



Dave Yost • Auditor of State

**CITY OF FAIRLAWN
SUMMIT COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, the discretely presented component unit, 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, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, the discretely presented component unit, and the aggregate remaining fund information of the City of Fairlawn, Summit County, Ohio, as of December 31, 2015, and the respective changes in financial position thereof and the budgetary comparison for the General fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3 to the financial statements, during the year ended December 31, 2015, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and also GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2016, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

CITY OF FAIRLAWN, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2015 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, 2015. 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 2015 are as follows:

- The total net position of the City increased \$390,913. The net position of governmental activities increased \$272,797 or 0.41% from 2014, as restated, to a total of \$67,106,183 in 2015.
- General revenues accounted for \$17,224,373 of total governmental activities revenue. Program specific revenues accounted for \$1,535,101 or 8.18% of total governmental activities revenue.
- The City had \$18,486,677 in expenses related to governmental activities; \$1,535,101 of these expenses were offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$16,951,576 were offset by general revenues (primarily property taxes, income taxes, unrestricted grants and entitlements, and Joint Economic Development District (JEDD) revenues).
- The City has two major funds, the general fund and capital improvement fund. The general fund, the largest major fund, had revenues and other financing sources of \$14,648,861 in 2015. This represents an increase of \$772,333 from 2014 revenues and other financing sources. The expenditures and other financing uses of the general fund, which totaled \$13,777,316 in 2015, increased \$54,658 from 2014. The net increase in fund balance for the general fund was \$871,545 or 6.37%.
- The capital improvement fund had revenues and other financing sources of \$2,665,752 in 2015. The expenditures of the capital improvement fund totaled \$3,689,083 in 2015. The net decrease in fund balance for the capital improvement fund was \$1,023,331 or 19.85%.

Using these Basic Financial Statements

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

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

CITY OF FAIRLAWN, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2015 Unaudited

Reporting the City as a Whole

Statement of Net Position and the Statement of Activities

While this document contains a large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2015?" The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

The City's Statement of Net Position and Statement of Activities can be found on pages 19-20 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 12.

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, 2015 Unaudited

Both the governmental funds Balance Sheet and the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains a multitude of individual governmental funds. The City has segregated these funds into major funds and nonmajor funds. The City's major governmental funds are the general fund and capital improvement fund. Information for major funds is presented separately in the governmental funds 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 21-25 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 26 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 27-64 of this report.

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's net pension liability, net pension asset, and pension contributions. The required supplementary information can be found on pages 65-71 of this report.

CITY OF FAIRLAWN, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2015
Unaudited

Government-Wide Financial Analysis

The Statement of Net Position provides the perspective of the City as a whole. The table below provides a summary of the City's net position for 2015 compared to 2014:

| | <u>Net Position</u> | |
|--|------------------------------------|--|
| | Governmental Activities 2015 | Restated Governmental Activities 2014 |
| <u>Assets</u> | | |
| Current and other assets | \$ 24,122,387 | \$ 23,359,220 |
| Capital assets, net | 58,172,195 | 59,152,040 |
| Total assets | <u>82,294,582</u> | <u>82,511,260</u> |
| | | |
| <u>Deferred outflows of resources</u> | | |
| Pension | 1,426,237 | 924,611 |
| Total deferred outflows of resources | <u>1,426,237</u> | <u>924,611</u> |
| | | |
| <u>Liabilities</u> | | |
| Current and other liabilities | 1,032,540 | 974,897 |
| Long-term liabilities: | | |
| Due within one year | 1,152,018 | 1,116,258 |
| Net pension liability | 9,853,458 | 9,369,887 |
| Other amounts | 3,763,002 | 4,381,362 |
| Total liabilities | <u>15,801,018</u> | <u>15,842,404</u> |
| | | |
| <u>Deferred inflows of resources</u> | | |
| Property taxes | 761,566 | 760,081 |
| Pension | 52,052 | - |
| Total deferred inflows of resources | <u>813,618</u> | <u>760,081</u> |
| | | |
| <u>Net Position</u> | | |
| Net investment in capital assets | 54,717,830 | 55,069,194 |
| Restricted | 5,761,911 | 6,635,779 |
| Unrestricted | 6,626,442 | 5,128,413 |
| Total net position | <u>\$ 67,106,183</u> | <u>\$ 66,833,386</u> |

CITY OF FAIRLAWN, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2015 Unaudited

During 2015, the City adopted Governmental Accounting Standards Board (GASB) Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27" and GASB Statement 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68" which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the City's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB 68, the net pension liability equals the City's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the City is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the City's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows.

CITY OF FAIRLAWN, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2015
Unaudited**

As a result of implementing GASB 68, the City is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at December 31, 2014, for governmental activities from \$75,276,904 to \$66,833,386.

Over time, net position can serve as a useful indicator of a government's financial position. At December 31, 2015, the City's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$67,106,183.

Capital assets reported on the government-wide statements represent the largest portion of the City's assets. At year-end, capital assets represented 70.69% 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, 2015, were \$54,717,830. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the City's net position, \$5,761,911, represents resources that are subject to external restrictions on how they may be used. In the governmental activities, the remaining balance of unrestricted net position of \$6,626,442 may be used to meet the government's ongoing obligations to citizens and creditors.

CITY OF FAIRLAWN, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2015
Unaudited

The table below shows the change in net position for fiscal years 2015 and 2014.

| | Change in Net Position | |
|--|------------------------------------|------------------------------------|
| | Governmental Activities 2015 | Governmental Activities 2014 |
| <u>Revenues</u> | | |
| Program revenues: | | |
| Charges for services | \$ 1,093,279 | \$ 975,369 |
| Operating grants and contributions | 355,139 | 469,721 |
| Capital grants and contributions | 86,683 | 62,195 |
| Total program revenues | <u>1,535,101</u> | <u>1,507,285</u> |
| General revenues: | | |
| Property and other taxes | 1,077,417 | 1,022,885 |
| Income taxes | 12,338,929 | 10,532,675 |
| Unrestricted grants and entitlements | 323,961 | 426,116 |
| JEDD revenues | 3,318,919 | 3,345,619 |
| Investment earnings | 42,006 | 29,209 |
| Miscellaneous | 123,141 | 90,275 |
| Total general revenues | <u>17,224,373</u> | <u>15,446,779</u> |
| Total revenues | <u>18,759,474</u> | <u>16,954,064</u> |
| <u>Expenses</u> | | |
| General government | 2,913,776 | 2,688,740 |
| Security of persons and property | 7,144,559 | 6,827,875 |
| Public health and welfare | 116,476 | 118,475 |
| Transportation | 5,628,133 | 4,476,493 |
| Community environment | 1,139,776 | 495,991 |
| Leisure time activity | 458,738 | 483,499 |
| Utility services | 1,030,210 | 1,207,459 |
| Interest and fiscal charges | 55,009 | 65,490 |
| Total expenses | <u>18,486,677</u> | <u>16,364,022</u> |
| Change in net position | 272,797 | 590,042 |
| Net position at beginning of year (restated) | <u>66,833,386</u> | n/a |
| Net position at end of year | <u>\$ 67,106,183</u> | <u>\$ 66,833,386</u> |

CITY OF FAIRLAWN, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2015
Unaudited

The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 functional expenses still include pension expense of \$924,611 computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2015 statements report pension expense of \$998,296. Consequently, in order to compare 2015 total program expenses to 2014, the following adjustments are needed:

| | Governmental Activities |
|---|----------------------------|
| Total 2015 program expenses under GASB 68 | \$ 18,486,677 |
| Pension expense under GASB 68 | (998,296) |
| 2015 contractually required contributions | 968,992 |
| Adjusted 2015 program expenses | 18,457,373 |
| | |
| Total 2014 program expenses under GASB 27 | 16,364,022 |
| Increase (decrease) in program expenses not related to pension | \$ 2,093,351 |

Governmental Activities

Governmental activities net position increased \$272,797 in 2015.

Security of persons and property, which primarily supports the operations of the police and fire departments accounted for \$7,144,559 of the total expenses of the City. These expenses were partially funded by \$446,812 in direct charges to users of the services and \$7,569 in operating grants and contributions. Transportation expenses totaled \$5,628,133. Transportation expenses were partially funded by \$1,205 in direct charges to users of the services, \$341,418 in operating grants and contributions, and \$9,943 in capital grants and contributions.

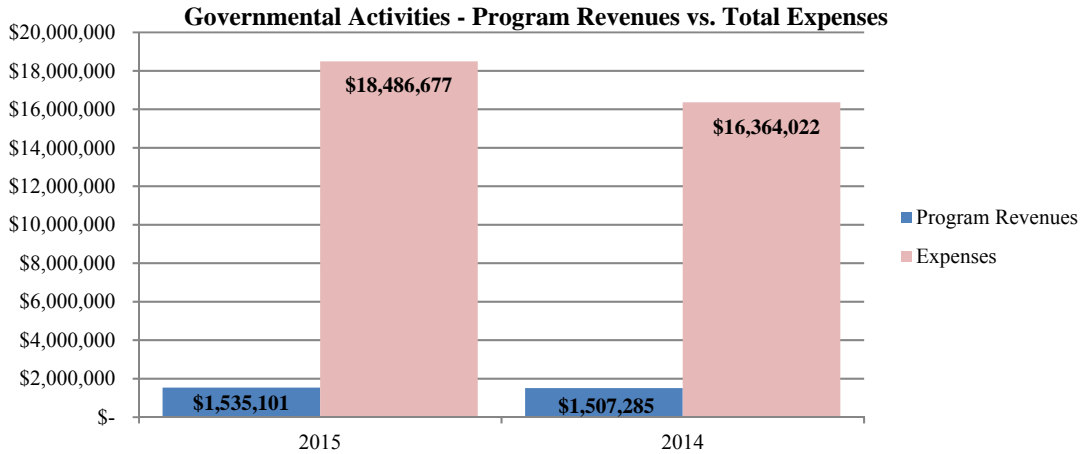
The county, state, and federal governments contributed to the City a total of \$355,139 in operating grants and contributions. These revenues are restricted to a particular program or purpose. Of the total operating grants and contributions, \$7,569 subsidized security of persons and property, \$341,418 subsidized transportation programs, and \$6,152 subsidized utility services.

General revenues totaled \$17,224,373, and amounted to 91.82% of total governmental revenues. These revenues primarily consist of property and income tax revenues of \$13,416,346 and JEDD revenues of \$3,318,919.

CITY OF FAIRLAWN, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2015
Unaudited

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



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted grants and entitlements.

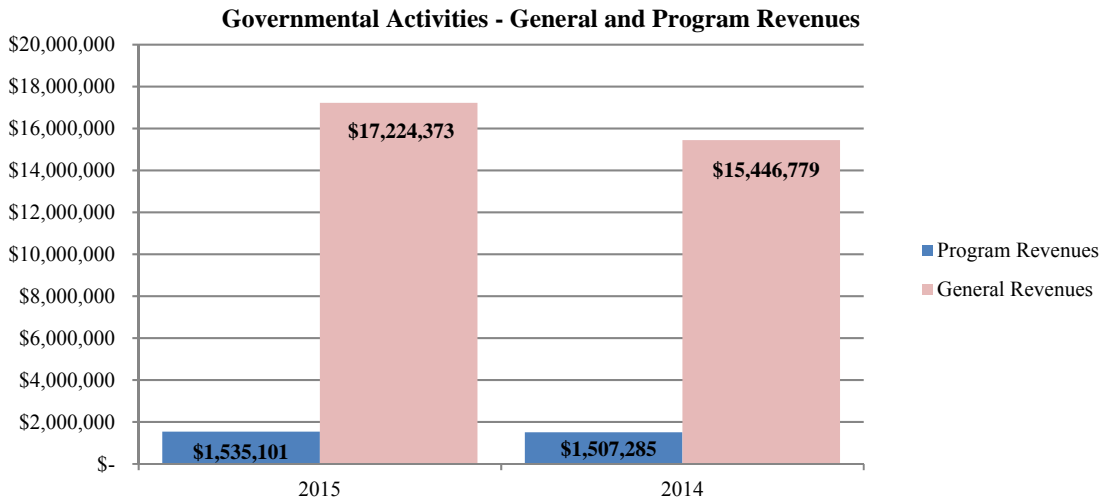
| | Governmental Activities | | | |
|----------------------------------|--------------------------------|-------------------------|---------------------------|-------------------------|
| | Total Cost of Services | Net Cost of Services | Total Cost of Services | Net Cost of Services |
| | 2015 | 2015 | 2014 | 2014 |
| Program Expenses: | | | | |
| General government | \$ 2,913,776 | \$ 2,531,346 | \$ 2,688,740 | \$ 2,357,854 |
| Security of persons and property | 7,144,559 | 6,690,178 | 6,827,875 | 6,214,138 |
| Public health and welfare | 116,476 | 116,476 | 118,475 | 118,475 |
| Transportation | 5,628,133 | 5,275,567 | 4,476,493 | 4,163,299 |
| Community environment | 1,139,776 | 1,058,989 | 495,991 | 443,039 |
| Leisure time activity | 458,738 | 409,030 | 483,499 | 474,692 |
| Utility services | 1,030,210 | 814,981 | 1,207,459 | 1,019,750 |
| Interest and fiscal charges | 55,009 | 55,009 | 65,490 | 65,490 |
| Total | \$ 18,486,677 | \$ 16,951,576 | \$ 16,364,022 | \$ 14,856,737 |

The dependence upon general revenues for governmental activities is apparent, with 91.70% of expenses supported through taxes and other general revenues.

