



Dave Yost • Auditor of State



**CITY OF FAIRLAWN  
SUMMIT COUNTY  
DECEMBER 31, 2016**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Auditor's Report .....	1
Prepared by Management:	
Management's Discussion and Analysis .....	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position .....	17
Statement of Activities.....	18
Fund Financial Statements:	
Balance Sheet	
Governmental Funds.....	19
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities .....	20
Statement of Revenues, Expenditures and Changes in Fund Balance Governmental Funds.....	21
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	22
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual General Fund.....	23
Statement of Fund Net Position	
Proprietary Funds.....	24
Statement of Revenues, Expenses and Changes in Net Position Proprietary Funds.....	25
Statement of Cash Flows	
Proprietary Funds.....	26
Statement of Fiduciary Net Position	
Fiduciary Funds.....	27
Notes to the Basic Financial Statements.....	29

CITY OF FAIRLAWN  
SUMMIT COUNTY  
DECEMBER 31, 2016

TABLE OF CONTENTS  
(Continued)

TITLE	PAGE
Required Supplementary Information:	
Schedule of the City's Proportionate Share of the Net Pension Liability/Net Pension Asset - Ohio Public Employees Retirement System (OPERS) .....	71
Schedule of the City's Proportionate Share of the Net Pension Liability - Ohio Police and Fire (OP&F) Pension Fund.....	72
Schedule of the City's Contributions Ohio Public Employees Retirement System (OPERS) .....	74
Schedule of the City's Contributions Ohio Police and Fire (OP&F) Pension Fund .....	76
Notes to Required Supplementary Information .....	78
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	79
Prepared by Management:	
Summary Schedule of Prior Audit Findings .....	81



# 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, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Fairlawn, Summit County, Ohio (the City), as of and for the year ended December 31, 2016, 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, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Fairlawn, Summit County, Ohio, as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows 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.

**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 August 11, 2017, 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

August 11, 2017

## CITY OF FAIRLAWN, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2016 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, 2016. 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 2016 are as follows:

- The total net position of the City decreased \$660,976. The net position of governmental activities decreased \$2,835,056 or 4.22% from 2015, to a total of \$64,271,127 in 2016, while the net position of business-type activities was \$2,174,080 in 2016.
- The City had \$18,695,489 in total revenues in 2016, of which \$18,685,693 related to governmental activities and \$9,796 related to business-type activities. General revenues accounted for \$16,291,316 or 87.14% of total revenues, while program specific revenues accounted for \$2,404,173 or 12.86% of total revenues.
- The City had \$19,356,465 in total expenses in 2016, of which \$19,139,352 related to governmental activities and \$217,113 related to business-type activities. Governmental activities accounted for \$19,139,352 of total expenses; \$2,394,377 of these expenses were offset by program specific charges for services, grants, or contributions. The remaining governmental activities expenses of \$16,744,975 were offset by general revenues, primarily consisting of property taxes, income taxes, unrestricted grants and entitlements, and Joint Economic Development District (JEDD) revenues. Business-type activities accounted for \$217,113 of total expenses; \$9,796 of these expenses were offset by program specific charges for services.
- The City has two major governmental funds, the general fund and capital improvement fund, and one major proprietary fund, the broadband fund. The general fund, the largest major governmental fund, had revenues and other financing sources of \$14,729,829 in 2016. This represents an increase of \$80,968 over 2015's revenues and other financing sources. The expenditures and other financing uses of the general fund, which totaled \$13,336,035 in 2016, decreased \$441,281 from 2015. The net increase in fund balance for the general fund was \$1,433,125 or 9.83%.
- The capital improvement fund had revenues and other financing sources of \$13,818,944 in 2016. The expenditures of the capital improvement fund totaled \$5,383,436 in 2016. The net increase in fund balance for the capital improvement fund was \$8,435,508 or 204.15%.
- The broadband fund had operating revenues of \$9,796 and operating expenses of \$217,113, resulting in an operating loss of \$207,317 in 2016.

#### 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, 2016

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 2016?" 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 operation of the City is divided into two distinct types of activities as follows:

- *Governmental Activities* - Most of the City's programs and services are considered to be governmental activities, 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.
- *Business-Type Activities* - These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided.

The City's Statement of Net Position and Statement of Activities can be found on pages 17-18 of this report.

#### Reporting the City's Most Significant Funds

##### *Fund Financial Statements*

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary 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 City's major governmental funds are: the general fund and the general capital improvements fund. The City's major proprietary fund is the broadband fund. The analysis of the City's major funds begins on page 10.

##### *Governmental Funds*

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



## CITY OF FAIRLAWN, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2016 Unaudited

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

Both the governmental 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 19-23 of this report.

#### ***Proprietary Funds***

The City only maintains one type of proprietary funds, enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its broadband utility operations. The basic proprietary fund statements can be found on pages 24-26 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 statements 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 27 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 29-69 of this report.

#### ***Required Supplementary Information***

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 71-77 of this report.

**CITY OF FAIRLAWN, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
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 2016 compared to 2015. The City's business-type activities began operation in 2016, as such no information is presented for 2015.

	<b>Net Position</b>				
	Governmental Activities	Governmental Activities	Business-Type Activities	Total	Total
	2016	2015	2016	2016	2015
<b>Assets</b>					
Current and other assets	\$ 35,247,161	\$ 24,122,387	\$ 269,100	\$ 35,516,261	\$ 24,122,387
Capital assets, net	56,801,142	58,172,195	1,943,568	58,744,710	58,172,195
Total assets	<u>92,048,303</u>	<u>82,294,582</u>	<u>2,212,668</u>	<u>94,260,971</u>	<u>82,294,582</u>
<b>Deferred outflows of resources</b>					
Pension	3,871,471	1,426,237	-	3,871,471	1,426,237
Total deferred outflows of resources	<u>3,871,471</u>	<u>1,426,237</u>	<u>-</u>	<u>3,871,471</u>	<u>1,426,237</u>
<b>Liabilities</b>					
Current and other liabilities	2,543,706	1,032,540	38,588	2,582,294	1,032,540
Long-term liabilities:					
Due within one year	1,366,454	1,152,018	-	1,366,454	1,152,018
Net pension liability	13,110,833	9,853,458	-	13,110,833	9,853,458
Other amounts	13,745,371	3,763,002	-	13,745,371	3,763,002
Total liabilities	<u>30,766,364</u>	<u>15,801,018</u>	<u>38,588</u>	<u>30,804,952</u>	<u>15,801,018</u>
<b>Deferred inflows of resources</b>					
Property taxes	771,095	761,566	-	771,095	761,566
Pension	111,188	52,052	-	111,188	52,052
Total deferred inflows of resources	<u>882,283</u>	<u>813,618</u>	<u>-</u>	<u>882,283</u>	<u>813,618</u>
<b>Net Position</b>					
Net investment in capital assets	53,985,257	54,717,830	1,943,568	55,928,825	54,717,830
Restricted	14,140,575	5,761,911	-	14,140,575	5,761,911
Unrestricted	(3,854,705)	6,626,442	230,512	(3,624,193)	6,626,442
Total net position	<u>\$ 64,271,127</u>	<u>\$ 67,106,183</u>	<u>\$ 2,174,080</u>	<u>\$ 66,445,207</u>	<u>\$ 67,106,183</u>

Over time, net position can serve as a useful indicator of a government's financial position. At December 31, 2016, the City's total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by \$66,445,207. The net positions of the City's governmental and business-type activities were \$64,271,127 and \$2,174,080, respectively.

