2011

	<u>General</u>	<u>Bond Retirement</u>	<u>Capital Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>					
Equity in pooled cash and cash equivalents	\$ 10,336,034	\$ 8,416	\$ 2,641,894	\$ 1,185,270	\$ 14,171,614
Cash and cash equivalents in segregated accounts	16,265	-	-	-	16,265
Receivables:					
Income taxes	1,305,273	-	435,091	-	1,740,364
Real and other taxes	665,746	-	-	185,917	851,663
Accounts	49,182	-	-	361	49,543
Special assessments	-	252,896	371,595	-	624,491
Accrued interest	8,766	-	-	386	9,152
Due from other funds	-	-	-	50	50
Due from other governments	1,164,934	-	15,040	158,826	1,338,800
Materials and supplies inventory	453,793	-	-	18,375	472,168
Prepayments	82,150	-	-	-	82,150
Total assets	<u>\$ 14,082,143</u>	<u>\$ 261,312</u>	<u>\$ 3,463,620</u>	<u>\$ 1,549,185</u>	<u>\$ 19,356,260</u>
<b>Liabilities:</b>					
Accounts payable	\$ 156,698	\$ -	\$ 864	\$ 41,255	\$ 198,817
Contracts payable	13,246	-	16,209	-	29,455
Accrued wages and benefits payable	140,113	-	-	-	140,113
Compensated absences payable	80,952	-	-	-	80,952
Due to other funds	50	-	-	-	50
Due to other governments	301,288	-	-	174,951	476,239
Deferred revenue	887,783	252,896	558,237	148,594	1,847,510
Unearned revenue	596,381	-	-	170,394	766,775
Total liabilities	<u>2,176,511</u>	<u>252,896</u>	<u>575,310</u>	<u>535,194</u>	<u>3,539,911</u>
<b>Fund balances:</b>					
Nonspendable	546,413	-	-	18,375	564,788
Restricted	-	8,416	2,888,310	921,976	3,818,702
Committed	5,000	-	-	73,640	78,640
Assigned	266,417	-	-	-	266,417
Unassigned (deficit)	11,087,802	-	-	-	11,087,802
Total fund balances	<u>11,905,632</u>	<u>8,416</u>	<u>2,888,310</u>	<u>1,013,991</u>	<u>15,816,349</u>
Total liabilities and fund balances	<u>\$ 14,082,143</u>	<u>\$ 261,312</u>	<u>\$ 3,463,620</u>	<u>\$ 1,549,185</u>	<u>\$ 19,356,260</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, 2011

<b>Total governmental fund balances</b>		\$	15,816,349
<i>Amounts reported for governmental activities on 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.			62,759,792
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Income taxes receivable	\$	686,409	
Real and other taxes receivable		84,888	
Accounts receivable		1,395	
Intergovernmental receivable		446,220	
Special assessments receivable		624,491	
Accrued interest receivable		4,107	
Total		1,847,510	1,847,510
Accrued interest payable is not due and payable in the current period and therefore is not reported in the governmental funds.			(27,857)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
General obligation bonds		(5,505,000)	
OPWC loans		(245,674)	
Compensated absences		(1,191,516)	
Total		(6,942,190)	(6,942,190)
<b>Net assets of governmental activities</b>		\$	73,453,604