CITY OF FAIRLAWN, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2015
Unaudited

The chart below illustrates the City's program revenues versus general revenues for 2015 and 2014:



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, unassigned fund balance serves as a useful measure of the City's net resources available for spending at year-end.

The City's governmental funds (as presented on the balance sheet on page 21) reported a combined fund balance of \$19,635,146 which is \$39,840 less than last year's total of \$19,674,986. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2015 and 2014 for all major and nonmajor governmental funds.

| | Fund Balances 12/31/15 | Fund Balances 12/31/14 | Increase/ (Decrease) | Percentage Change |
|-----------------------------------|---------------------------|---------------------------|-------------------------|----------------------|
| Major funds: | | | | |
| General | \$ 14,572,888 | \$ 13,692,698 | \$ 880,190 | 6.43 % |
| Capital improvement | 4,132,098 | 5,155,429 | (1,023,331) | (19.85) % |
| Other nonmajor governmental funds | 930,160 | 826,859 | 103,301 | 12.49 % |
| Total | <u>\$ 19,635,146</u> | <u>\$ 19,674,986</u> | <u>\$ (39,840)</u> | (0.20) % |

CITY OF FAIRLAWN, OHIO

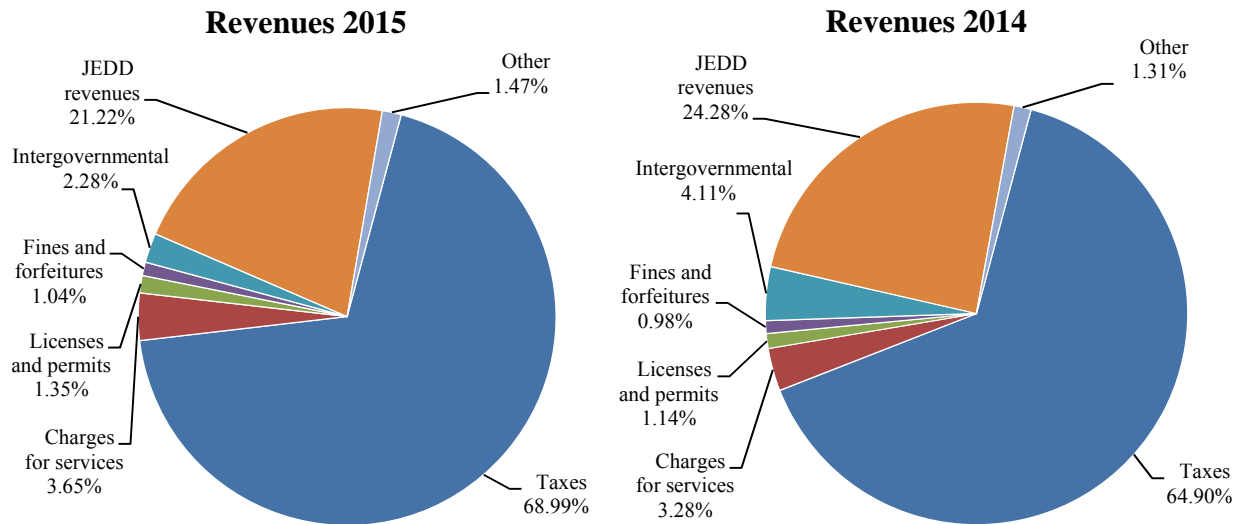
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2015
Unaudited

General Fund

The City's general fund balance increased by \$871,545. The table that follows assists in illustrating the revenues of the general fund.

| | 2015 Amount | 2014 Amount | Percentage Change |
|-----------------------|----------------------|----------------------|----------------------|
| Revenues | | | |
| Taxes | \$ 10,101,715 | \$ 8,971,288 | 12.60 % |
| Charges for services | 534,280 | 452,942 | 17.96 % |
| Licenses and permits | 197,135 | 157,330 | 25.30 % |
| Fines and forfeitures | 152,498 | 135,625 | 12.44 % |
| Intergovernmental | 334,117 | 568,768 | (41.26) % |
| JEDD revenues | 3,107,393 | 3,355,635 | (7.40) % |
| Other | 214,622 | 180,832 | 18.69 % |
| Total | \$ 14,641,760 | \$ 13,822,420 | 5.93 % |

Tax revenue represents 68.99% of all general fund revenue. Tax revenue, as reported, increased by 12.60% compared to the prior year. The increase was primarily driven by growth in the Embassy Parkway shared tax district and significant, non-recurring withholding transactions. Intergovernmental revenue decreased 41.26%, mainly due to the conclusion of the Federal Assistance to Firefighters grant, for which the City received reimbursement in 2014, and the receipt of a significant Bureau of Workers' Compensation refund in 2014. JEDD revenues decreased by 7.40%, because the November 2015 payment was not available at year-end. All other revenues remained comparable to 2014.



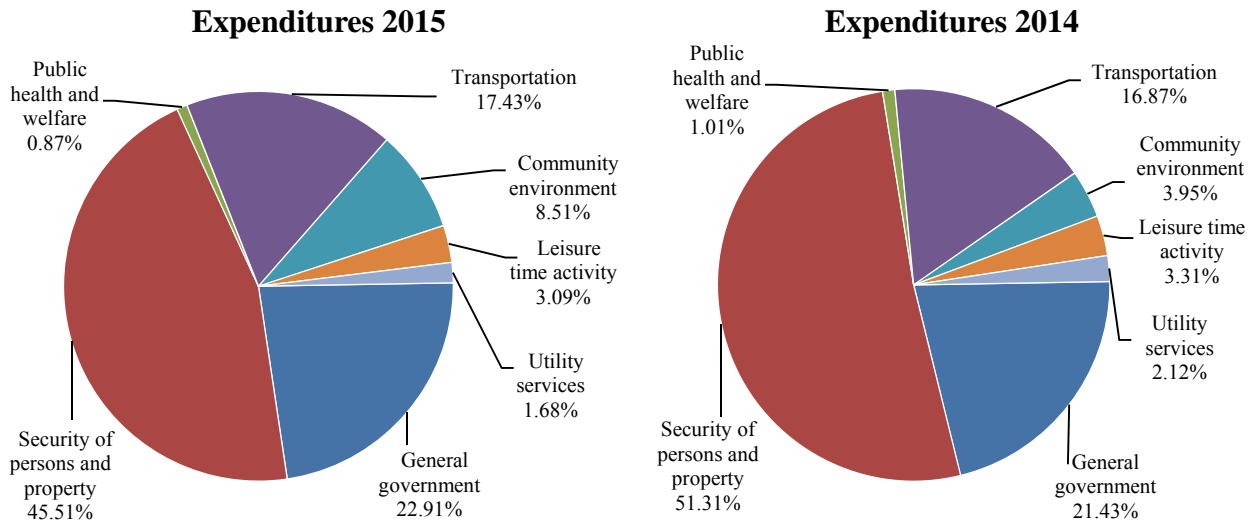
The table that follows assists in illustrating the expenditures of the general fund.

CITY OF FAIRLAWN, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2015
Unaudited

| | 2015 <u>Amount</u> | 2014 <u>Amount</u> | Percentage <u>Change</u> |
|----------------------------------|-----------------------------|-----------------------------|-----------------------------|
| <u>Expenditures</u> | | | |
| General government | \$ 3,052,716 | \$ 2,519,474 | 21.16 % |
| Security of persons and property | 6,064,875 | 6,031,477 | 0.55 % |
| Public health and welfare | 116,476 | 118,475 | (1.69) % |
| Transportation | 2,322,226 | 1,983,577 | 17.07 % |
| Community environment | 1,133,670 | 464,670 | 143.97 % |
| Leisure time activity | 411,105 | 389,558 | 5.53 % |
| Utility services | <u>223,248</u> | <u>248,527</u> | (10.17) % |
| Total | <u>\$ 13,324,316</u> | <u>\$ 11,755,758</u> | 13.34 % |

General government expenditures increased by 21.16%, primarily due to the progression of the City's FairlawnGig project. Most notably, the City entered into an agreement with Fujitsu Network Communications, Inc. for the engineering and design of the high speed wireless and fiber optic networks. The 17.07% increase in transportation expenditures resulted from several Service Department expenditure accounts being moved to the general fund in 2015 to ease cash flow constraints in the street construction and maintenance fund. Community environment expenditures increased by 143.97%. This increase resulted from a development agreement entered into by the City, the Community Improvement Corporation of Fairlawn (CIC), and Stemco Kaiser, Inc. As part of the agreement, the City is making certain infrastructure improvements, through the CIC, in exchange for Stemco opening a technical center and office building facility in Fairlawn Corporate Park. All other expenditures remained comparable to 2014.



Capital Improvement Fund

The capital improvement fund had revenues and other financing sources of \$2,665,752 in 2015. The expenditures of the capital improvement fund totaled \$3,689,083 in 2015. The net decrease in fund balance for the capital improvement fund was \$1,023,331 or 19.85%. The decrease resulted from the following significant, nonrecurring capital projects occurring in 2015: Fairlawn Park Stream Restoration; West Market Street Improvement; and Cleveland-Massillon Road Widening.

CITY OF FAIRLAWN, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2015 Unaudited

Budgeting Highlights

Budgetary information is presented for the general fund on page 25. The final budget reflects revenues that were \$815,475, or 6.44%, higher than the original budget. Actual revenues were \$2,164,438 or 17.11% higher than the original budget, and were \$1,348,963 or 10.02% more than the final budget. The revenue category with the largest positive variance was income taxes, with actual revenues equaling 112.96% of the final budget. The \$1,031,691 revenue surplus in this category was driven by growth in the Embassy Parkway shared tax district and significant, non-recurring withholding transactions. Another category with a significant variance was JEDD revenues. This category had a final budget of \$3,236,692, which was \$40,092 higher than the original budget. Actual revenues were \$3,483,088 and were \$246,396 above the final budget. The better than anticipated JEDD revenues were a product of the City's conservative revenue estimate.

During 2015, actual expenditures (including current year encumbrances) were \$182,008 or 1.26% under the original budget, while the final budget was \$987,922 or 6.48% higher than actual spending. Six of the seven functional areas ended the year with expenditures of between 2-8% below the final budget, with the final budget for the seventh functional area, utility services, exceeding actual expenditures by 16.01%. Budgeted general government expenditures were increased \$260,430 or 7.31% due to the progression of the City's FairlawnGig project and the execution of an agreement with Fujitsu Network Communications, Inc. for the engineering and design of the high speed wireless and fiber optic networks. Actual general government expenditures were \$60,997 or 1.71% greater than the original budget, but were \$199,433 or 5.22% less than the final budget. The community environment function had a final budget of \$1,164,126, which was \$422,585 or 56.99% higher than the original budget. The increase was needed to account for additional subsidy payments to the CIC for infrastructure improvements necessitated by the Stemco development agreement.