Capital assets, reported on the government-wide statements, represent the largest portion of the City's assets. At year-end, capital assets represented 62.32% of total assets. Capital assets include land, land improvements, buildings and improvements, machinery and equipment, licensed vehicles, infrastructure and construction in progress.

**CITY OF FAIRLAWN, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
Unaudited**

The majority of the City's net position is reflected its investment in capital assets, less any related debt used to acquire those assets. These capital assets are utilized by the City to provide services to its citizens and are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

A portion of the City's total net position, \$14,140,574, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position may be used to meet the government's ongoing obligations to citizens and creditors.

The table below shows the change in net position for fiscal years 2016 and 2015. The City's business-type activities began operation in 2016, as such no information is presented for 2015.

	<b>Change in Net Position</b>				
	Governmental Activities 2016	Governmental Activities 2015	Business-Type Activities 2016	Total 2016	Total 2015
<b>Revenues</b>					
Program revenues:					
Charges for services	\$ 1,031,723	\$ 1,093,279	\$ 9,796	\$ 1,041,519	\$ 1,093,279
Operating grants and contributions	334,153	355,139	-	334,153	355,139
Capital grants and contributions	1,028,501	86,683	-	1,028,501	86,683
<b>Total program revenues</b>	<b>2,394,377</b>	<b>1,535,101</b>	<b>9,796</b>	<b>2,404,173</b>	<b>1,535,101</b>
General revenues:					
Property and other taxes	1,122,940	1,077,417	-	1,122,940	1,077,417
Income taxes	11,322,003	12,338,929	-	11,322,003	12,338,929
Unrestricted grants and entitlements	289,927	323,961	-	289,927	323,961
JEDD revenues	3,292,912	3,318,919	-	3,292,912	3,318,919
Investment earnings	69,695	42,006	-	69,695	42,006
Miscellaneous	193,839	123,141	-	193,839	123,141
<b>Total general revenues</b>	<b>16,291,316</b>	<b>17,224,373</b>	<b>-</b>	<b>16,291,316</b>	<b>17,224,373</b>
<b>Total revenues</b>	<b>18,685,693</b>	<b>18,759,474</b>	<b>9,796</b>	<b>18,695,489</b>	<b>18,759,474</b>

(Continued)

**CITY OF FAIRLAWN, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
Unaudited

	<b>Change in Net Position - (Continued)</b>				
	Governmental Activities 2016	Governmental Activities 2015	Business-Type Activities 2016	Total 2016	Total 2015
	<u>Expenses</u>				
General government	2,756,698	2,913,776	-	2,756,698	2,913,776
Security of persons and property	7,858,230	7,144,559	-	7,858,230	7,144,559
Public health and welfare	117,194	116,476	-	117,194	116,476
Transportation	5,904,619	5,628,133	-	5,904,619	5,628,133
Community environment	454,233	1,139,776	-	454,233	1,139,776
Leisure time activity	530,030	458,738	-	530,030	458,738
Utility services	1,254,087	1,030,210	-	1,254,087	1,030,210
Interest and fiscal charges	264,261	55,009	-	264,261	55,009
Broadband	-	-	217,113	217,113	-
Total expenses	<u>19,139,352</u>	<u>18,486,677</u>	<u>217,113</u>	<u>19,356,465</u>	<u>18,486,677</u>
Change in net position before transfers	(453,659)	272,797	(207,317)	(660,976)	272,797
Transfers	<u>(2,381,397)</u>	-	<u>2,381,397</u>	-	-
Change in net position	(2,835,056)	272,797	2,174,080	(660,976)	272,797
Net position at beginning of year	<u>67,106,183</u>	<u>66,833,386</u>	-	<u>67,106,183</u>	<u>66,833,386</u>
Net position at end of year	<u>\$ 64,271,127</u>	<u>\$ 67,106,183</u>	<u>\$ 2,174,080</u>	<u>\$ 66,445,207</u>	<u>\$ 67,106,183</u>

***Governmental Activities***

Governmental activities net position decreased \$2,835,056 in 2016.

Security of persons and property, which primarily supports the operations of the police and fire departments accounted for \$7,858,230 of the total expenses of the City. These expenses were partially funded by \$444,709 in direct charges to users of the services, \$19,294 in operating grants and contributions, and \$33,723 in capital grants and contributions. Transportation expenses totaled \$5,904,619. Transportation expenses were partially funded by \$1,215 in direct charges to users of the services, \$314,859 in operating grants and contributions, and \$254,914 in capital grants and contributions.

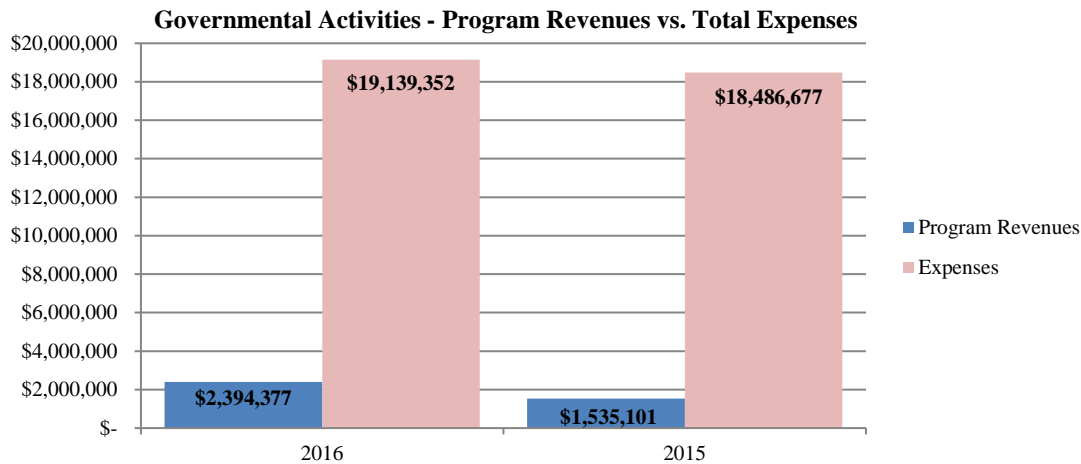
The county, state, and federal governments contributed to the City a total of \$334,153 in operating grants and contributions. These revenues are restricted to a particular program or purpose. Of the total operating grants and contributions, \$19,294 subsidized security of persons and property, and \$314,859 subsidized transportation programs.