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, 2011

	<b>General</b>	<b>Bond Retirement</b>	<b>Capital Improvement</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Revenues:</b>					
Income taxes	\$ 7,049,418	\$ -	\$ 2,222,120	\$ -	\$ 9,271,538
Real and other taxes	829,445	-	-	175,077	1,004,522
Charges for services	366,067	-	-	136,524	502,591
Licenses and permits	215,213	-	-	-	215,213
Fines and forfeitures	139,783	-	-	8,897	148,680
Intergovernmental	1,365,859	-	38,858	425,368	1,830,085
Special assessments	-	259,171	58,644	-	317,815
Investment income	23,202	-	-	1,075	24,277
Rental income	73,571	-	-	-	73,571
Contributions and donations	34,482	-	-	-	34,482
JEDD revenues	3,038,493	-	-	-	3,038,493
Other	72,555	-	-	7,042	79,597
<b>Total revenues</b>	<b>13,208,088</b>	<b>259,171</b>	<b>2,319,622</b>	<b>753,983</b>	<b>16,540,864</b>
<b>Expenditures:</b>					
Current:					
General government	2,660,926	10,664	-	8	2,671,598
Security of persons and property	5,511,267	-	-	649,440	6,160,707
Public health and welfare	117,996	-	-	-	117,996
Transportation	1,979,052	-	-	520,637	2,499,689
Community environment	53,598	-	-	-	53,598
Leisure time activity	326,847	-	-	-	326,847
Utility services	207,572	-	-	103,335	310,907
Capital outlay	-	-	1,073,374	12,905	1,086,279
Debt service:					
Principal retirement	-	257,675	655,000	-	912,675
Interest and fiscal charges	-	30,977	275,030	-	306,007
<b>Total expenditures</b>	<b>10,857,258</b>	<b>299,316</b>	<b>2,003,404</b>	<b>1,286,325</b>	<b>14,446,303</b>
Excess (deficiency) of revenues over (under) expenditures	2,350,830	(40,145)	316,218	(532,342)	2,094,561
<b>Other financing sources (uses):</b>					
Sale of capital assets	650	-	-	-	650
Transfers in	-	35,000	-	297,086	332,086
Transfers (out)	(332,086)	-	-	-	(332,086)
<b>Total other financing sources (uses)</b>	<b>(331,436)</b>	<b>35,000</b>	<b>-</b>	<b>297,086</b>	<b>650</b>
Net change in fund balances	2,019,394	(5,145)	316,218	(235,256)	2,095,211
<b>Fund balances at beginning of year</b>	<b>9,812,857</b>	<b>13,561</b>	<b>2,572,092</b>	<b>1,246,954</b>	<b>13,645,464</b>
<b>Decrease in reserve for inventory</b>	<b>73,381</b>	<b>-</b>	<b>-</b>	<b>2,293</b>	<b>75,674</b>
<b>Fund balances at end of year</b>	<b>\$ 11,905,632</b>	<b>\$ 8,416</b>	<b>\$ 2,888,310</b>	<b>\$ 1,013,991</b>	<b>\$ 15,816,349</b>

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, 2011

<b>Net change in fund balances - total governmental funds</b>	\$	2,095,211
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures.		
However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays were exceeded by depreciation expense in the current period.		
Capital asset additions	\$ 267,788	
Current year depreciation	<u>(2,238,988)</u>	
Total		(1,971,200)
 The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.		
		(8,824)
 Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Income taxes	534	
Real and other taxes	84,888	
Intergovernmental revenues	(9,478)	
Special assessments	(282,683)	
Investment income	852	
JEDD revenues	(191,638)	
Other	<u>(27,819)</u>	
Total		(425,344)
 Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed.		
		75,674
 Repayment of bond and lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		
		912,675
 In the statement of activities, interest is accrued on outstanding bonds and loans, whereas in governmental funds, an interest expenditure is reported when due.		
		5,691
 Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		<u>226,231</u>
<b>Change in net assets of governmental activities</b>	<b>\$</b>	<b><u>910,114</u></b>

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, 2011

	<u>Budgeted Amounts</u>			<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues:</b>				
Income taxes	\$ 5,486,835	\$ 5,486,835	\$ 7,031,553	\$ 1,544,718
Real and other taxes	875,000	849,119	891,373	42,254
Charges for services	347,819	344,319	379,962	35,643
Licenses and permits	185,400	185,400	188,816	3,416
Fines and forfeitures	212,000	212,000	137,761	(74,239)
Intergovernmental	774,216	774,216	1,283,708	509,492
Investment income	50,000	50,000	21,104	(28,896)
Rental income	80,000	73,500	73,571	71
Contributions and donations	3,700	3,700	34,482	30,782
JEDD revenues	2,704,300	2,704,300	2,575,723	(128,577)
Other	115,200	115,200	71,693	(43,507)
<b>Total revenues</b>	<u>10,834,470</u>	<u>10,798,589</u>	<u>12,689,746</u>	<u>1,891,157</u>
<b>Expenditures:</b>				
Current:				
General government	3,400,389	3,526,464	3,018,589	507,875
Security of persons and property	5,856,615	6,031,218	5,555,858	475,360
Public health and welfare	120,300	120,300	117,996	2,304
Transportation	1,911,131	2,112,932	1,976,753	136,179
Community environment	74,632	75,632	53,598	22,034
Leisure time activity	335,284	364,334	334,543	29,791
Utility services	195,833	255,833	221,746	34,087
<b>Total expenditures</b>	<u>11,894,184</u>	<u>12,486,713</u>	<u>11,279,083</u>	<u>1,207,630</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,059,714)</u>	<u>(1,688,124)</u>	<u>1,410,663</u>	<u>3,098,787</u>
<b>Other financing sources (uses):</b>				
Sale of capital assets	-	-	650	650
Transfers (out)	(424,447)	(369,447)	(332,086)	37,361
<b>Total other financing sources (uses)</b>	<u>(424,447)</u>	<u>(369,447)</u>	<u>(331,436)</u>	<u>38,011</u>
Net change in fund balances	(1,484,161)	(2,057,571)	1,079,227	3,136,798
<b>Fund balances at beginning of year</b>	8,201,909	8,201,909	8,201,909	-
<b>Prior year encumbrances appropriated</b>	559,776	559,776	559,776	-
<b>Fund balance at end of year</b>	<u>\$ 7,277,524</u>	<u>\$ 6,704,114</u>	<u>\$ 9,840,912</u>	<u>\$ 3,136,798</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FAIRLAWN, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
DECEMBER 31, 2011