The original budget, as adopted by Council, called for a structural deficit (i.e. expenditures in excess of revenues) of approximately \$2,246,150 with the final adopted budget calling for a \$2,228,948 deficit. However, the combination of controlled discretionary spending, whenever possible, and favorable income tax collections resulted in the general fund ending the year with a net increase in fund balance of \$107,938, or approximately \$2,336,886 more than that called for in the final budget.

CITY OF FAIRLAWN, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2015
Unaudited

Capital Assets and Debt Administration

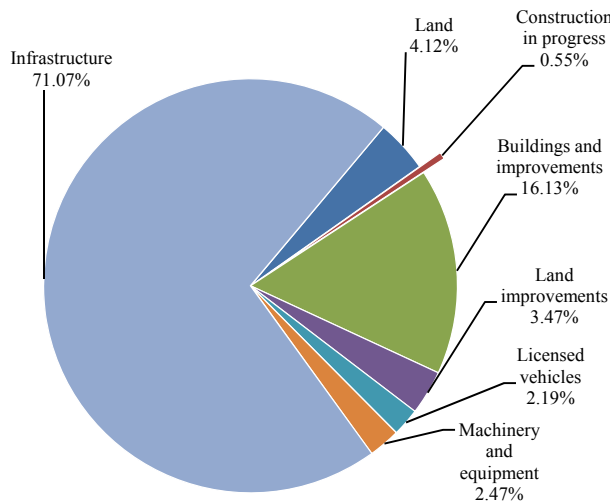
Capital Assets

At the end of fiscal 2015, the City had \$58,172,195 (net of accumulated depreciation) invested in land, construction in progress, buildings and improvements, land improvements, licensed vehicles, machinery and equipment, and infrastructure. The City had the following capital assets, net of depreciation at December 31, 2015 and 2014:

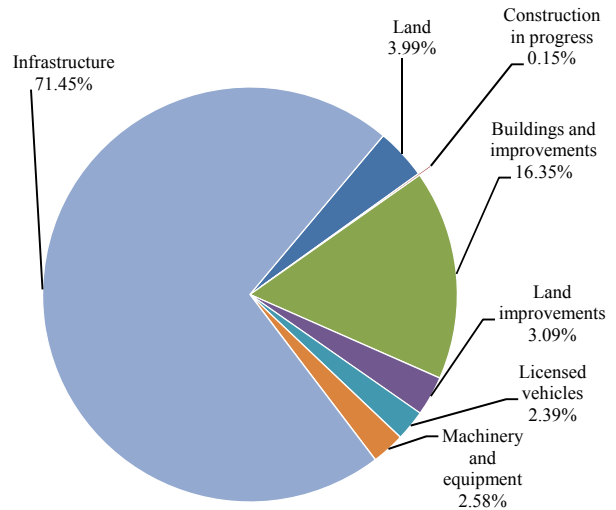
| | <u>Governmental Activities</u> | |
|----------------------------|--------------------------------|-----------------------------|
| | <u>2015</u> | <u>2014</u> |
| Land | \$ 2,394,997 | \$ 2,357,497 |
| Construction in progress | 319,340 | 87,803 |
| Buildings and improvements | 9,380,808 | 9,672,796 |
| Land improvements | 2,020,001 | 1,827,879 |
| Licensed vehicles | 1,272,384 | 1,414,872 |
| Machinery and equipment | 1,436,994 | 1,527,253 |
| Infrastructure | 41,347,671 | 42,263,940 |
| Total | <u>\$ 58,172,195</u> | <u>\$ 59,152,040</u> |

The following graphs show the breakdown of governmental capital assets by category, net of depreciation for 2015 and 2014.

Capital Assets - Governmental Activities 2015



Capital Assets - Governmental Activities 2014



The City's largest capital asset category is infrastructure, which includes roads, sewer lines, storm drains, culverts, sidewalks, and traffic control devices. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 71.07% of the City's total governmental capital assets at December 31, 2015.

CITY OF FAIRLAWN, OHIO

MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2015
Unaudited

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

Debt Administration

The City had the following long-term debt outstanding at December 31, 2015 and 2014:

| | Governmental Activities | |
|--------------------------|--------------------------------|--------------|
| | <u>2015</u> | <u>2014</u> |
| General obligation bonds | \$ 3,325,000 | \$ 3,935,000 |

See Note 10 for more detail on the City’s long-term debt.

Economic Conditions and Next Year’s General Fund Budget Outlook

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

The City controls the development and zoning of land for commercial (for example, retail and office) and residential use in the City’s land use plan which has been recently updated. The purpose of the plan is to assure that the City’s infrastructure can fully serve the anticipated uses for the land in each area. In addition, the plan calls for buffering zones which protect and maintain the stability of residential areas in the City. The City does not permit industrial or manufacturing uses in its zoning code.

The City has established a strong corporate office presence. It is currently home to several corporate headquarters including ContiTech AG (formerly Veyance Technologies), Kumho Tire, and A. Schulman Inc. as well as accounting, legal and construction development offices. In 2015, the City successfully worked with Stemco Kaiser, Inc. to locate a technical lab and offices in Fairlawn Corporate Park. Stemco is a new entity to the State of Ohio and the City negotiated a 20 year term for their presence to remain in the City. The City formed a Community Improvement Corporation (CIC) in 2010 to expand its economic development capabilities and to attract and retain businesses. The CIC utilizes a commercial real estate firm to market 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 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. Fairlawn Park offers adult and youth soccer fields and a community garden.

CITY OF FAIRLAWN, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2015 Unaudited

In an effort to further assist its long term planning and purchasing of large capital goods, the City has prepared and implemented a rolling five year capital plan. This plan sets forth anticipated needs for infrastructure improvements, heavy equipment, and other large expenditure items. Each department head is required to submit a plan for his or her department's needs in this regard. Each plan is subject to review by the City administration and Council. The purpose of the plan is to help insure the City against any unanticipated expenditures. The plan itself is updated annually which allows the City to continually plan for these expenditures for at least five years in the future. This plan has provided stability to the City's long term planning and has also enabled the City to have a more realistic approach to its budgeting process.

The City's primary revenue source is the 2% local income tax withheld on the estimated 40,000 people working in the City. Income tax collections, net of shared revenue due to the City of Akron, increased 9.46% in 2015 as compared to the previous year, with much of the increase driven by the Embassy Park shared tax district.

The City is projecting a slight increase in general fund revenue in 2016. While general fund expenditures for 2016, net of interfund transfers and advances, are budgeted at 4.74% greater than 2015 due to increased personnel costs. Programs supported by the general fund are budgeted at the same level of service as last year.

Contacting the City's Financial Management

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

CITY OF FAIRLAWN, OHIO

STATEMENT OF NET POSITION
DECEMBER 31, 2015

| | Primary Government | Component Unit |
|---|---------------------------|-----------------------|
| | Governmental | Community |
| | Activities | Improvement |
| | | Corporation |
| | | of Fairlawn |
| Assets: | | |
| Equity in pooled cash and cash equivalents | \$ 18,340,959 | \$ 701,289 |
| Cash and cash equivalents in segregated accounts | 18,099 | - |
| Receivables: | | |
| Income taxes | 3,209,403 | - |
| Real and other taxes | 793,273 | - |
| Accounts | 71,133 | - |
| Special assessments | 234,975 | - |
| Accrued interest | 27,428 | - |
| Due from other governments | 859,954 | - |
| Rent receivable | - | 390,000 |
| Materials and supplies inventory | 470,121 | - |
| Prepayments | 90,591 | 921 |
| Assets held for sale | - | 137,134 |
| Net pension asset | 6,451 | - |
| Capital assets: | | |
| Land and construction in progress | 2,714,337 | - |
| Depreciable capital assets, net | 55,457,858 | - |
| Total capital assets, net | 58,172,195 | - |
| Total assets | 82,294,582 | 1,229,344 |
| Deferred outflows of resources: | | |
| Pension - OPERS | 533,002 | - |
| Pension - OP&F | 893,235 | - |
| Total deferred outflows of resources | 1,426,237 | - |
| Total assets and deferred outflows of resources | 83,720,819 | 1,229,344 |
| Liabilities: | | |
| Accounts payable | 206,453 | 9,777 |
| Contracts payable | 83,015 | 256,930 |
| Accrued wages and benefits payable | 250,163 | - |
| Compensated absences payable | 124,112 | - |
| Due to other governments | 363,255 | - |
| Accrued interest payable | 5,542 | - |
| Long-term liabilities: | | |
| Due within one year | 1,152,018 | - |
| Due in more than one year: | | |
| Net pension liability | 9,853,458 | - |
| Other amounts | 3,763,002 | - |
| Total liabilities | 15,801,018 | 266,707 |
| Deferred inflows of resources: | | |
| Property taxes levied for the next fiscal year | 761,566 | - |
| Pension - OPERS | 52,052 | - |
| Total deferred inflows of resources | 813,618 | - |
| Total liabilities and deferred inflows of resources | 16,614,636 | 266,707 |
| Net position: | | |
| Net investment in capital assets | 54,717,830 | - |
| Restricted for: | | |
| Debt service | 104,987 | - |
| Capital projects | 4,788,189 | - |
| Other purposes | 868,735 | - |
| Unrestricted | 6,626,442 | 962,637 |
| Total net position | \$ 67,106,183 | \$ 962,637 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FAIRLAWN, OHIO

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015

| | <u>Expenses</u> | <u>Program Revenues</u> | | | <u>Net (Expense) Revenues and Changes in Net Position</u> | |
|--|----------------------|--|---|---|---|---|
| | | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Capital Grants and Contributions</u> | <u>Primary Governmental Activities</u> | <u>Component Unit Community Improvement Corporation of Fairlawn</u> |
| Governmental activities: | | | | | | |
| Current: | | | | | | |
| General government | \$ 2,913,776 | \$ 372,047 | \$ - | \$ 10,383 | \$ (2,531,346) | \$ - |
| Security of persons and property | 7,144,559 | 446,812 | 7,569 | - | (6,690,178) | - |
| Public health and welfare | 116,476 | - | - | - | (116,476) | - |
| Transportation | 5,628,133 | 1,205 | 341,418 | 9,943 | (5,275,567) | - |
| Community environment | 1,139,776 | 80,787 | - | - | (1,058,989) | - |
| Leisure time activity | 458,738 | 12,208 | - | 37,500 | (409,030) | - |
| Utility services | 1,030,210 | 180,220 | 6,152 | 28,857 | (814,981) | - |
| Interest and fiscal charges | 55,009 | - | - | - | (55,009) | - |
| Total governmental activities | <u>\$ 18,486,677</u> | <u>\$ 1,093,279</u> | <u>\$ 355,139</u> | <u>\$ 86,683</u> | <u>(16,951,576)</u> | <u>-</u> |
| Component Unit: | | | | | | |
| Community Improvement Corporation of Fairlawn | <u>\$ 616,880</u> | <u>\$ -</u> | <u>\$ 1,196,282</u> | <u>\$ -</u> | <u>-</u> | <u>579,402</u> |
| | | | | | | |
| | | General revenues: | | | | |
| | | Property taxes levied for: | | | | |
| | | General purposes | | | 904,771 | - |
| | | Police and fire pension | | | 172,646 | - |
| | | Income taxes levied for: | | | | |
| | | General purposes | | | 9,604,910 | - |
| | | Capital outlay | | | 2,734,019 | - |
| | | Grants and entitlements not restricted to specific programs | | | 323,961 | - |
| | | JEDD revenues | | | 3,318,919 | - |
| | | Investment earnings | | | 42,006 | - |
| | | Miscellaneous | | | 123,141 | - |
| | | Total general revenues | | | <u>17,224,373</u> | <u>-</u> |
| | | Change in net position | | | 272,797 | 579,402 |
| | | Net position at beginning of year (restated) | | | <u>66,833,386</u> | <u>383,235</u> |
| | | Net position at end of year | | | <u>\$ 67,106,183</u> | <u>\$ 962,637</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FAIRLAWN, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2015