General revenues totaled \$16,291,316, and amounted to 87.19% of total governmental revenues. These revenues primarily consist of property and income tax revenues of \$12,444,943 and JEDD revenues of \$3,292,912.

**CITY OF FAIRLAWN, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
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, grants, and contributions 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 primarily supported by tax revenue, unrestricted grants and entitlements, and JEDD revenues.

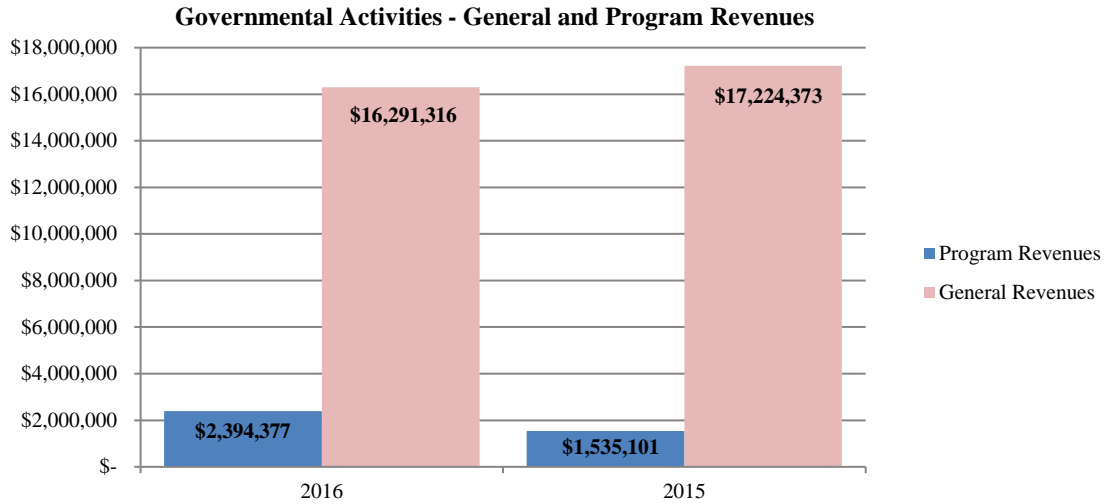
	<b>Governmental Activities</b>			
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2016	2016	2015	2015
Program Expenses:				
General government	\$ 2,756,698	\$ 2,419,318	\$ 2,913,776	\$ 2,531,346
Security of persons and property	7,858,230	7,360,504	7,144,559	6,690,178
Public health and welfare	117,194	117,194	116,476	116,476
Transportation	5,904,619	5,333,631	5,628,133	5,275,567
Community environment	454,233	310,250	1,139,776	1,058,989
Leisure time activity	530,030	325,486	458,738	409,030
Utility services	1,254,087	614,331	1,030,210	814,981
Interest and fiscal charges	264,261	264,261	55,009	55,009
<b>Total</b>	<b>\$ 19,139,352</b>	<b>\$ 16,744,975</b>	<b>\$ 18,486,677</b>	<b>\$ 16,951,576</b>

The dependence upon general revenues for governmental activities is apparent, with 87.49% of expenses supported through taxes and other general revenues.

**CITY OF FAIRLAWN, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
Unaudited

The chart below illustrates the City's program revenues versus general revenues for 2016 and 2015:



**Business-Type Activities**

Broadband expenses were \$217,113 for the year, a portion of which was offset by the \$9,796 in charges for services generated by users of the broadband utility in 2016.

**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 19) reported a combined fund balance of \$29,483,158 which is \$9,848,012 greater than last year's total of \$19,635,146. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2016 and 2015 for all major and nonmajor governmental funds.

	<u>Fund Balances</u> 12/31/16	<u>Fund Balances</u> 12/31/15	<u>Increase/ (Decrease)</u>	<u>Percentage Change</u>
Major funds:				
General	\$ 16,006,013	\$ 14,572,888	\$ 1,433,125	9.83 %
Capital improvement	12,567,606	4,132,098	8,435,508	204.15 %
Other nonmajor governmental funds	<u>909,539</u>	<u>930,160</u>	<u>(20,621)</u>	<u>(2.22) %</u>
Total	<u>\$ 29,483,158</u>	<u>\$ 19,635,146</u>	<u>\$ 9,848,012</u>	<u>50.16 %</u>

**CITY OF FAIRLAWN, OHIO**

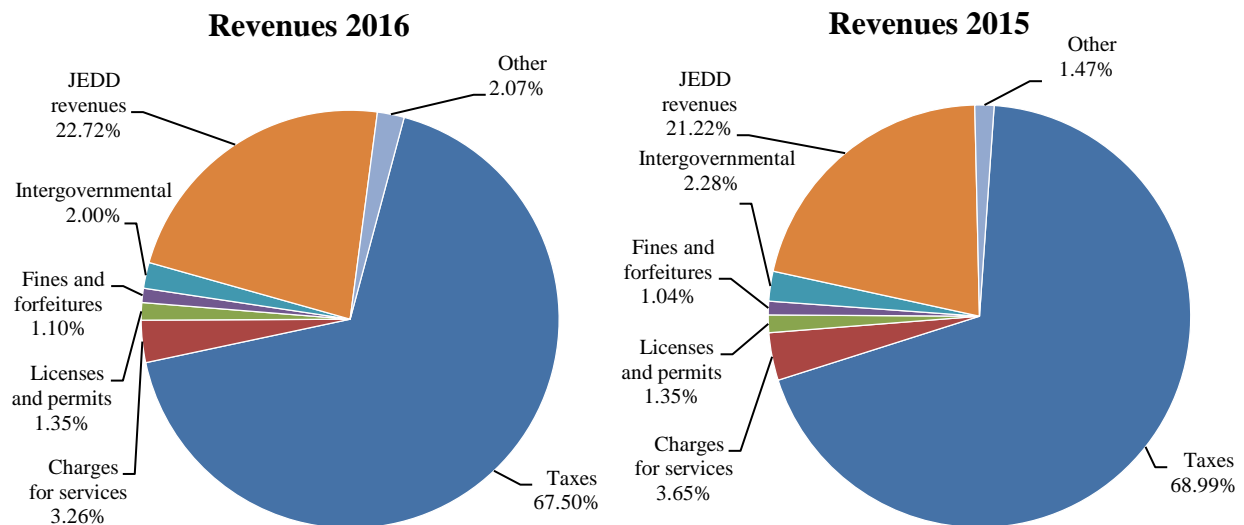
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
Unaudited

**General Fund**

The City's general fund balance increased by \$1,433,125. The table that follows assists in illustrating the revenues of the general fund.