	<u>Agency</u>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents	\$ 39,700
Total assets	<u>\$ 39,700</u>
<b>Liabilities:</b>	
Undistributed monies	\$ 39,700
Total liabilities	<u>\$ 39,700</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, 2011

#### 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 2011 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, 2011

#### 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, 2011

**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, 2011

**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, 2011, but which were levied to finance year 2012 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, 2011, 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, 2011

**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 2011.

***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 2011, investments were limited to certificates of deposit.

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

**CITY OF FAIRLAWN, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

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

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 2011, interest revenue credited to the general fund amounted to \$23,202, which includes \$5,584 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, 2011

**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>	Governmental Activities <u>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, 1996.

The entire compensated absence liability is reported on the government-wide financial statements.

On governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported. The City had compensated absences payable of \$80,952 in 2011.

**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, 2011

**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**

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

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

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

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

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

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

**CITY OF FAIRLAWN, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

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

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

**O. Estimates**

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

**P. Net 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, 2011 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.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

For fiscal year 2011, the City has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", and GASB Statement No. 59, "Financial Instruments Omnibus".

GASB Statement No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. GASB Statement No. 54 also clarifies the definitions of governmental fund types. The implementation of GASB Statement No. 54 did not have an effect on the financial statements of the City.

GASB Statement No. 59 updates and improves guidance for financial reporting and disclosure requirements of certain financial instruments and external investment pools. The implementation of GASB Statement No. 59 did not have an effect on the financial statements of the City.

**CITY OF FAIRLAWN, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

**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.

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.

**CITY OF FAIRLAWN, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

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

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

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

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held 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, 2011, the City had \$16,265 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, 2011, the carrying amount of the City's deposits was \$14,226,029. As of December 31, 2011, \$13,030,280 of the City's bank balance of \$14,412,661 was exposed to custodial risk as discussed below, while \$1,382,381 was covered by Federal Deposit Insurance Corporation.

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011

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

Custodial credit risk is the risk that, in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. As permitted by Ohio Revised Code, the City's deposits are collateralized by a pool of eligible securities deposited with Federal Reserve Banks, or at member banks of the Federal Reserve System, in the name of the depository bank and pledged as a pool of collateral against all public deposits held by the depository. The City has no deposit policy for custodial credit risk beyond the requirements of the State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

**D. Investments**

The City had no investments at December 31, 2011.

**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, 2011:

<u>Cash and Investments per Footnote</u>	
Carrying amount of deposits	\$ 14,226,029
Cash on hand	<u>1,550</u>
Total	\$ 14,227,579
 <u>Cash and Investments per Statement of Net Assets</u>	
Governmental activities	\$ 14,187,879
Agency funds	<u>39,700</u>
Total	\$ 14,227,579

**NOTE 5 - INTERFUND TRANSACTIONS**

A. Interfund transfers for the year ended December 31, 2011 consisted of the following, as reported in the fund financial statements:

	<u>Transfers from</u>
<u>Transfers to</u>	<u>General</u>
Major	
Bond Retirement	\$ 35,000
Nonmajor	
Governmental funds	<u>297,086</u>
	<u><u>\$ 332,086</u></u>

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011

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

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, 2011, 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.