| | General | Capital Improvement | Other Governmental Funds | Total Governmental Funds |
|---|----------------------|--------------------------------|---|---|
| Assets: | | | | |
| Equity in pooled cash and cash equivalents | \$ 13,611,074 | \$ 3,726,775 | \$ 1,003,110 | \$ 18,340,959 |
| Cash and cash equivalents in segregated accounts | 18,099 | - | - | 18,099 |
| Receivables: | | | | |
| Income taxes | 2,407,052 | 802,351 | - | 3,209,403 |
| Real and other taxes | 622,366 | - | 170,907 | 793,273 |
| Accounts | 68,881 | - | 2,252 | 71,133 |
| Special assessments | - | 230,960 | 4,015 | 234,975 |
| Accrued interest | 26,991 | - | 437 | 27,428 |
| Due from other funds | - | - | 25 | 25 |
| Due from other governments | 699,150 | - | 160,804 | 859,954 |
| Materials and supplies inventory | 470,121 | - | - | 470,121 |
| Prepayments | 90,591 | - | - | 90,591 |
| Total assets | \$ 18,014,325 | \$ 4,760,086 | \$ 1,341,550 | \$ 24,115,961 |
| Liabilities: | | | | |
| Accounts payable | \$ 203,032 | \$ - | \$ 3,421 | \$ 206,453 |
| Contracts payable | 79,780 | 3,235 | - | 83,015 |
| Accrued wages and benefits payable | 250,163 | - | - | 250,163 |
| Compensated absences payable | 124,112 | - | - | 124,112 |
| Due to other funds | 25 | - | - | 25 |
| Due to other governments | 268,334 | - | 94,921 | 363,255 |
| Total liabilities | 925,446 | 3,235 | 98,342 | 1,027,023 |
| Deferred inflows of resources: | | | | |
| Property taxes levied for the next fiscal year | 592,329 | - | 169,237 | 761,566 |
| Delinquent property tax revenue not available | 5,845 | - | 1,670 | 7,515 |
| Accrued interest not available | 26,991 | - | 437 | 27,428 |
| Special assessments revenue not available | - | 230,960 | 4,015 | 234,975 |
| Miscellaneous revenue not available | 31,476 | - | 2,108 | 33,584 |
| Income tax revenue not available | 1,181,380 | 393,793 | - | 1,575,173 |
| Intergovernmental revenue not available | 118,094 | - | 135,581 | 253,675 |
| JEDD revenues not available | 559,876 | - | - | 559,876 |
| Total deferred inflows of resources | 2,515,991 | 624,753 | 313,048 | 3,453,792 |
| Total liabilities and deferred inflows of resources | 3,441,437 | 627,988 | 411,390 | 4,480,815 |
| Fund balances: | | | | |
| Nonspendable | 587,453 | - | - | 587,453 |
| Restricted | - | 4,132,098 | 930,160 | 5,062,258 |
| Committed | 5,000 | - | - | 5,000 |
| Assigned | 792,607 | - | - | 792,607 |
| Unassigned | 13,187,828 | - | - | 13,187,828 |
| Total fund balances | 14,572,888 | 4,132,098 | 930,160 | 19,635,146 |
| Total liabilities, deferred inflows of resources and fund balances | \$ 18,014,325 | \$ 4,760,086 | \$ 1,341,550 | \$ 24,115,961 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FAIRLAWN, OHIO

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2015

| | | |
|---|--------------------|------------------------------------|
| Total governmental fund balances | | \$ 19,635,146 |
| <i>Amounts reported for governmental activities on the Statement of Net Position are different because:</i> | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | | 58,172,195 |
| Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds. | | |
| Income taxes receivable | \$ 1,575,173 | |
| Real and other taxes receivable | 7,515 | |
| Accounts receivable | 33,584 | |
| Special assessments receivable | 234,975 | |
| Accrued interest receivable | 27,428 | |
| Due from other governments | <u>813,551</u> | |
| Total | | 2,692,226 |
| Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds. | | (5,542) |
| Unamortized premiums on bond issuances are not recognized in the funds. | | (129,365) |
| The net pension asset is not available to pay for current period expenditures; therefore, the asset is not reported in the governmental funds. | | 6,451 |
| The net pension liability is not due and payable in the current period; therefore, liability and related deferred inflows are not reported in governmental funds. | | |
| Deferred outflows - OPERS | 533,002 | |
| Deferred outflows - OP&F | 893,235 | |
| Deferred inflows - OPERS | (52,052) | |
| Net pension liability - OPERS | (2,850,886) | |
| Net pension liability - OP&F | <u>(7,002,572)</u> | |
| Total | | (8,479,273) |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. | | |
| Compensated absences | (1,460,655) | |
| General obligation bonds payable | <u>(3,325,000)</u> | |
| Total | | <u>(4,785,655)</u> |
| Net position of governmental activities | | <u><u>\$ 67,106,183</u></u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FAIRLAWN, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

| | <u>General</u> | <u>Capital Improvement</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|----------------------|--------------------------------|---|---|
| Revenues: | | | | |
| Income taxes | \$ 9,190,280 | \$ 2,595,809 | \$ - | \$ 11,786,089 |
| Real and other taxes | 911,435 | - | 174,550 | 1,085,985 |
| Charges for services | 534,280 | - | 131,453 | 665,733 |
| Licenses and permits | 197,135 | - | - | 197,135 |
| Fines and forfeitures | 152,498 | - | 968 | 153,466 |
| Intergovernmental | 334,117 | 24,842 | 353,768 | 712,727 |
| Special assessments | - | 43,351 | 199 | 43,550 |
| Investment income | 18,435 | - | 226 | 18,661 |
| Rental income | 73,296 | - | - | 73,296 |
| Contributions and donations | 26,168 | - | - | 26,168 |
| JEDD revenues | 3,107,393 | - | - | 3,107,393 |
| Other | 96,723 | - | 2,539 | 99,262 |
| Total revenues | <u>14,641,760</u> | <u>2,664,002</u> | <u>663,703</u> | <u>17,969,465</u> |
| Expenditures: | | | | |
| Current: | | | | |
| General government | 3,052,716 | - | - | 3,052,716 |
| Security of persons and property | 6,064,875 | - | 610,161 | 6,675,036 |
| Public health and welfare | 116,476 | - | - | 116,476 |
| Transportation | 2,322,226 | - | 279,493 | 2,601,719 |
| Community environment | 1,133,670 | - | - | 1,133,670 |
| Leisure time activity | 411,105 | - | - | 411,105 |
| Utility services | 223,248 | - | 123,748 | 346,996 |
| Capital outlay | - | 3,004,958 | - | 3,004,958 |
| Debt service: | | | | |
| Principal retirement | - | 610,000 | - | 610,000 |
| Interest and fiscal charges | - | 74,125 | - | 74,125 |
| Total expenditures | <u>13,324,316</u> | <u>3,689,083</u> | <u>1,013,402</u> | <u>18,026,801</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>1,317,444</u> | <u>(1,025,081)</u> | <u>(349,699)</u> | <u>(57,336)</u> |
| Other financing sources (uses): | | | | |
| Sale of capital assets. | 7,101 | 1,750 | - | 8,851 |
| Advances in | - | - | - | - |
| Advances (out) | - | - | - | - |
| Transfers in | - | - | 453,000 | 453,000 |
| Transfers (out) | <u>(453,000)</u> | <u>-</u> | <u>-</u> | <u>(453,000)</u> |
| Total other financing sources (uses) | <u>(445,899)</u> | <u>1,750</u> | <u>453,000</u> | <u>8,851</u> |
| Net change in fund balances | 871,545 | (1,023,331) | 103,301 | (48,485) |
| Fund balances at beginning of year | 13,692,698 | 5,155,429 | 826,859 | 19,674,986 |
| Decrease in reserve for inventory | <u>8,645</u> | <u>-</u> | <u>-</u> | <u>8,645</u> |
| Fund balances at end of year | <u>\$ 14,572,888</u> | <u>\$ 4,132,098</u> | <u>\$ 930,160</u> | <u>\$ 19,635,146</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FAIRLAWN, OHIO

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015

| | | |
|--|--------------------|-------------------|
| Net change in fund balances - total governmental funds | | \$ (48,485) |
| <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 depreciation expense exceeds capital outlays in the current period. | | |
| Capital asset additions | \$ 1,326,903 | |
| Current year depreciation | <u>(2,250,521)</u> | |
| Total | | (923,618) |
| The net effect of various transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net position. | | |
| | | (56,227) |
| Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. | | |
| Income taxes | 552,840 | |
| Real and other taxes | (8,568) | |
| Licenses and permits | 2,752 | |
| Intergovernmental revenues | (12,535) | |
| Special assessments | (33,167) | |
| Investment income | 23,345 | |
| JEDD revenues | 211,526 | |
| Other | <u>2,358</u> | |
| Total | | 738,551 |
| Governmental funds report expenditures for inventory when purchased. However, in the Statement of Activities, they are reported as an expense when consumed. | | |
| | | 8,645 |
| Repayment of bond and lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the Statement of Net Position. | | |
| | | 610,000 |
| In the Statement of Activities, interest is accrued on outstanding bonds and loans, whereas in governmental funds, an interest expenditure is reported when due. | | |
| | | 19,116 |
| Contractually required pension contributions are reported as expenditures in governmental funds; however, the Statement of Activities reports these amounts as deferred outflows. | | |
| | | 968,992 |
| Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the Statement of Activities. | | |
| | | (998,296) |
| 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>(45,881)</u> |
| Change in net position of governmental activities | | <u>\$ 272,797</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FAIRLAWN, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 GENERAL FUND
 FOR THE YEAR ENDED DECEMBER 31, 2015

| | <u>Budgeted Amounts</u> | | | Variance with |
|--|-------------------------|----------------------|----------------------|---|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | Final Budget Positive (Negative) |
| Revenues: | | | | |
| Income taxes | \$ 7,400,838 | \$ 7,961,303 | \$ 8,992,994 | \$ 1,031,691 |
| Real and other taxes | 820,049 | 892,314 | 902,560 | 10,246 |
| Charges for services | 432,200 | 511,637 | 530,599 | 18,962 |
| Licenses and permits | 163,750 | 192,472 | 197,105 | 4,633 |
| Fines and forfeitures | 129,000 | 151,665 | 153,408 | 1,743 |
| Intergovernmental | 316,300 | 323,869 | 340,724 | 16,855 |
| Investment income | 37,200 | 17,200 | 18,435 | 1,235 |
| Rental income | 57,500 | 65,687 | 76,296 | 10,609 |
| Contributions and donations | 26,200 | 26,200 | 26,168 | (32) |
| JEDD revenues | 3,196,600 | 3,236,692 | 3,483,088 | 246,396 |
| Other | 73,931 | 90,004 | 96,629 | 6,625 |
| Total revenues | <u>12,653,568</u> | <u>13,469,043</u> | <u>14,818,006</u> | <u>1,348,963</u> |
| Expenditures: | | | | |
| Current: | | | | |
| General government | 3,562,436 | 3,822,866 | 3,623,433 | 199,433 |
| Security of persons and property | 6,684,279 | 6,758,273 | 6,282,668 | 475,605 |
| Public health and welfare | 123,500 | 123,500 | 116,476 | 7,024 |
| Transportation | 2,591,797 | 2,625,297 | 2,426,863 | 198,434 |
| Community environment | 741,541 | 1,164,126 | 1,135,567 | 28,559 |
| Leisure time activity | 431,732 | 447,137 | 418,145 | 28,992 |
| Utility services | 311,433 | 311,433 | 261,558 | 49,875 |
| Total expenditures | <u>14,446,718</u> | <u>15,252,632</u> | <u>14,264,710</u> | <u>987,922</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(1,793,150)</u> | <u>(1,783,589)</u> | <u>553,296</u> | <u>2,336,885</u> |
| Other financing sources (uses): | | | | |
| Sale of capital assets | - | 7,641 | 7,642 | 1 |
| Advances in | - | - | - | - |
| Advances (out) | - | - | - | - |
| Transfers (out) | (453,000) | (453,000) | (453,000) | - |
| Total other financing sources (uses) | <u>(453,000)</u> | <u>(445,359)</u> | <u>(445,358)</u> | <u>1</u> |
| Net change in fund balances | (2,246,150) | (2,228,948) | 107,938 | 2,336,886 |
| Fund balances at beginning of year | 11,658,481 | 11,658,481 | 11,658,481 | - |
| Prior year encumbrances appropriated | <u>904,037</u> | <u>904,037</u> | <u>904,037</u> | <u>-</u> |
| Fund balance at end of year | <u>\$ 10,316,368</u> | <u>\$ 10,333,570</u> | <u>\$ 12,670,456</u> | <u>\$ 2,336,886</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FAIRLAWN, OHIO

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2015

| | <u>Agency</u> |
|--|-------------------|
| Assets: | |
| Current assets: | |
| Equity in pooled cash and cash equivalents | \$ 120,036 |
| Total assets | <u>\$ 120,036</u> |
| Liabilities: | |
| Accounts payable | \$ 9,850 |
| Undistributed monies | <u>110,186</u> |
| Total liabilities | <u>\$ 120,036</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, 2015

NOTE 1 - DESCRIPTION OF THE CITY

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

For financial reporting purposes, the City's BFS include all funds, agencies, boards, commissions, and departments for which the City is financially accountable. Financial accountability, as defined by the GASB, exists if the City appoints a voting majority of an organization's governing board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific burdens on, the City. The City may also be financially accountable for governmental organizations with a separately elected governing board, a governing board appointed by another government, or a jointly appointed board that is fiscally dependent on the City. The City also took into consideration other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's basic financial statements to be misleading or incomplete. The City has one component unit.