<u>Revenues</u>	<u>2016</u>	<u>2015</u>	<u>Percentage Change</u>
Taxes	\$ 9,938,621	\$ 10,101,715	(1.61) %
Charges for services	480,418	534,280	(10.08) %
Licenses and permits	198,688	197,135	0.79 %
Fines and forfeitures	162,013	152,498	6.24 %
Intergovernmental	294,593	334,117	(11.83) %
JEDD revenues	3,344,739	3,107,393	7.64 %
Other	305,643	214,622	42.41 %
<b>Total</b>	<b>\$ 14,724,715</b>	<b>\$ 14,641,760</b>	<b>0.57 %</b>

Tax revenue represents 67.50% of all general fund revenue. Charges for services decreased by 10.08% compared to the prior year. The decrease was primarily driven by the receipt of a significant sewer tap-in fee in 2015. Intergovernmental revenue decreased 11.83%, due, in part, to deeper cuts to the local government funding provided by the State. The State's operating budget bill for fiscal years 2016 and 2017 reduced the total amount available for distribution to municipal corporations and redirected the amounts not distributed to villages and townships as supplements. JEDD revenues increased by 7.64% due to the November and December 2015 payments being received outside the prior year's available period. All other revenues remained comparable to 2015.



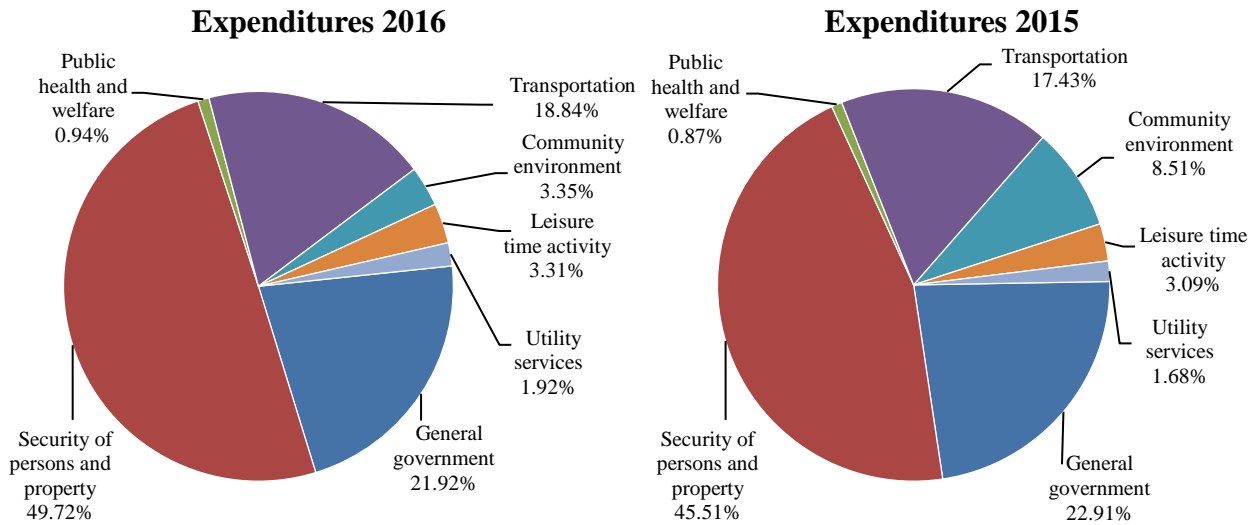
**CITY OF FAIRLAWN, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
Unaudited

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

<u>Expenditures</u>	<u>2016</u>	<u>2015</u>	<u>Percentage Change</u>
General government	\$ 2,727,150	\$ 3,052,716	(10.66) %
Security of persons and property	6,187,321	6,064,875	2.02 %
Public health and welfare	117,194	116,476	0.62 %
Transportation	2,344,510	2,322,226	0.96 %
Community environment	416,317	1,133,670	(63.28) %
Leisure time activity	412,051	411,105	0.23 %
Utility services	239,363	223,248	7.22 %
<b>Total</b>	<b>\$ 12,443,906</b>	<b>\$ 13,324,316</b>	<b>(6.61) %</b>

General government expenditures decreased by 10.66%, primarily due to the creation of the broadband fund to account for the activity of the FairlawnGig project, which was previously accounted for in the general fund. Community environment expenditures decreased by 63.28%. This decrease resulted from a development agreement entered into by the City, the Community Improvement Corporation of Fairlawn (CIC), and Stemco Kaiser, Inc in 2015. The agreement required the City to make subsidy payments to the CIC in 2015 to fund infrastructure improvements, which were funded by the City in late 2015 and completed in late 2016. All other expenditures remained comparable to 2015.





## CITY OF FAIRLAWN, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2016 Unaudited

#### ***Capital Improvement Fund***

The capital improvement fund had revenues and other financing sources of \$13,818,944 in 2016. The expenditures of the capital improvement fund totaled \$5,383,436 in 2016. The net increase in fund balance for the capital improvement fund was \$8,435,508 or 204.15%. The increase in fund balance resulted from the City entering into a lease agreement with the Development Finance Authority of Summit County for the acquisition, construction, improvement and equipping of a municipal broadband utility to provide wireless and fiber optic high speed broadband internet services to the City. The unspent lease proceeds, issuance premium, and accumulated interest are held by a Trustee and reported as cash with fiscal agent in the capital improvement fund.

#### ***Proprietary Funds***

The City's proprietary funds provide the same type of information found in the government-wide financial statements for business-type activities, but in more detail. Unrestricted net position for the City's broadband fund at the end of the year amounted to \$230,512, while total assets were \$2,212,668.

#### ***Budgeting Highlights***

Budgetary information is presented for the general fund on page 23. The final budget reflects revenues that were \$952,997, or 7.11%, higher than the original budget. Actual revenues were \$1,252,005 or 9.34% higher than the original budget, and were \$299,008 or 2.08% more than the final budget. The revenue category with the largest positive variance was income taxes, with actual revenues equaling 102.60% of the final budget. The \$226,451 revenue surplus in this category was driven general growth among business net profit filers and filers in the Embassy Parkway shared tax district. Furthermore, we noted collections from resident filers increased significantly due to the enforcement of the estimated tax payment requirements codified in the new income tax code.

During 2016, actual expenditures (including current year encumbrances) were \$1,346,385 or 9.14% under the original budget, while the final budget was \$1,281,525 or 8.74% higher than actual spending. Actual general government expenditures were \$264,418 or 7.19% less than the original budget and \$313,318 or 8.41% less than the final budget. The original and final security of persons and property budgets exceeded actual expenditures by 5.85% and 4.79%, respectively. The community environment function had the largest positive variance, with actual expenditures \$329,661 or 41.61% less than the final budget of \$792,245. The positive variance was driven by the CIC requiring less subsidy payments during the year.