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

**NOTE 6 - PROPERTY TAXES**

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

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Public utility tangible personal property is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2011 public utility property taxes became a lien December 31, 2010, are levied after October 1, 2011, and are collected in 2012 with real property taxes. Public utility property taxes are payable on the same dates as real property taxes described previously.

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 property taxes, public utility taxes, delinquent tangible personal property taxes and other outstanding delinquencies which are measurable as of December 31, 2011 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 2011 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, 2011

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

The full tax rate for all City operations for the year ended December 31, 2011 was \$2.70 per \$1,000 of assessed value. The assessed values of real and public utility property upon which 2011 property tax receipts were based are as follows:

<u>Real property</u>	
Residential/agricultural	\$ 175,962,760
Commercial/industrial/mineral	162,991,470
 <u>Public utility</u>	
Personal	2,734,790
Total assessed value	\$ 341,689,020

**NOTE 7 - LOCAL INCOME TAX**

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

Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly, as required. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. The general fund receives 75 percent and the capital improvement fund receives 25 percent of income tax proceeds.

**NOTE 8 - RECEIVABLES**

Receivables at December 31, 2011, 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, 2011.

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

<b><u>Governmental Activities:</u></b>	
Income taxes	\$ 1,740,364
Real and other taxes	851,663
Accounts	49,543
Special assessments	624,491
Accrued interest	9,152
Due from other governments	1,338,800
Total	\$ 4,614,013

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 \$7,647 as of December 31, 2011.



**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011

**NOTE 9 - CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2011 was as follows:

<b><u>Governmental Activities:</u></b>	Balance 12/31/10	Additions	Disposals	Balance 12/31/11
<i>Capital assets, not being depreciated:</i>				
Land	\$ 3,229,638	\$ -	\$ -	\$ 3,229,638
Construction in progress	-	10,927	-	10,927
<b>Total capital assets, not being depreciated</b>	<b>3,229,638</b>	<b>10,927</b>	<b>-</b>	<b>3,240,565</b>
<i>Capital assets, being depreciated:</i>				
Buildings and Improvements	14,084,223	-	-	14,084,223
Land Improvements	2,604,212	-	-	2,604,212
Machinery and Equipment	3,717,015	50,668	(65,105)	3,702,578
Licensed Vehicles	3,061,655	33,101	(21,000)	3,073,756
Infrastructure	76,099,130	173,092	(23,034)	76,249,188
<b>Total capital assets, being depreciated</b>	<b>99,566,235</b>	<b>256,861</b>	<b>(109,139)</b>	<b>99,713,957</b>
<i>Less: accumulated depreciation:</i>				
Buildings and Improvements	(3,336,899)	(272,898)	-	(3,609,797)
Land Improvements	(780,339)	(83,472)	-	(863,811)
Machinery and Equipment	(1,795,685)	(231,279)	63,355	(1,963,609)
Licensed Vehicles	(1,534,505)	(201,223)	18,500	(1,717,228)
Infrastructure	(30,608,629)	(1,450,116)	18,460	(32,040,285)
<b>Total accumulated depreciation</b>	<b>(38,056,057)</b>	<b>(2,238,988)</b>	<b>100,315</b>	<b>(40,194,730)</b>
<b>Total capital assets, being depreciated, net</b>	<b>61,510,178</b>	<b>(1,982,127)</b>	<b>(8,824)</b>	<b>59,519,227</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 64,739,816</b>	<b>\$ (1,971,200)</b>	<b>\$ (8,824)</b>	<b>\$ 62,759,792</b>

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011

**NOTE 9 - CAPITAL ASSETS - (Continued)**

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

**Governmental activities:**

General government	\$	53,276
Security of persons and property		356,056
Transportation		1,171,716
Community environment		930
Leisure time activity		83,382
Utility services		<u>573,628</u>
 Total depreciation expense - governmental activities	 \$	 <u><u>2,238,988</u></u>

**NOTE 10 - LONG-TERM OBLIGATIONS**

**A. Governmental Activities Long-Term Obligations**

During the fiscal year 2011, the following changes occurred in governmental activities long-term obligations:

<b><u>Governmental Activities:</u></b>	<b>Interest Rate</b>	<b>Balance 12/31/10</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance 12/31/11</b>	<b>Due in One Year</b>
General obligation bonds	2.80-5.75%	\$ 6,160,000		\$ (655,000)	\$ 5,505,000	\$ 680,000
Special assessment bond	4.80-7.00%	185,000		(185,000)	-	
OPWC loans	6.00%	318,349		(72,675)	245,674	77,101
Compensated absences		1,417,747	22,191	(248,422)	1,191,516	452,114
 Total		 <u>\$ 8,081,096</u>	 <u>\$ 22,191</u>	 <u>\$ (1,161,097)</u>	 <u>\$ 6,942,190</u>	 <u>\$ 1,209,215</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.