Community Improvement Corporation of Fairlawn, Ohio - The Community Improvement Corporation of Fairlawn, Ohio (the "CIC") was formed pursuant to Ordinance 2010-030 passed June 21, 2010 and incorporated as a corporation not-for-profit under Title XVII, Chapters 1702 and 1724 of the Ohio Revised Code for the purpose to advance, encourage, and promote industrial, economic, commercial and civic development of the City of Fairlawn. The CIC has been designated as the City of Fairlawn's agent for industrial, commercial, distribution, and research development. The Board of Trustees of the CIC is to be comprised of no less than five members: three City representatives (the Mayor, the Council President, and the Finance Director) and two or more additional members appointed by a majority of the Board of Trustees. At all times no less than two-fifths of the members shall be elected or appointed officials of the City. The CIC is also dependent on the City for financial support and is therefore presented as a component unit of the City. The CIC began operations on July 24, 2012. Financial statements can be obtained from the City of Fairlawn, Department of Finance, 3487 S. Smith Road, Fairlawn, Ohio 44333, and further disclosures for the discretely presented component unit can be found in Note 20.

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

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2015

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

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

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

Each participant's degree of control is limited to its representation on the board. All 2015 JEDD revenues were the result of the income tax levied by the JEDD effective January 1, 1999.

B. Basis of Presentation - Fund Accounting

The City's BFS consist of government-wide statements, including a Statement of Net Position and a Statement of Activities, and fund financial statements which provide a more detailed level of financial information.

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

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

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

C. Fund Accounting

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

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

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

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

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

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

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

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

D. Measurement Focus and Basis of Accounting

Government-wide Financial Statements - The government-wide financial statements are prepared using the economic resources measurement focus. All assets and deferred outflows and all liabilities and deferred inflows associated with the operation of the City are included on the Statement of Net Position.

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

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

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

E. Basis of Accounting

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

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

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

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

Deferred Outflows of Resources and Deferred Inflows of Resources - In addition to assets, the government-wide statement of net position will report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the City, deferred outflows of resources have been reported for the following items related to the City's net pension liability: (1) the net difference between projected and actual investment earnings on pension plan assets, (2) the City's contributions to the pension systems subsequent to the measurement date and (3) differences between employer's contributions and the employer's proportional share of contributions.

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

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

In addition to liabilities, both the government-wide statement of net position and the governmental fund financial statements report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2015, but which were levied to finance 2016 operations. These amounts have been recorded as a deferred inflow of resources on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City unavailable revenue includes, but is not limited to, delinquent property taxes, special assessments, income taxes, and JEDD revenues. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

The City also reports deferred inflow of resources for the following items related to the City's net pension liability: (1) differences between expected and actual experience and (2) differences between employer's contributions and the employer's proportional share of contributions. These deferred inflows of resources are only reported on the government-wide statement of net position.

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.

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.

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

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

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 2015.

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 2015, investments were limited to certificates of deposit.

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

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. During fiscal 2015, interest revenue credited to the general fund amounted to \$18,435, which includes \$4,623 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.

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

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

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 Position but are not reported in the governmental fund financial statements.

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

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

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

CITY OF FAIRLAWN, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

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

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, 1999.

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 \$124,112 in 2015.

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the governmental fund financial statements only to the extent that they are due for payment during the current year.

L. Interfund Balances

On fund financial statements, receivables and payables resulting from goods and services provided between funds are classified as "due to/from other funds." These amounts are eliminated in the governmental column of the Statement of Net Position.

M. Interfund Activity

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

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

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

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.

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.

CITY OF FAIRLAWN, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

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

P. Net Position

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

Q. Prepaid Items

Prepayments made to vendors for services that will benefit future periods beyond December 31, 2015 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.

R. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

For 2015, the City implemented GASB Statement No. 68, “Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27” and GASB Statement No. 71, “Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68”.

GASB Statement No. 68 improves the accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The implementation of GASB Statement No. 68 affected the City’s pension plan disclosures, as presented in Note 13 to the financial statements, and added required supplementary information which is presented after the notes to the basic financial statements.

GASB Statement No. 71 improves the accounting and financial reporting by addressing an issue in GASB Statement No. 68, concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of that Statement by employers and nonemployer contributing entities.

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

A net position restatement is required in order to implement GASB Statement No 68 and 71. The governmental activities at January 1, 2015 have been restated as follows:

| | Governmental Activities |
|--|----------------------------|
| Net position as previously reported | \$ 75,276,904 |
| Deferred outflows - payments subsequent to measurement date | 924,611 |
| Net pension asset | 1,758 |
| Net pension liability | (9,369,887) |
| Restated net position at January 1, 2015 | \$ 66,833,386 |

Other than employer contributions subsequent to the measurement date, the City made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available. The restatement had no effect on governmental fund balances.

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;

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

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

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio investment pool (STAR Ohio);
7. High grade commercial paper for a period not to exceed 180 days in an amount not to exceed twenty-five percent of the City's interim monies available for investment; and
8. Bankers acceptances for a period not to exceed 180 days and in an amount not to exceed twenty-five percent of the City's interim monies available for investment.

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

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

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

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 \$1,300 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".

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

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

B. Cash in Segregated Accounts

At December 31, 2015, the City had \$18,099 in bank accounts outside of the City Treasury related to Mayor’s Court operations. These amounts are included on the financial statements as “cash and cash equivalents in segregated accounts” and are included in deposits with financial institutions below.

C. Deposits with Financial Institutions

At December 31, 2015, the carrying amount of the City’s deposits was \$18,477,794. As of December 31, 2015, \$12,779,122 of the City’s bank balance of \$19,345,284 was exposed to custodial risk as discussed below, while \$6,566,162 was covered by Federal Deposit Insurance Corporation.

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

D. Investments

The City had no investments at December 31, 2015.

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

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the Statement of Net Position as of December 31, 2015:

| | |
|---|-----------------------------|
| <u>Cash and Investments per Footnote</u> | |
| Carrying amount of deposits | \$ 18,477,794 |
| Cash on hand | <u>1,300</u> |
| Total | <u><u>\$ 18,479,094</u></u> |
| <u>Cash and Investments per Statement of Net Position</u> | |
| Governmental activities | \$ 18,359,058 |
| Agency funds | <u>120,036</u> |
| Total | <u><u>\$ 18,479,094</u></u> |

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund transfers for the year ended December 31, 2015 consisted of the following, as reported in the fund financial statements:

| Transfers to | Transfers from |
|--------------------|----------------|
| Nonmajor | General |
| Governmental funds | \$ 453,000 |

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, 2015, as reported in the governmental fund financial statements:

| Due to other funds | Due from other funds |
|--------------------|----------------------|
| Nonmajor | General |
| Governmental funds | \$ 25 |

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. 2015 public utility property taxes became a lien December 31, 2014, are levied after October 1, 2015, and are collected in 2016 with real property taxes. Public utility property taxes are payable on the same dates as real property taxes described previously.

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 6 - PROPERTY TAXES - (Continued)

The Fiscal Officer collects property taxes on behalf of all taxing districts in the County, including the City of Fairlawn. The Fiscal Officer periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real property taxes, public utility taxes, delinquent tangible personal property taxes and other outstanding delinquencies which are measurable as of December 31, 2015 and for which there is an enforceable legal claim. In the governmental funds, the current portion receivable has been offset by a deferred inflow of resources since the current taxes were not levied to finance 2015 operations and the collection of delinquent taxes has been offset by deferred revenue since the collection of the taxes during the available period is not subject to reasonable estimation.

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue is a deferred inflow of resources.

The full tax rate for all City operations for the year ended December 31, 2015 was \$2.70 per \$1,000 of assessed value. The assessed values of real and public utility property upon which 2015 property tax receipts were based are as follows:

| | |
|-------------------------------|------------------------------|
| <u>Real property</u> | |
| Residential/agricultural | \$ 156,138,520 |
| Commercial/industrial/mineral | 150,183,370 |
| <u>Public utility</u> | |
| Personal | <u>3,649,170</u> |
| Total assessed value | <u><u>\$ 309,971,060</u></u> |

NOTE 7 - LOCAL INCOME TAX

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

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

In addition, the City receives income tax monies, reported as JEDD revenues, as the result of its participation in the Bath-Akron-Fairlawn JEDD. The JEDD levies an income tax of 2.25 percent on gross salaries, wages, and other personal service compensation earned by residents of the JEDD and on the earnings of nonresidents working within the JEDD. This tax also applies to the net income of business operations within the JEDD. Akron is responsible for the administration, collection, and enforcement of the income tax for the JEDD. The City is entitled to 48.15 percent of income tax proceeds from the JEDD, net of collection expenditures.

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 8 - RECEIVABLES

Receivables at December 31, 2015, 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, 2015.

A summary of the principal items of receivables reported on the Statement of Net Position follows:

| <u>Governmental Activities:</u> | |
|--|----------------------------|
| Income taxes | \$ 3,209,403 |
| Real and other taxes | 793,273 |
| Accounts | 71,133 |
| Special assessments | 234,975 |
| Accrued interest | 27,428 |
| Due from other governments | <u>859,954</u> |
| Total | <u><u>\$ 5,196,166</u></u> |

Receivables have been disaggregated on the face of the BFS. The only receivable not expected to be collected within the subsequent year are the special assessments which are collected over the life of the assessment.

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 9 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2015 was as follows:

| | Balance 12/31/14 | Additions | Disposals | Balance 12/31/15 |
|---|----------------------|---------------------|---------------------|----------------------|
| Governmental Activities: | | | | |
| <i>Capital assets, not being depreciated:</i> | | | | |
| Land | \$ 2,357,497 | \$ 37,500 | \$ - | \$ 2,394,997 |
| Construction in progress | 87,803 | 319,340 | (87,803) | 319,340 |
| Total capital assets, not being depreciated | <u>2,445,300</u> | <u>356,840</u> | <u>(87,803)</u> | <u>2,714,337</u> |
| <i>Capital assets, being depreciated:</i> | | | | |
| Buildings and improvements | 14,094,581 | - | (40,000) | 14,054,581 |
| Land improvements | 2,916,943 | 283,855 | - | 3,200,798 |
| Licensed vehicles | 3,518,903 | 96,787 | (131,238) | 3,484,452 |
| Machinery and equipment | 3,924,757 | 80,232 | - | 4,004,989 |
| Infrastructure | 78,056,535 | 648,450 | (139,602) | 78,565,383 |
| Total capital assets, being depreciated | <u>102,511,719</u> | <u>1,109,324</u> | <u>(310,840)</u> | <u>103,310,203</u> |
| <i>Less: accumulated depreciation:</i> | | | | |
| Buildings and improvements | (4,421,785) | (274,408) | 22,420 | (4,673,773) |
| Land improvements | (1,089,064) | (91,733) | - | (1,180,797) |
| Licensed vehicles | (2,104,031) | (230,275) | 122,238 | (2,212,068) |
| Machinery and equipment | (2,397,504) | (170,491) | - | (2,567,995) |
| Infrastructure | (35,792,595) | (1,483,614) | 58,497 | (37,217,712) |
| Total accumulated depreciation | <u>(45,804,979)</u> | <u>(2,250,521)</u> | <u>203,155</u> | <u>(47,852,345)</u> |
| Total capital assets, being depreciated, net | <u>56,706,740</u> | <u>(1,141,197)</u> | <u>(107,685)</u> | <u>55,457,858</u> |
| Total capital assets, net | <u>\$ 59,152,040</u> | <u>\$ (784,357)</u> | <u>\$ (195,488)</u> | <u>\$ 58,172,195</u> |