The original budget, as adopted by Council, called for a structural deficit (i.e. expenditures in excess of revenues) of approximately \$2,157,748 with the final adopted budget calling for a \$1,270,308 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 \$310,225, or approximately \$1,580,533 more than that called for in the final budget.

**CITY OF FAIRLAWN, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
Unaudited

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal 2016, the City had \$58,744,710 (net of accumulated depreciation) invested in governmental and business-type capital assets, consisting of land, construction in progress, buildings and improvements, land improvements, licensed vehicles, machinery and equipment, and infrastructure. In total, capital assets (net of accumulated depreciation) increased by \$572,515 or 0.98%. The following table presents the City's capital assets, net of depreciation at December 31, 2016 and 2015. The City's business-type activities began operation in 2016, as such no information is presented for 2015.

	Governmental Activities		Business-Type	Total	
	2016	2015	Activities	2016	2015
Land	\$ 2,438,997	\$ 2,394,997	\$ -	\$ 2,438,997	\$ 2,394,997
Construction in progress	-	319,340	1,943,568	1,943,568	319,340
Buildings and improvements	9,136,267	9,380,808	-	9,136,267	9,380,808
Land improvements	1,949,637	2,020,001	-	1,949,637	2,020,001
Licensed vehicles	1,386,555	1,272,384	-	1,386,555	1,272,384
Machinery and equipment	1,492,409	1,436,994	-	1,492,409	1,436,994
Infrastructure	40,397,277	41,347,671	-	40,397,277	41,347,671
Total	\$ 56,801,142	\$ 58,172,195	\$ 1,943,568	\$ 58,744,710	\$ 58,172,195

Major capital asset events during the current fiscal year included the following:

- Various licensed vehicle purchases totaling \$347,596.
- The upgrade of the City's 911 system at a total cost of \$146,337.
- The construction of Southwestern Boulevard, a project completed by the CIC and donated to the City with an estimated fair market value of \$495,160.
- Various projects related to streets, sidewalks and storm sewers at a cost of \$61,957.
- Construction of the FairlawnGig municipal broadband utility system (reported as construction in progress as of the close of the fiscal year at a cost of \$1,943,568).

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, 2016 and 2015:

	Governmental Activities	
	2016	2015
General obligation bonds	\$ 2,705,000	\$ 3,325,000
Capital lease	10,175,000	-
Total	\$ 12,880,000	\$ 3,325,000

## CITY OF FAIRLAWN, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2016

Unaudited

During 2016, the City entered into a lease agreement with the Development Finance Authority of Summit County for the acquisition, construction, improvement and equipping of a municipal broadband utility to provide wireless and fiber optic high speed broadband internet services to the City. General capital assets acquired by the agreement will be capitalized in the amount equal to the present value of the future minimum lease payments, as of the date of their inception, once construction of the system has completed. For the City, a liability was recorded in the government-wide financial statements, as the capital improvement fund will be making the principal and interest payments.

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. 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 vacant land available for development in the Fairlawn Corporate Park.

The City is proud to offer outstanding city services to its residents. In addition to excellent police and fire protection, Fairlawn safety forces are active in the community, offering education programs such as 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, including the FairlawnGig utility. FairlawnGig is the City's municipal broadband utility, providing wireless and fiber optic broadband internet services to the residents and commercial users located within the City and JEDD. 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, 2016**

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 3.52% in 2016 as compared to the previous year, much of this increase was driven by general growth among business net profit filers and filers in the Embassy Parkway shared tax district. Furthermore, we noted collections from resident filers increased significantly due to the enforcement of the estimated tax payment requirements codified in the new income tax code.

The City is projecting a slight increase in general fund revenue in 2017. While general fund expenditures for 2017, net of interfund transfers and advances, are budgeted at 2.11% greater than 2016 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, 2016

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Community Improvement Corporation of Fairlawn
<b>Assets:</b>				
Equity in pooled cash and cash equivalents	\$ 19,322,264	\$ 267,989	\$ 19,590,253	\$ 217,619
Cash and cash equivalents in segregated accounts	17,817	-	17,817	-
Cash and cash equivalents with fiscal agent	10,338,812	-	10,338,812	-
Receivables:				
Income taxes	2,676,952	-	2,676,952	-
Real and other taxes	817,520	-	817,520	-
Accounts	61,339	1,111	62,450	-
Special assessments	252,312	-	252,312	-
Accrued interest	40,808	-	40,808	-
Due from other governments	1,028,645	-	1,028,645	-
Rent receivable	-	-	-	364,000
Materials and supplies inventory	509,452	-	509,452	-
Prepayments	174,399	-	174,399	958
Assets held for sale	-	-	-	134,876
Net pension asset	6,841	-	6,841	-
Capital assets:				
Land and construction in progress	2,438,997	1,943,568	4,382,565	-
Depreciable capital assets, net	54,362,145	-	54,362,145	-
Total capital assets, net	56,801,142	1,943,568	58,744,710	-
Total assets	92,048,303	2,212,668	94,260,971	717,453
<b>Deferred outflows of resources:</b>				
Pension - OPERS	1,762,493	-	1,762,493	-
Pension - OP&F	2,108,978	-	2,108,978	-
Total deferred outflows of resources	3,871,471	-	3,871,471	-
Total assets and deferred outflows of resources	95,919,774	2,212,668	98,132,442	717,453
<b>Liabilities:</b>				
Accounts payable	214,236	8,817	223,053	5,287
Contracts payable	1,606,777	29,771	1,636,548	-
Accrued wages and benefits payable	277,527	-	277,527	-
Compensated absences payable	182,549	-	182,549	-
Due to other governments	227,263	-	227,263	-
Accrued interest payable	35,354	-	35,354	-
Long-term liabilities:				
Due within one year	1,366,454	-	1,366,454	-
Due in more than one year:				
Net pension liability	13,110,833	-	13,110,833	-
Other amounts	13,745,371	-	13,745,371	-
Total liabilities	30,766,364	38,588	30,804,952	5,287
<b>Deferred inflows of resources:</b>				
Property taxes levied for the next fiscal year	771,095	-	771,095	-
Pension - OPERS	86,490	-	86,490	-
Pension - OP&F	24,698	-	24,698	-
Total deferred inflows of resources	882,283	-	882,283	-
Total liabilities and deferred inflows of resources	31,648,647	38,588	31,687,235	5,287
<b>Net position:</b>				
Net investment in capital assets	53,985,257	1,943,568	55,928,825	-
Restricted for:				
Debt service	3,979	-	3,979	-
Capital projects	13,164,181	-	13,164,181	-
Other purposes	972,415	-	972,415	-
Unrestricted	(3,854,705)	230,512	(3,624,193)	712,166
Total net position	\$ 64,271,127	\$ 2,174,080	\$ 66,445,207	\$ 712,166