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011

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

**B. Debt Service Requirements**

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2011 are follows:

Year	General Obligation Bonds			OPWC Loans		
	Principal	Interest	Total	Principal	Interest	Total
2012	680,000	245,845	925,845	77,101	13,601	90,702
2013	710,000	214,943	924,943	81,796	8,906	90,702
2014	505,000	182,173	687,173	86,777	3,924	90,701
2015	530,000	161,007	691,007			
2016	550,000	138,378	688,378			
2017 - 2021	2,170,000	346,708	2,516,708			
2022	360,000	16,920	376,920			
Total	\$ 5,505,000	\$ 1,305,974	\$ 6,810,974	\$ 245,674	\$ 26,431	\$ 272,105

**C. Conduit Debt Obligations**

From time to time, the City has issued Health Care Facilities Revenue Bonds to provide financial assistance to a private, non-profit sector entity for the acquisition and construction of health care facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the City, the State of Ohio, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of December 31, 2011, the Series 2011 Health Care Facilities Revenue Bonds had a principal amount payable of \$10,000,000.

**NOTE 11 - OTHER EMPLOYEE BENEFITS**

**A. Compensated Absences**

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

Employees earn sick leave at the rate of 1.25 days per month of service. Upon retirement, employees hired before 1996 are eligible to receive payment for accumulated unused sick days. The exact terms vary in accordance with the negotiated collective bargaining agreement in effect. In most cases, the sick leave termination payment is limited to a maximum of 90 days. Employees with a hire date subsequent to 1996 are not eligible to receive termination payments for sick leave. As of December 31, 2011 the total liability for unpaid compensated absences was \$1,272,468.

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011

**NOTE 11 - 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 Assurant Employee Benefits.

**NOTE 12 - RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2011, 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 a \$10,000,000 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 13 - PENSION PLANS**

**A. Ohio Public Employees Retirement System**

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

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011

**NOTE 13 - 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 which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, 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 2011, member and contribution rates were consistent across all three plans. The 2011 member contribution rates were 10.00% for members. The City's contribution rate for 2011 was 14.00% of covered payroll.

The City's contribution rate for pension benefits for members in the Traditional Plan for 2011 was 10.00%. The City's contribution rate for pension benefits for members in the Combined Plan for 2011 was 7.95%. The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2011, 2010, and 2009 were \$278,349, \$260,137, and \$246,865, respectively; 100% has been contributed for 2011, 2010, and 2009. Contributions to the member-directed plan for 2011 were \$1,730 made by the City and \$1,236 made by the plan members.

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

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

Funding Policy - Plan members are required to contribute 10.0% of their annual covered salary, while the City is required to contribute 19.50% and 24.00% for police officers and firefighters, respectively. Contribution rates are established by State statute. For 2011, the portion of the City's contributions to fund pension obligations was 12.75% for police officers and 17.25% for firefighters. The City's required contributions for pension obligations to OP&F for police officers and firefighters were \$197,448 and \$178,967 for the year ended December 31, 2011, \$197,356 and \$183,840 for the year ended December 31, 2010, and \$205,137 and \$180,975, for the year ended December 31, 2009. The full amount has been contributed for 2010 and 2009. 71.93% has been contributed for police and 75.95% has been contributed for firefighters for 2011.

**NOTE 14 - POSTRETIREMENT BENEFIT PLANS**

**A. Ohio Public Employees Retirement System**

Plan Description - OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare 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.

## CITY OF FAIRLAWN, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

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

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 healthcare plan are presented separately in the OPERS financial report which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 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 healthcare 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 healthcare through contributions to OPERS. A portion of each employer's contribution to the Traditional or Combined Plans is set aside for the funding of post-employment health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2011, local government employers contributed 14.00% of covered payroll. Each year the OPERS' Retirement Board determines the portion of the employer contribution rate that will be set aside for the funding of the postemployment health care benefits. The portion of employer contributions allocated to fund post-employment healthcare for members in the Traditional Plan for 2011 was 4.00%. The portion of employer contributions allocated to fund post-employment healthcare for members in the Combined Plan for 2011 was 6.05%.