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

| | |
|--|---------------------------|
| <u>Governmental activities:</u> | |
| General government | \$ 47,981 |
| Security of persons and property | 336,777 |
| Transportation | 1,193,938 |
| Community environment | 2,147 |
| Leisure time activity | 91,491 |
| Utility services | 578,187 |
| Total depreciation expense | <u><u>\$2,250,521</u></u> |

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 10 - LONG-TERM OBLIGATIONS

A. Description of Long-Term Obligations

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

| | <u>Maturity Date</u> | <u>Interest Rate</u> | <u>Original Issue Amount</u> |
|---------------------------------|--------------------------|--------------------------|----------------------------------|
| <u>General obligation bonds</u> | | | |
| 2012 Various Purpose Refunding | 2022 | 1.25 - 2.00% | \$ 4,500,000 |

B. Changes in Long-Term Obligations

During 2015, the following changes occurred in governmental activities long-term obligations:

| | <u>Balance 12/31/14</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance 12/31/15</u> | <u>Due in One Year</u> |
|--|-----------------------------|------------------|-------------------|-----------------------------|----------------------------|
| Governmental Activities: | | | | | |
| <u>General obligation bonds</u> | | | | | |
| 2012 Various Purpose Refunding | \$ 3,935,000 | \$ - | \$ (610,000) | \$ 3,325,000 | \$ 620,000 |
| <u>Net pension liability</u> | | | | | |
| OPERS | 2,786,494 | 64,392 | - | 2,850,886 | - |
| OP&F | 6,583,393 | 419,179 | - | 7,002,572 | - |
| Total net pension liability | 9,369,887 | 483,571 | - | 9,853,458 | - |
| <u>Other long-term obligations</u> | | | | | |
| Compensated absences | 1,414,774 | 88,986 | (43,105) | 1,460,655 | 532,018 |
| Total long-term obligations | \$ 14,719,661 | \$ 572,557 | \$ (653,105) | \$ 14,639,113 | \$ 1,152,018 |
| Add: Unamortized premium on bond issue | 147,846 | | | 129,365 | |
| Total reported on the Statement of Net Position | \$ 14,867,507 | | | \$ 14,768,478 | |

The general obligation bonds will be paid from income taxes receipted into the capital improvement fund. 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, 2015

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

C. Debt Service Requirements

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2015 are as follows:

| Year | General Obligation Bonds | | |
|-------------|--------------------------|------------|--------------|
| | Principal | Interest | Total |
| 2016 | \$ 620,000 | \$ 66,500 | \$ 686,500 |
| 2017 | 635,000 | 54,100 | 689,100 |
| 2018 | 640,000 | 41,400 | 681,400 |
| 2019 | 350,000 | 28,600 | 378,600 |
| 2020 | 355,000 | 21,600 | 376,600 |
| 2021 - 2022 | 725,000 | 21,800 | 746,800 |
| Total | \$ 3,325,000 | \$ 234,000 | \$ 3,559,000 |

D. Conduit Debt Obligations

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

As of December 31, 2015, there was one series of Health Care Facilities Revenue Bonds with an aggregate outstanding principal amount payable of \$9,140,000 and an original issue amount 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.

CITY OF FAIRLAWN, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

NOTE 11 - OTHER EMPLOYEE BENEFITS - (Continued)

Employees earn sick leave at the rate of 1.25 days per month of service. Upon retirement, employees hired before 2000 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 2000 are not eligible to receive termination payments for sick leave, unless they are retiring from the City on a disability retirement approved by OPERS or OP&F. As of December 31, 2015 the total liability for unpaid compensated absences was \$1,460,655.

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 SummaCare. 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 2015, the City contracted with Wichert Insurance Service, Inc. for property and general liability insurance, including boiler and machinery provided by Selective Insurance Company. Police and professional liability policies are provided by Scottsdale Indemnity Company with a \$1,000,000 limit and a \$10,000 deductible. Selective Insurance Company covers Firemen and EMT professional liability with a limit of \$1,000,000 and no deductible. A commercial umbrella policy through Selective Insurance Company provides additional general liability and auto liability insurance up to a \$10,000,000 limit.

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

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

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

NOTE 13 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability/Asset

The net pension liability/asset reported on the statement of net position represents a liability or asset to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

The net pension liability/asset represents the City's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability/asset calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

The Ohio Revised Code limits the City's obligation for this liability to annually required payments. The City cannot control benefit terms or the manner in which pensions are financed; however, the City does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes any net pension liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits or overfunded benefits is presented as a long-term *net pension liability* or *net pension asset*, respectively, on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *due to other governments* on both the accrual and modified accrual bases of accounting.

Plan Description – Ohio Public Employees Retirement System (OPERS)

Plan Description - City employees, other than full-time police and firefighters, participate 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 and the Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. City employees) may elect the Member-Directed Plan and the Combined Plan, substantially all employee members are in OPERS' Traditional Pension Plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the Traditional Pension Plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the Traditional Pension Plan as per the reduced benefits adopted by SB 343 (see OPERS Comprehensive Annual Financial Report (CAFR) referenced above for additional information):

| Group A Eligible to retire prior to January 7, 2013 or five years after January 7, 2013 | Group B 20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013 | Group C Members not in other Groups and members hired on or after January 7, 2013 |
|---|---|---|
| State and Local | State and Local | State and Local |
| Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit | Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit | Age and Service Requirements: Age 57 with 25 years of service credit or Age 62 with 5 years of service credit |
| Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30 | Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30 | Formula: 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35 |

Final average Salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

Benefits in the Combined Plan consist of both an age-and-service formula benefit (defined benefit) and a defined contribution element. The defined benefit element is calculated on the basis of age, FAS, and years of service. Eligibility regarding age and years of service in the Combined Plan is the same as the Traditional Pension Plan. The benefit formula for the defined benefit component of the plan for State and Local members in transition Groups A and B applies a factor of 1.0% to the member's FAS for the first 30 years of service. A factor of 1.25% is applied to years of service in excess of 30. The benefit formula for transition Group C applies a factor of 1.0% to the member's FAS and the first 35 years of service and a factor of 1.25% is applied to years in excess of 35. Persons retiring before age 65 with less than 30 years of service credit receive a percentage reduction in benefit. The defined contribution portion of the benefit is based on accumulated member contributions plus or minus any investment gains or losses on those contributions. Members retiring under the Combined Plan receive a 3% COLA adjustment on the defined benefit portion of their benefit.

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

Defined contribution plan benefits are established in the plan documents, which may be amended by the OPERS's Board of Trustees. Member-Directed Plan and Combined Plan members who have met the retirement eligibility requirements may apply for retirement benefits. The amount available for defined contribution benefits in the Combined Plan consists of the member's contributions plus or minus the investment gains or losses resulting from the member's investment selections. The amount available for defined contribution benefits in the Member-Directed Plan consists of the members' contributions, vested employer contributions and investment gains or losses resulting from the members' investment selections. Employer contributions and associated investment earnings vest over a five-year period, at a rate of 20% each year. For additional information, see the Plan Statement in the OPERS CAFR.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

| | State and Local |
|--|--------------------|
| 2015 Statutory Maximum Contribution Rates | |
| Employer | 14.0 % |
| Employee | 10.0 % |
| 2015 Actual Contribution Rates | |
| Employer: | |
| Pension | 12.0 % |
| Post-employment Health Care Benefits | 2.0 % |
| Total Employer | 14.0 % |
| Employee | 10.0 % |

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll.

The City's contractually required contribution for both the Traditional Pension Plan and the Combined Plan was \$379,761 for 2015. Of this amount, \$15,152 is reported as due to other governments.

Plan Description – Ohio Police & Fire Pension Fund (OP&F)

Plan Description - City full-time police and firefighters participate in Ohio Police and Fire Pension Fund (OP&F), a cost-sharing, multiple-employer defined benefit pension plan administered by OP&F. OP&F provides retirement and disability pension 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 information and required supplementary information and detailed information about OP&F fiduciary net position. The report that may be obtained by visiting the OPF website at www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

Upon attaining a qualifying age with sufficient years of service, a member of OP&F may retire and receive a lifetime monthly pension. OP&F offers four types of service retirement: normal, service commuted, age/service commuted and actuarially reduced. Each type has different eligibility guidelines and is calculated using the member's average annual salary. The following discussion of the pension formula relates to normal service retirement.

For members hired after July 1, 2013, the minimum retirement age is 52 for normal service retirement with at least 25 years of service credit. For members hired on or before after July 1, 2013, the minimum retirement age is 48 for normal service retirement with at least 25 years of service credit.

The annual pension benefit for normal service retirement is equal to a percentage of the allowable average annual salary. The percentage equals 2.5 percent for each of the first 20 years of service credit, 2.0 percent for each of the next five years of service credit and 1.5 percent for each year of service credit in excess of 25 years. The maximum pension of 72 percent of the allowable average annual salary is paid after 33 years of service credit.

Under normal service retirement, retired members who are at least 55 years old and have been receiving OP&F benefits for at least one year may be eligible for a cost-of-living allowance adjustment. The age 55 provision for receiving a COLA does not apply to those who are receiving a permanent and total disability benefit and statutory survivors.

Members retiring under normal service retirement, with less than 15 years of service credit on July 1, 2013, will receive a COLA equal to either three percent or the percent increase, if any, in the consumer price index (CPI) over the 12-month period ending on September 30 of the immediately preceding year, whichever is less. The COLA amount for members with at least 15 years of service credit as of July 1, 2013 is equal to three percent of their base pension or disability benefit.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

| | <u>Police</u> | <u>Firefighters</u> |
|--|-----------------------|-----------------------|
| 2015 Statutory Maximum Contribution Rates | | |
| Employer | 19.50 % | 24.00 % |
| Employee: | | |
| January 1, 2015 through July 1, 2015 | 11.50 % | 11.50 % |
| July 2, 2015 through December 31, 2015 | 12.25 % | 12.25 % |
| 2015 Actual Contribution Rates | | |
| Employer: | | |
| Pension | 19.00 % | 23.50 % |
| Post-employment Health Care Benefits | <u>0.50 %</u> | <u>0.50 %</u> |
| Total Employer | <u><u>19.50 %</u></u> | <u><u>24.00 %</u></u> |
| Employee: | | |
| January 1, 2015 through July 1, 2015 | 11.50 % | 11.50 % |
| July 2, 2015 through December 31, 2015 | 12.25 % | 12.25 % |

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OP&F was \$589,231 for 2015. Of this amount \$24,919 is reported as due to other governments.