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FAIRLAWN, OHIO

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2016

	Program Revenues				Net (Expense) Revenues and Changes in Net Position			Component Unit Community Improvement Corporation of Fairlawn
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	
					Governmental Activities	Business-type Activities		
<b>Governmental activities:</b>								
Current:								
General government	\$ 2,756,698	\$ 337,380	\$ -	\$ -	\$ (2,419,318)	\$ -	\$ (2,419,318)	\$ -
Security of persons and property	7,858,230	444,709	19,294	33,723	(7,360,504)	-	(7,360,504)	-
Public health and welfare	117,194	-	-	-	(117,194)	-	(117,194)	-
Transportation	5,904,619	1,215	314,859	254,914	(5,333,631)	-	(5,333,631)	-
Community environment	454,233	93,279	-	50,704	(310,250)	-	(310,250)	-
Leisure time activity	530,030	10,544	-	194,000	(325,486)	-	(325,486)	-
Utility services	1,254,087	144,596	-	495,160	(614,331)	-	(614,331)	-
Interest and fiscal charges	264,261	-	-	-	(264,261)	-	(264,261)	-
Total governmental activities	<u>\$ 19,139,352</u>	<u>\$ 1,031,723</u>	<u>\$ 334,153</u>	<u>\$ 1,028,501</u>	<u>(16,744,975)</u>	<u>-</u>	<u>(16,744,975)</u>	<u>-</u>
<b>Business-type activities:</b>								
Broadband	217,113	9,796	-	-	-	(207,317)	(207,317)	-
Total primary government	<u>\$ 19,356,465</u>	<u>\$ 1,041,519</u>	<u>\$ 334,153</u>	<u>\$ 1,028,501</u>	<u>(16,744,975)</u>	<u>(207,317)</u>	<u>(16,952,292)</u>	<u>-</u>
<b>Component Unit:</b>								
Community Improvement Corporation of Fairlawn	<u>\$ 443,592</u>	<u>\$ -</u>	<u>\$ 193,121</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(250,471)</u>
<b>General revenues:</b>								
Property taxes levied for:								
General purposes					947,962	-	947,962	-
Police and fire pension					174,978	-	174,978	-
Income taxes levied for:								
General purposes					8,689,840	-	8,689,840	-
Capital outlay					2,632,163	-	2,632,163	-
Grants and entitlements not restricted to specific programs					289,927	-	289,927	-
JEDD revenues					3,292,912	-	3,292,912	-
Investment earnings					69,695	-	69,695	-
Miscellaneous					193,839	-	193,839	-
Total general revenues					<u>16,291,316</u>	<u>-</u>	<u>16,291,316</u>	<u>-</u>
Transfers					<u>(2,381,397)</u>	<u>2,381,397</u>	<u>-</u>	<u>-</u>
Total general revenues and transfers					<u>13,909,919</u>	<u>2,381,397</u>	<u>16,291,316</u>	<u>-</u>
Change in net position					<u>(2,835,056)</u>	<u>2,174,080</u>	<u>(660,976)</u>	<u>(250,471)</u>
<b>Net position at beginning of year</b>					<u>67,106,183</u>	<u>-</u>	<u>67,106,183</u>	<u>962,637</u>
<b>Net position at end of year</b>					<u>\$ 64,271,127</u>	<u>\$ 2,174,080</u>	<u>\$ 66,445,207</u>	<u>\$ 712,166</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FAIRLAWN, OHIO

BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2016

	<u>General</u>	<u>Capital Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>				
Equity in pooled cash and cash equivalents	\$14,864,386	\$ 3,452,061	\$ 1,005,817	\$ 19,322,264
Cash and cash equivalents in segregated accounts	17,817	-	-	17,817
Cash and cash equivalents with fiscal agent	-	10,338,812	-	10,338,812
<b>Receivables:</b>				
Income taxes	2,007,714	669,238	-	2,676,952
Real and other taxes	639,810	-	177,710	817,520
Accounts	60,112	-	1,227	61,339
Special assessments	-	197,629	54,683	252,312
Accrued interest	40,137	-	671	40,808
Due from other funds	78,576	-	25	78,601
Due from other governments	644,039	146,225	238,381	1,028,645
Materials and supplies inventory	509,452	-	-	509,452
Prepayments	174,399	-	-	174,399
<b>Total assets</b>	<u>\$19,036,442</u>	<u>\$ 14,803,965</u>	<u>\$ 1,478,514</u>	<u>\$ 35,318,921</u>
<b>Liabilities:</b>				
Accounts payable	\$ 202,538	\$ 5,000	\$ 6,698	\$ 214,236
Contracts payable	7,347	1,599,430	-	1,606,777
Accrued wages and benefits payable	277,527	-	-	277,527
Compensated absences payable	182,549	-	-	182,549
Due to other funds	25	-	78,576	78,601
Due to other governments	191,999	-	35,264	227,263
<b>Total liabilities</b>	<u>861,985</u>	<u>1,604,430</u>	<u>120,538</u>	<u>2,586,953</u>
<b>Deferred inflows of resources:</b>				
Property taxes levied for the next fiscal year	599,741	-	171,354	771,095
Delinquent property tax revenue not available	22,182	-	6,356	28,538
Accrued interest not available	40,137	-	671	40,808
Special assessments revenue not available	-	197,629	54,683	252,312
Miscellaneous revenue not available	15,957	-	1,090	17,047
Income tax revenue not available	864,224	288,075	-	1,152,299
Intergovernmental revenue not available	118,154	146,225	214,283	478,662
JEDD revenues not available	508,049	-	-	508,049
<b>Total deferred inflows of resources</b>	<u>2,168,444</u>	<u>631,929</u>	<u>448,437</u>	<u>3,248,810</u>
<b>Total liabilities and deferred inflows of resources</b>	<u>3,030,429</u>	<u>2,236,359</u>	<u>568,975</u>	<u>5,835,763</u>
<b>Fund balances:</b>				
Nonspendable	702,282	-	-	702,282
Restricted	-	12,567,606	971,902	13,539,508
Committed	5,000	-	-	5,000
Assigned	2,114,056	-	-	2,114,056
Unassigned	13,184,675	-	(62,363)	13,122,312
<b>Total fund balances</b>	<u>16,006,013</u>	<u>12,567,606</u>	<u>909,539</u>	<u>29,483,158</u>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<u>\$19,036,442</u>	<u>\$ 14,803,965</u>	<u>\$ 1,478,514</u>	<u>\$ 35,318,921</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FAIRLAWN, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET POSITION OF GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2016