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 healthcare plan.

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2011, 2010, and 2009 were \$113,619, \$147,430, and \$176,702, respectively; 100% has been contributed for 2011, 2010, and 2009.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Board of Trustees on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates for state and local employers increased on January 1 of each year from 2006 to 2008. Rates for law and public safety employers increased over a six year period beginning on January 1, 2006, with a final rate increase on January 1, 2011. These rate increases allowed additional funds to be allocated to the health care plan.

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

Plan Description - The City contributes to the OP&F Pension Fund sponsored health care program, a cost-sharing multiple-employer defined postemployment 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.

**CITY OF FAIRLAWN, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

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

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 percentages of the payroll of active pension plan members, currently, 19.50% and 24.00% of covered payroll for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.50% of covered payroll for police employer units and 24.00% of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan into the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2011, 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 healthcare benefits for police officers and firefighters were \$104,531 and \$70,031 for the year ended December 31, 2011, \$104,472 and \$71,937 for the year ended December 31, 2010, and \$108,602 and \$70,816, for the year ended December 31, 2009. The full amount has been contributed for 2010 and 2009. 71.93% has been contributed for police and 75.95% has been contributed for firefighters for 2011.

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011

**NOTE 15 - BUDGETARY BASIS OF ACCOUNTING**

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

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as 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	\$ 1,079,227
Net adjustment for revenue accruals	518,342
Net adjustment for expenditure accruals	(73,137)
Adjustment for encumbrances	<u>494,962</u>
GAAP basis	<u><u>\$ 2,019,394</u></u>



**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011

**NOTE 16 - FUND BALANCE**

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

Fund balance	General	Bond Retirement	Capital Improvement	Other Governmental	Total Governmental Funds
Nonspendable:					
Materials and supplies					
inventory	\$ 453,793	\$ -	\$ -	\$ 18,375	\$ 472,168
Prepayments	82,150	-	-	-	82,150
Unclaimed monies	10,470	-	-	-	10,470
Total nonspendable	<u>546,413</u>	<u>-</u>	<u>-</u>	<u>18,375</u>	<u>564,788</u>
Restricted:					
Capital Improvements	-	-	2,888,310	-	2,888,310
Debt service	-	8,416	-	-	8,416
Law enforcement	-	-	-	147,876	147,876
Police and fire pensions	-	-	-	87,270	87,270
Sewer maintenance	-	-	-	177,818	177,818
Streets and highways	-	-	-	509,012	509,012
Total restricted	<u>-</u>	<u>8,416</u>	<u>2,888,310</u>	<u>921,976</u>	<u>3,818,702</u>
Committed:					
Fire and emergency					
rescue equipment	-	-	-	6,179	6,179
Law enforcement	5,000	-	-	9,966	14,966
Park capital improvements	-	-	-	4,263	4,263
Sewer maintenance	-	-	-	53,232	53,232
Total committed	<u>5,000</u>	<u>-</u>	<u>-</u>	<u>73,640</u>	<u>78,640</u>
Assigned:					
Encumbrances	<u>266,417</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>266,417</u>
Total assigned	<u>266,417</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>266,417</u>
Unassigned (deficit)	<u>11,087,802</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,087,802</u>
Total fund balances	<u>\$ 11,905,632</u>	<u>\$ 8,416</u>	<u>\$ 2,888,310</u>	<u>\$ 1,013,991</u>	<u>\$ 15,816,349</u>

**CITY OF FAIRLAWN, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

**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, 2011.

**B. Litigation**

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

**NOTE 18 – CONTRACTUAL AND OTHER COMMITMENTS**

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

<u>Fund</u>	<u>Year-End Encumbrances</u>
General fund	\$ 266,417
Capital Improvement	67,421
Other governmental	<u>108,259</u>
Total	<u>\$ 442,097</u>



# Dave Yost • 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, Ohio, (the City) as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 29, 2012, wherein we noted the City adopted Governmental Accounting Standards Board Statement No. 54. 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 black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "Y" and "O".

**Dave Yost**  
Auditor of State

June 29, 2012



# Dave Yost • Auditor of State

CITY OF FAIRLAWN

SUMMIT COUNTY

## CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
JULY 12, 2012