Pension Liabilities/Assets, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability and net pension asset for the OPERS Traditional Pension Plan and Combined Plan, respectively, were measured as of December 31, 2014, and the total pension liability or asset used to calculate the net pension liability or asset was determined by an actuarial valuation as of that date. OP&F's total pension liability was measured as of December 31, 2014, and was determined by rolling forward the total pension liability as of January 1, 2014, to December 31, 2014. The City's proportion of the net pension liability or asset was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

| | <u>OPERS</u> | <u>OP&F</u> | <u>Total</u> |
|--|--------------|-----------------|--------------|
| Proportionate share of the net pension liability | \$ 2,850,886 | \$ 7,002,572 | \$ 9,853,458 |
| Proportionate share of the net pension asset | 6,451 | - | 6,451 |
| Proportion of the net pension liability | 0.02363700% | 0.13517390% | |
| Proportion of the net pension asset | 0.01675400% | 0.00000000% | |
| Pension expense | \$ 314,676 | \$ 683,620 | \$ 998,296 |

At December 31, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>OPERS</u> | <u>OP&F</u> | <u>Total</u> |
|--|--------------------------|--------------------------|----------------------------|
| Deferred outflows of resources | | | |
| Net difference between projected and actual earnings on pension plan investments | \$ 152,509 | \$ 301,804 | \$ 454,313 |
| Difference between employer contributions and proportionate share of contributions | 732 | 2,200 | 2,932 |
| City contributions subsequent to the measurement date | <u>379,761</u> | <u>589,231</u> | <u>968,992</u> |
| Total deferred outflows of resources | <u><u>\$ 533,002</u></u> | <u><u>\$ 893,235</u></u> | <u><u>\$ 1,426,237</u></u> |
| Deferred inflows of resources | | | |
| Differences between expected and actual experience | 52,052 | - | 52,052 |
| Difference between employer contributions and proportionate share of contributions | <u>-</u> | <u>-</u> | <u>-</u> |
| Total deferred inflows of resources | <u><u>\$ 52,052</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 52,052</u></u> |

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

\$968,992 reported as deferred outflows of resources related to pension resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability/asset in the year ending December 31, 2016.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

| Year Ending December 31: | OPERS | OP&F | Total |
|--------------------------|------------|------------|------------|
| 2016 | \$ 15,123 | \$ 76,001 | \$ 91,124 |
| 2017 | 15,123 | 76,001 | 91,124 |
| 2018 | 34,084 | 76,001 | 110,085 |
| 2019 | 37,891 | 76,001 | 113,892 |
| 2020 | (234) | - | (234) |
| Thereafter | (798) | - | (798) |
| Total | \$ 101,189 | \$ 304,004 | \$ 405,193 |

Actuarial Assumptions - OPERS

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability/asset in the December 31, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|--|--|
| Wage inflation | 3.75 percent |
| Future salary increases, including inflation | 4.25 to 10.05 percent including wage inflation |
| COLA or ad hoc COLA | 3 percent, simple |
| Investment rate of return | 8 percent |
| Actuarial cost method | Individual entry age |

Mortality rates were based on the RP-2000 Mortality Table projected 20 years using Projection Scale AA. For males, 105 percent of the combined healthy male mortality rates were used. For females, 100 percent of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males 120 percent of the disabled female mortality rates were used set forward two years. For females, 100 percent of the disabled female mortality rates were used.

The most recent experience study was completed for the five year period ended December 31, 2010.

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

The long-term rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

OPERS manages investments in four investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan and the VEBA Trust. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money weighted rate of return, net of investments expense, for the Defined Benefit portfolio is 6.95 percent for 2014.

The allocation of investment assets with the Defined Benefit portfolio is approved by the OPERS Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2014 and the long-term expected real rates of return:

| Asset Class | Target Allocation | Weighted Average Long-Term Expected Real Rate of Return (Arithmetic) |
|------------------------|----------------------|---|
| Fixed income | 23.00 % | 2.31 % |
| Domestic equities | 19.90 | 5.84 |
| Real estate | 10.00 | 4.25 |
| Private equity | 10.00 | 9.25 |
| International equities | 19.10 | 7.40 |
| Other investments | 18.00 | 4.59 |
| Total | <u>100.00 %</u> | <u>5.28 %</u> |

Discount Rate - The discount rate used to measure the total pension liability/asset was 8 percent for both the Traditional Pension Plan and the Combined Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate
- The following table presents the City's proportionate share of the net pension liability/asset calculated using the current period discount rate assumption of 8 percent, as well as what the City's proportionate share of the net pension liability/asset would be if it were calculated using a discount rate that is one-percentage-point lower (7 percent) or one-percentage-point higher (9 percent) than the current rate:

| | 1% Decrease (7.00%) | Current Discount Rate (8.00%) | 1% Increase (9.00%) |
|---|------------------------|-------------------------------------|------------------------|
| City's proportionate share of the net pension liability (asset): | | | |
| Traditional Pension Plan | \$ 5,244,814 | \$ 2,850,886 | \$ 834,622 |
| Combined Plan | \$ 838 | \$ (6,451) | \$ (12,230) |

Actuarial Assumptions – OP&F

OP&F's total pension liability as of December 31, 2014 is based on the results of an actuarial valuation date of January 1, 2014, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OP&F's actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2014, are presented below:

| | |
|----------------------------|-------------------------------|
| Valuation date | January 1, 2014 |
| Actuarial cost method | Entry age normal |
| Investment rate of return | 8.25 percent |
| Projected salary increases | 4.25 percent to 11 percent |
| Payroll increases | 3.75 percent |
| Inflation assumptions | 3.25 percent |
| Cost of living adjustments | 2.60 percent and 3.00 percent |

Rates of death are based on the RP2000 Combined Table, age-adjusted as follows. For active members, set back six years. For disability retirements, set forward five years for police and three years for firefighters. For service retirements, set back zero years for police and two years for firefighters. For beneficiaries, set back zero years. The rates are applied on a fully generational basis, with a base year of 2009, using mortality improvement Scale AA.

The most recent experience study was completed January 1, 2012.

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes.

Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F's target asset allocation as of December 31, 2014 are summarized below:

| Asset Class | Target Allocation | Long Term Expected Real Rate of Return |
|------------------------------|----------------------|---|
| Cash and Cash Equivalents | - % | (0.25) % |
| Domestic Equity | 16.00 | 4.47 |
| Non-US Equity | 16.00 | 4.47 |
| Core Fixed Income * | 20.00 | 1.62 |
| Global Inflation Protected * | 20.00 | 1.33 |
| High Yield | 15.00 | 3.39 |
| Real Estate | 12.00 | 3.93 |
| Private Markets | 8.00 | 6.98 |
| Timber | 5.00 | 4.92 |
| Master Limited Partnerships | 8.00 | 7.03 |
| Total | <u>120.00 %</u> | |

* levered 2x

OP&F's Board of Trustees has incorporated the "risk parity" concept into OP&F's asset liability valuation with the goal of reducing equity risk exposure, which reduces overall Total Portfolio risk without sacrificing return, and creating a more risk-balanced portfolio based on their relationship between asset classes and economic environments. From the notional portfolio perspective above, the Total Portfolio may be levered up to 1.2 times due to the application of leverage in certain fixed income asset classes.

Discount Rate - The total pension liability was calculated using the discount rate of 8.25 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the longer-term assumed investment rate of return 8.25 percent. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, a long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 8.25 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.25 percent), or one percentage point higher (9.25 percent) than the current rate.

| | 1% Decrease (7.25%) | Current Discount Rate (8.25%) | 1% Increase (9.25%) |
|--|------------------------|-------------------------------------|------------------------|
| City's proportionate share of the net pension liability | \$ 9,685,616 | \$ 7,002,572 | \$ 4,730,849 |

NOTE 14 - POSTRETIREMENT BENEFIT PLANS

A. Ohio Public Employees Retirement System

Plan Description - Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan—a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan—a defined contribution plan; and the Combined Plan—a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains two cost-sharing multiple-employer defined benefit post-employment health care trusts, which fund multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients of both the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage.

In order to qualify for health care coverage, age-and-service retirees under the Traditional Pension and Combined plans must have 20 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. Please see the Plan Statement in the OPERS 2014 CAFR for details.

The Ohio Revised Code permits, but does not require, OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the Board in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/financial/reports.shtml#CAFR>, by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy - The Ohio Revised Code provides the statutory authority requiring public employers to fund health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans.

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 14 - POSTRETIREMENT BENEFIT PLANS - (Continued)

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2015, State and Local employers contributed at a rate of 14.0% of earnable salary and Public Safety and Law Enforcement employers contributed at 18.1%. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

OPERS maintains three health care trusts. The two cost-sharing, multiple-employer trusts, the 401(h) Health Care Trust and the 115 Health Care Trust, work together to provide health care funding to eligible retirees of the Traditional Pension and Combined plans. The third trust is a Voluntary Employee's Beneficiary Association (VEBA) that provides funding for a Retiree Medical Account for Member-Directed Plan members. Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 2.0% during calendar year 2015. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2016 remained at 2.0% for both plans. The Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited to the VEBA for participants in the Member-Directed Plan for 2015 was 4.5%.

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2015, 2014, and 2013 were \$63,294, \$59,156, and \$29,369, respectively; 88.15% has been contributed for 2015 and 100% has been contributed for 2014 and 2013. The remaining 2015 post-employment health care benefits liability has been reported as due to other governments on the basic financial statements.

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.

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 health care coverage provided by OP&F meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

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

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

CITY OF FAIRLAWN, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

NOTE 14 - POSTRETIREMENT BENEFIT PLANS - (Continued)

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 2015, the portion of employer contributions allocated to health care was 0.50% 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 \$8,581 and \$5,781 for the year ended December 31, 2015, \$8,217 and \$5,388 for the year ended December 31, 2014, and \$59,291 and \$36,979, for the year ended December 31, 2013. 100% has been contributed for 2014 and 2013. 95.67% has been contributed for police and 96.10% has been contributed for firefighters for 2015. The remaining 2015 post-employment health care benefits liability has been reported as due to other governments on the basic financial statements.

CITY OF FAIRLAWN, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

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

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

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 | \$ 107,938 |
| Net adjustment for revenue accruals | (176,787) |
| Net adjustment for expenditure accruals | (224) |
| Adjustment for encumbrances | <u>940,618</u> |
| GAAP basis | <u><u>\$ 871,545</u></u> |

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

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 | Capital Improvement | Other Governmental | Total Governmental Funds |
|--------------------------------|----------------------|------------------------|-----------------------|--------------------------------|
| Nonspendable: | | | | |
| Materials & supplies inventory | \$ 470,121 | \$ - | \$ - | \$ 470,121 |
| Prepayments | 90,591 | - | - | 90,591 |
| Unclaimed monies | 26,741 | - | - | 26,741 |
| Total nonspendable | 587,453 | - | - | 587,453 |
| Restricted: | | | | |
| Capital Improvements | - | 4,132,098 | - | 4,132,098 |
| Debt service | - | - | 14,194 | 14,194 |
| Law enforcement | - | - | 88,370 | 88,370 |
| Police and fire pensions | - | - | 176,787 | 176,787 |
| Sewer maintenance | - | - | 349,655 | 349,655 |
| Streets and highways | - | - | 301,154 | 301,154 |
| Total restricted | - | 4,132,098 | 930,160 | 5,062,258 |
| Committed: | | | | |
| Law enforcement | 5,000 | - | - | 5,000 |
| Assigned: | | | | |
| Encumbrances | 535,871 | - | - | 535,871 |
| Subsequent year operations | 256,736 | - | - | 256,736 |
| Total assigned | 792,607 | - | - | 792,607 |
| Unassigned | 13,187,828 | - | - | 13,187,828 |
| Total fund balances | \$ 14,572,888 | \$ 4,132,098 | \$ 930,160 | \$ 19,635,146 |

NOTE 17 - CONTINGENCIES

A. Grants

The City receives financial assistance from numerous federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with the terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at December 31, 2015.

CITY OF FAIRLAWN, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

NOTE 17 – CONTINGENCIES - (Continued)

B. Litigation

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

NOTE 18 - CONTRACTUAL 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 | \$ 535,871 |
| Capital Improvement | 834,493 |
| Other governmental | <u>49,012</u> |
| Total | <u>\$ 1,419,376</u> |

NOTE 19 - SUBSEQUENT EVENTS

On May 19, 2016 the Development Finance Authority of Summit County (the “Authority”) issued \$10,175,000 in Development Lease Revenue Bonds, Series 2016 (City of Fairlawn - FairlawnGig Project) (the “Bonds”). The Bonds are being issued for the purpose of paying the costs of acquisition, construction, improvement and equipping of a municipal broadband utility (the “Project”) to provide wireless and fiberoptic high speed broadband internet services to the City and the Bath-Akron-Fairlawn JEDD and to pay costs of issuance of the Bonds. The Bonds are secured by rental payments to be made by the City pursuant to a lease agreement of the Project from the Authority, as lessor, to the City, as lessee, with ownership transferring to the City upon termination of the lease and payment of the lease purchase price. The City’s obligation to make rental payments is secured by a pledge of the City’s nontax revenues as defined in the operative documents. The interest rate on the bonds is 3.69 percent and the maturity date is December 1, 2046.

NOTE 20 - COMMUNITY IMPROVEMENT CORPORATION OF FAIRLAWN, OHIO

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

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 20 - COMMUNITY IMPROVEMENT CORPORATION OF FAIRLAWN, OHIO - (Continued)

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

Summary of Significant Accounting Policies

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

A. Basis of Accounting

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

B. Basis of Presentation

The CIC’s basic financial statements consist of a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows.