<b>Total governmental fund balances</b>		<b>\$ 29,483,158</b>
<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.		56,801,142
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds.		
Income taxes receivable	\$ 1,152,299	
Real and other taxes receivable	28,538	
Accounts receivable	17,047	
Special assessments receivable	252,312	
Accrued interest receivable	40,808	
Due from other governments	<u>986,711</u>	
Total		2,477,715
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.		(35,354)
Unamortized premiums on bond and capital lease issuances are not recognized in the funds.		(743,483)
The net pension asset is not available to pay for current period expenditures; therefore, the asset is not reported in the governmental funds.		6,841
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	1,762,493	
Deferred outflows - OP&F	2,108,978	
Deferred inflows - OPERS	(86,490)	
Deferred inflows - OP&F	(24,698)	
Net pension liability - OPERS	(4,315,072)	
Net pension liability - OP&F	<u>(8,795,761)</u>	
Total		(9,350,550)
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	(1,488,342)	
Capital lease payable	(10,175,000)	
General obligation bonds payable	<u>(2,705,000)</u>	
Total		<u>(14,368,342)</u>
<b>Net position of governmental activities</b>		<b><u>\$ 64,271,127</u></b>

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, 2016

	<u>General</u>	<u>Capital Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
Income taxes	\$ 9,006,996	\$ 2,737,881	\$ -	\$ 11,744,877
Real and other taxes	931,625	-	170,292	1,101,917
Charges for services	480,418	-	130,713	611,131
Licenses and permits	198,688	-	-	198,688
Fines and forfeitures	162,013	-	1,200	163,213
Intergovernmental	294,593	204,345	329,301	828,239
Special assessments	-	41,760	36	41,796
Investment income	44,961	10,619	735	56,315
Rental income	71,032	-	-	71,032
Contributions and donations	27,300	-	-	27,300
JEDD revenues	3,344,739	-	-	3,344,739
Other	162,350	4,440	5,007	171,797
Total revenues	<u>14,724,715</u>	<u>2,999,045</u>	<u>637,284</u>	<u>18,361,044</u>
<b>Expenditures:</b>				
Current:				
General government	2,727,150	-	-	2,727,150
Security of persons and property	6,187,321	-	624,862	6,812,183
Public health and welfare	117,194	-	-	117,194
Transportation	2,344,510	-	366,806	2,711,316
Community environment	416,317	-	-	416,317
Leisure time activity	412,051	-	-	412,051
Utility services	239,363	-	106,307	345,670
Capital outlay	-	4,199,008	-	4,199,008
Debt service:				
Principal retirement	-	605,770	14,230	620,000
Interest and fiscal charges	-	265,230	-	265,230
Lease issuance costs	-	313,428	-	313,428
Total expenditures	<u>12,443,906</u>	<u>5,383,436</u>	<u>1,112,205</u>	<u>18,939,547</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,280,809</u>	<u>(2,384,391)</u>	<u>(474,921)</u>	<u>(578,503)</u>
<b>Other financing sources (uses):</b>				
Sale of capital assets	5,114	-	-	5,114
Inception of capital lease	-	10,175,000	-	10,175,000
Transfers in	-	-	454,300	454,300
Transfers (out)	(892,129)	-	-	(892,129)
Premium on capital lease	-	644,899	-	644,899
Total other financing sources (uses)	<u>(887,015)</u>	<u>10,819,899</u>	<u>454,300</u>	<u>10,387,184</u>
Net change in fund balances	1,393,794	8,435,508	(20,621)	9,808,681
<b>Fund balances at beginning of year</b>	14,572,888	4,132,098	930,160	19,635,146
<b>Decrease in reserve for inventory</b>	<u>39,331</u>	<u>-</u>	<u>-</u>	<u>39,331</u>
<b>Fund balances at end of year</b>	<u>\$ 16,006,013</u>	<u>\$ 12,567,606</u>	<u>\$ 909,539</u>	<u>\$ 29,483,158</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, 2016

**Net change in fund balances - total governmental funds** \$ 9,808,681

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

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

Capital asset additions	\$ 385,899	
Current year depreciation	<u>(2,262,966)</u>	
Total		(1,877,067)

The net effect of various transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net position. 506,014

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

Income taxes	(422,874)	
Real and other taxes	21,023	
Charges for services	9,572	
Licenses and permits	(24,841)	
Intergovernmental revenues	224,987	
Special assessments	17,337	
Investment income	13,380	
JEDD revenues	(51,827)	
Other	<u>(1,268)</u>	
Total		(214,511)

Governmental funds report expenditures for inventory when purchased. However, in the Statement of Activities, they are reported as an expense when consumed. 39,331

Proceeds of bonds, loans and capital leases are reported as an other financing source in the governmental funds, however, in the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net position. (10,175,000)

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. 620,000

Premiums on bonds and capital leases are recognized as other financing sources in the governmental funds, however, they are amortized over the life of the issuance in the statement of activities. (644,899)

In the Statement of Activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.

Decrease in accrued interest payable		
Accrued interest on bonds	(29,812)	
Amortization of premium on bonds	18,480	
Amortization of premium on capital lease	<u>12,301</u>	
Total		969

Contractually required pension contributions are reported as expenditures in governmental funds; however, the Statement of Activities reports these amounts as deferred outflows. 996,519

Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the Statement of Activities. (1,867,406)

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. (27,687)

**Change in net position of governmental activities** \$ (2,835,056)

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, 2016

	<u>Budgeted Amounts</u>			<b>Variance with</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<b>Final Budget Positive (Negative)</b>
<b>Revenues:</b>				
Income taxes	\$ 7,607,779	\$ 8,707,779	\$ 8,934,230	\$ 226,451
Real and other taxes	968,611	935,891	937,930	2,039
Charges for services	469,725	472,145	481,898	9,753
Licenses and permits	189,250	188,284	197,846	9,562
Fines and forfeitures	141,000	151,445	162,453	11,008
Intergovernmental	297,676	283,249	297,847	14,598
Investment income	18,310	40,310	44,961	4,651
Rental income	74,200	68,200	71,032	2,832
Contributions and donations	26,000	27,300	27,300	-
JEDD revenues	3,552,740	3,344,738	3,344,739	1
Other	57,355	136,302	154,415	18,113
<b>Total revenues</b>	<u>13,402,646</u>	<u>14,355,643</u>	<u>14,654,651</u>	<u>299,008</u>
<b>Expenditures:</b>				
Current:				
General government	3,675,865	3,724,765	3,411,447	313,318
Security of persons and property	6,692,687	6,618,227	6,301,467	316,760
Public health and welfare	123,500	117,500	117,194	306
Transportation	2,635,620	2,656,620	2,394,505	262,115
Community environment	796,745	792,245	462,584	329,661
Leisure time activity	456,315	452,315	431,484	20,831
Utility services	344,887	299,087	260,553	38,534
<b>Total expenditures</b>	<u>14,725,619</u>	<u>14,660,759</u>	<u>13,379,234</u>	<u>1,281,525</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,322,973)</u>	<u>(305,116)</u>	<u>1,275,417</u>	<u>1,580,533</u>
<b>Other financing sources (uses):</b>				
Sale of capital assets	-	5,513	5,513	-
Advances in	-	-	-	-
Advances (out)	-	(78,576)	(78,576)	-
Transfers (out)	(834,775)	(892,129)	(892,129)	-
<b>Total other financing sources (uses)</b>	<u>(834,775)</u>	<u>(965,192)</u>	<u>(965,192)</u>	<u>-</u>
Net change in fund balances	(2,157,748)	(1,270,308)	310,225	1,580,533
<b>Fund balances at beginning of year</b>	12,670,456	12,670,456	12,670,456	-
<b>Prior year encumbrances appropriated</b>	940,618	940,618	940,618	-
<b>Fund balance at end of year</b>	<u>\$11,453,326</u>	<u>\$12,340,766</u>	<u>\$13,921,299</u>	<u>\$ 1,580,533</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FAIRLAWN, OHIO**