The CIC distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the CIC’s principal ongoing operation. The principal operating revenues of the CIC are contributions from the City and operating grants. Operating expenses for the CIC primarily include contract services and loss on the sale of assets held for sale. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses. The CIC did not have any nonoperating revenues or expenses in 2015.

C. Federal Income Tax

The CIC is exempt from federal income tax under Section 501 (c) (3) of the Internal Revenue Code.

D. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, all cash in the CIC’s checking account is considered to be cash and cash equivalents. All monies received by the CIC are deposited in a demand deposit account.

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 20 - COMMUNITY IMPROVEMENT CORPORATION OF FAIRLAWN, OHIO - (Continued)

E. Assets Held for Sale

Assets held for sale represent real property acquired by the CIC, which will be sold for development purposes. These items are reported at the lower of cost or market

Assets Held for Sale activity for the year ended December 31, 2015 was as follows:

| | Balance 12/31/14 | Additions | Disposals | Balance 12/31/15 |
|----------------------|---------------------|------------|--------------|---------------------|
| Assets Held for Sale | \$ 376,749 | \$ 439,507 | \$ (679,122) | \$ 137,134 |

F. Prepayments

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

G. Net Position

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

H. Estimates

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

I. Deposits

At December 31, 2015, the carrying amount of the CIC’s deposits was \$701,289. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of December 31, 2015, \$549,195 of the CIC’s bank balance of \$799,195 was exposed to custodial credit risk, as discussed below, while \$250,000 was covered by the Federal Deposit Insurance Corporation. There are no significant statutory restrictions regarding the deposits and investments of funds held by the not-for-profit corporation.

J. Rent Receivable

On December 21, 2015, the CIC entered into a lease-purchase agreement, as lessor, to sell approximately 3.26 acres of land, valued at \$390,000, to Stemco Kaiser, Incorporated. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments as of the inception date.

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 20 - COMMUNITY IMPROVEMENT CORPORATION OF FAIRLAWN, OHIO - (Continued)

The future minimum lease payments as of December 31, 2015, were as follows:

| <u>Year Ending December 31</u> | <u>Future Minimum Lease Payments</u> |
|------------------------------------|--|
| 2016 | \$ 13,000 |
| 2017 | 13,000 |
| 2018 | 13,000 |
| 2019 | 13,000 |
| 2020 | 13,000 |
| 2021-2025 | 65,000 |
| 2026-2030 | <u>260,000</u> |
| Total | <u>\$ 390,000</u> |

K. Contributions from the City of Fairlawn

Cash

The CIC received \$779,724 in contributions from the City during the year.

Property

Donations of property are recorded as contributions at their estimated fair market value at the date of donation. Such donations are reported as increases to assets held for sale. The CIC received one donated property, with an estimated fair market value of \$390,000, from the City during the year.

Services

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

L. Risk Management

The CIC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to contracted personnel; and natural disasters. For 2015, the CIC had general liability insurance through Auto-Owners Insurance Company and directors and officers insurance through Darwin National Assurance Company.

Settled claims have not exceeded commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

M. Litigation

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

CITY OF FAIRLAWN, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY/NET PENSION ASSET
OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

LAST TWO YEARS

| | <u>2014</u> | <u>2013</u> |
|---|--------------|--------------|
| <i>Traditional Plan:</i> | | |
| City's proportion of the net pension liability | 0.023637% | 0.023637% |
| City's proportionate share of the net pension liability | \$ 2,850,886 | \$ 2,786,494 |
| City's covered-employee payroll | \$ 2,906,808 | \$ 2,887,162 |
| City's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 98.08% | 96.51% |
| Plan fiduciary net position as a percentage of the total pension liability | 86.45% | 86.36% |
| <i>Combined Plan:</i> | | |
| City's proportion of the net pension asset | 0.016754% | 0.016754% |
| City's proportionate share of the net pension asset | \$ 6,451 | \$ 1,758 |
| City's covered-employee payroll | \$ 61,242 | \$ 51,038 |
| City's proportionate share of the net pension asset as a percentage of its covered-employee payroll | 10.53% | 3.44% |
| Plan fiduciary net position as a percentage of the total pension asset | 114.83% | 104.56% |

Note: Information prior to 2013 was unavailable.

Amounts presented as of the City's measurement date which is the prior year.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

CITY OF FAIRLAWN, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
OHIO POLICE AND FIRE (OP&F) PENSION FUND

LAST TWO YEARS

| | <u>2014</u> | <u>2013</u> |
|---|--------------|--------------|
| City's proportion of the net pension liability | 0.13517390% | 0.13517390% |
| City's proportionate share of the net pension liability | \$ 7,002,572 | \$ 6,583,393 |
| City's covered-employee payroll | \$ 2,735,974 | \$ 2,649,515 |
| City's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 255.94% | 248.48% |
| Plan fiduciary net position as a percentage of the total pension liability | 72.20% | 73.00% |

Note: Information prior to 2013 was unavailable.

Amounts presented as of the City's measurement date which is the prior year.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF FAIRLAWN, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CITY CONTRIBUTIONS
OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

LAST TEN YEARS

| | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> |
|--|------------------|------------------|------------------|------------------|
| <i>Traditional Plan:</i> | | | | |
| Contractually required contribution | \$ 372,678 | \$ 348,817 | \$ 375,331 | \$ 271,543 |
| Contributions in relation to the contractually required contribution | <u>(372,678)</u> | <u>(348,817)</u> | <u>(375,331)</u> | <u>(271,543)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| City's covered-employee payroll | \$ 3,105,650 | \$ 2,906,808 | \$ 2,887,162 | \$ 2,715,430 |
| Contributions as a percentage of covered-employee payroll | 12.00% | 12.00% | 13.00% | 10.00% |
| <i>Combined Plan:</i> | | | | |
| Contractually required contribution | \$ 7,083 | \$ 7,349 | \$ 6,635 | \$ 4,881 |
| Contributions in relation to the contractually required contribution | <u>(7,083)</u> | <u>(7,349)</u> | <u>(6,635)</u> | <u>(4,881)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| City's covered-employee payroll | \$ 59,025 | \$ 61,242 | \$ 51,038 | \$ 61,396 |
| Contributions as a percentage of covered-employee payroll | 12.00% | 12.00% | 13.00% | 7.95% |

Note: Combined plan information prior to 2010 was unavailable.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

| <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> | <u>2006</u> |
|------------------|------------------|------------------|------------------|------------------|------------------|
| \$ 272,035 | \$ 253,143 | \$ 246,865 | \$ 197,378 | \$ 221,691 | \$ 243,867 |
| <u>(272,035)</u> | <u>(253,143)</u> | <u>(246,865)</u> | <u>(197,378)</u> | <u>(221,691)</u> | <u>(243,867)</u> |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| \$ 2,720,350 | \$ 2,837,926 | \$ 3,038,338 | \$ 2,819,686 | \$ 2,654,982 | \$ 2,650,728 |
| 10.00% | 8.92% | 8.13% | 7.00% | 8.35% | 9.20% |
| \$ 6,314 | \$ 6,994 | \$ - | \$ - | \$ - | \$ - |
| <u>(6,314)</u> | <u>(6,994)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| \$ 79,421 | \$ 72,178 | \$ - | \$ - | \$ - | \$ - |
| 7.95% | 9.69% | 8.13% | 7.00% | 8.35% | 9.20% |

CITY OF FAIRLAWN, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CITY CONTRIBUTIONS
OHIO POLICE AND FIRE (OP&F) PENSION FUND

LAST TEN YEARS

| | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> |
|--|------------------|------------------|------------------|------------------|
| <i>Police:</i> | | | | |
| Contractually required contribution | \$ 317,509 | \$ 314,593 | \$ 258,005 | \$ 204,674 |
| Contributions in relation to the contractually required contribution | <u>(317,509)</u> | <u>(314,593)</u> | <u>(258,005)</u> | <u>(204,674)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| City's covered-employee payroll | \$ 1,671,100 | \$ 1,655,753 | \$ 1,624,376 | \$ 1,605,286 |
| Contributions as a percentage of covered-employee payroll | 19.00% | 19.00% | 15.88% | 12.75% |
| <i>Fire:</i> | | | | |
| Contractually required contribution | \$ 271,722 | \$ 253,852 | \$ 208,854 | \$ 164,450 |
| Contributions in relation to the contractually required contribution | <u>(271,722)</u> | <u>(253,852)</u> | <u>(208,854)</u> | <u>(164,450)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| City's covered-employee payroll | \$ 1,156,264 | \$ 1,080,221 | \$ 1,024,631 | \$ 953,333 |
| Contributions as a percentage of covered-employee payroll | 23.50% | 23.50% | 20.38% | 17.25% |

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

| <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> | <u>2006</u> |
|------------------|------------------|------------------|------------------|------------------|------------------|
| \$ 197,448 | \$ 197,356 | \$ 205,137 | \$ 195,027 | \$ 176,094 | \$ 166,037 |
| <u>(197,448)</u> | <u>(197,356)</u> | <u>(205,137)</u> | <u>(195,027)</u> | <u>(176,094)</u> | <u>(166,037)</u> |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| \$ 1,548,612 | \$ 1,547,890 | \$ 1,608,918 | \$ 1,529,624 | \$ 1,381,129 | \$ 1,413,081 |
| 12.75% | 12.75% | 12.75% | 12.75% | 12.75% | 11.75% |
| | | | | | |
| \$ 178,967 | \$ 183,840 | \$ 180,975 | \$ 168,470 | \$ 153,083 | \$ 147,911 |
| <u>(178,967)</u> | <u>(183,840)</u> | <u>(180,975)</u> | <u>(168,470)</u> | <u>(153,083)</u> | <u>(147,911)</u> |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| \$ 1,037,490 | \$ 1,065,739 | \$ 1,049,130 | \$ 976,638 | \$ 887,438 | \$ 883,051 |
| 17.25% | 17.25% | 17.25% | 17.25% | 17.25% | 16.75% |

CITY OF FAIRLAWN, OHIO

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2015

OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

Changes in benefit terms : There were no changes in benefit terms from the amounts reported for 2014 and 2015.

Changes in assumptions : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2014 and 2015. See the notes to the basic financial statements for the methods and assumptions in this calculation.

OHIO POLICE AND FIRE (OP&F) PENSION FUND

Changes in benefit terms : There were no changes in benefit terms from the amounts reported for 2014 and 2015.

Changes in assumptions : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2014 and 2015. See the notes to the basic financial statements for the methods and assumptions in this calculation.



Dave Yost • Auditor of State

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

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

To the Honorable Mayor and Members of City Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Fairlawn, Summit County, (the City) as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated Board (GASB) Statement September 19 2016, wherein we noted the City adopted Governmental Accounting Standards No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and also GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2015-001 to be a material weakness.

Compliance and Other Matters

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

City's Response to Findings

The City's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the City's response and, accordingly, we express no opinion on it.

Purpose of this Report

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



Dave Yost
Auditor of State
Columbus, Ohio

September 19, 2016

CITY OF FAIRLAWN
SUMMIT COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2015

FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

1. Special Assessments Receivable Reversing Entry

| | |
|-----------------------|----------|
| <i>Finding Number</i> | 2015-001 |
|-----------------------|----------|

MATERIAL WEAKNESS

The City improperly included reversing entries related to special assessments receivable for \$86,778 and \$31,338 within the Remaining Fund Information opinion unit and the Capital Improvement Major Fund, respectively. This resulted in overstatements of special assessments receivable and deferred inflows. Sound financial reporting is the responsibility of the Finance Director and City Council and is essential to help ensure the information provided to the readers of the financial statements is complete and accurate. The Generally Accepted Accounting Principles (GAAP) conversion workpapers did not include documentation of entries which should or should not be reversed. The necessary adjustments were made to the financial statements and the City's accounting records.

The City should review the GAAP conversion workpapers to help ensure reversing entries are properly included or excluded from posting to the trial balances.

Official's Response: We have updated our GAAP conversion workpapers to identify journal entries that should not be reversed. Furthermore, we will review our GAAP conversion procedures to ensure the proper internal controls are in place to prevent or detect and timely correct future journal entries posted in error.

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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
OCTOBER 6, 2016