STATEMENT OF NET POSITION  
 PROPRIETARY FUND  
 DECEMBER 31, 2016

	<b>Business-type Activities - Enterprise Fund</b>
	<b>Broadband</b>
<b>Assets:</b>	
Current assets:	
Equity in pooled cash and cash equivalents	\$ 267,989
Receivables:	
Accounts	1,111
Total current assets	269,100
Noncurrent assets:	
Capital assets:	
Land and construction in progress	1,943,568
Total assets	2,212,668
<b>Liabilities:</b>	
Current liabilities:	
Accounts payable	8,817
Contracts payable	29,771
Total liabilities	38,588
<b>Net position:</b>	
Net investment in capital assets	1,943,568
Unrestricted	230,512
Total net position	\$ 2,174,080

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FAIRLAWN, OHIO**

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION  
PROPRIETARY FUND  
FOR THE YEAR ENDED DECEMBER 31, 2016

	<b>Business-type Activities -</b>	
	<b>Enterprise Fund</b>	
	<b>Broadband</b>	
<b>Operating revenues:</b>		
Charges for services	\$	9,796
Total operating revenues		<u>9,796</u>
<b>Operating expenses:</b>		
Contract services		<u>217,113</u>
Total operating expenses		<u>217,113</u>
Operating loss		<u>(207,317)</u>
Transfer in		437,829
Capital contributions		<u>1,943,568</u>
Change in net position		2,174,080
<b>Net position at beginning of year</b>		<u>-</u>
<b>Net position at end of year</b>	\$	<u><u>2,174,080</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FAIRLAWN, OHIO

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUND  
 FOR THE YEAR ENDED DECEMBER 31, 2016

	<b>Business-type Activities - Enterprise Fund</b>
	<b>Broadband</b>
<b>Cash flows from operating activities:</b>	
Cash received from sales/charges for services	\$ 8,685
Cash payments for contractual services	<u>(178,525)</u>
Net cash used in operating activities	<u>(169,840)</u>
<b>Cash flows from noncapital financing activities:</b>	
Cash received from transfers in	<u>437,829</u>
Net cash provided by financing activities	<u>437,829</u>
Net increase in cash and cash equivalents	267,989
<b>Cash and cash equivalents at beginning of year</b>	<u>-</u>
<b>Cash and cash equivalents at end of year</b>	<u><u>\$ 267,989</u></u>
<b>Reconciliation of operating income (loss) to net cash used in operating activities:</b>	
Operating loss	\$ (207,317)
Changes in assets and liabilities:	
Increase in accounts receivable	(1,111)
Increase in accounts payable	<u>38,588</u>
Net cash used in operating activities	<u><u>\$ (169,840)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FAIRLAWN, OHIO

STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
DECEMBER 31, 2016

	<u>Agency</u>
<b>Assets:</b>	
Current assets:	
Equity in pooled cash and cash equivalents	\$ 62,766
Total assets	<u>\$ 62,766</u>
<b>Liabilities:</b>	
Undistributed monies	\$ 62,766
Total liabilities	<u>\$ 62,766</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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## CITY OF FAIRLAWN, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

#### NOTE 1 - DESCRIPTION OF THE CITY

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

#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

##### A. Reporting Entity

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

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

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

The Copley/Fairlawn City School District and the 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.

## CITY OF FAIRLAWN, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

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

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 2016 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 statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The Statement of Net Position presents the financial condition of the governmental and business-type 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 and for the business-type activities of the City. 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 and enterprise 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.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the City's proprietary fund are charges for services. Operating expenses for the enterprise funds include contract services related to broadband operations. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

## CITY OF FAIRLAWN, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

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

##### 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 three categories of funds: governmental, proprietary, and fiduciary. The following categories are used by the City:

**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) specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects and (b) financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

**Proprietary Funds** - Proprietary fund reporting focuses on changes in net position, financial position, and cash flows. Proprietary funds are classified as either enterprise or internal service. The City's only proprietary fund is an enterprise fund.

Enterprise Funds - Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following is the City's only enterprise fund:

Broadband Fund - The broadband fund accounts for the activities of FairlawnGig, the City's municipal broadband utility, which provides wireless and fiber optic broadband internet services to the residents and commercial users located within the City and JEDD.

**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.

## CITY OF FAIRLAWN, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

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

##### **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 non-fiduciary 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. The Statement of Activities presents increases (e.g. revenues) and decreases (e.g. expenses) in total 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.

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the Statement of Net Position. The Statement of Changes in Fund Net Position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

The agency funds do not report on a measurement focus as they do not report operations.

##### **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. Proprietary and fiduciary 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 inflows of resources and deferred outflows resources, and in the presentation of expenses versus expenditures.

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

## CITY OF FAIRLAWN, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

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

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

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

*Deferred 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 represent 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; (3) differences between employer's contributions and the employer's proportional share of contributions; and (4) differences between expected and actual experience.

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, 2016, but which were levied to finance 2017 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.

## CITY OF FAIRLAWN, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

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

##### 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. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control established by Council separately identifies the amounts appropriated for personal services, interfund transactions, capital purchases, and other object level items within each fund. Budgetary modifications may only be made by an ordinance of Council at the legal level of control.

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

**Estimated Resources** - The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include encumbered cash balances at December 31 of the preceding year. The certificate may be further amended during the year if the City Finance Director determines, and the Budget Commission agrees, that an estimate needs to be either increased or decreased. The amounts reported on the budgetary statement reflect the amounts in the original and final amended official certificate of estimated resources issued during 2016.

**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 for each department, separately identifying the amount appropriated for personal services, interfund transactions, capital purchases, and other object level items. 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.

**Encumbrances** - As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. The Ohio Revised Code prohibits expenditures plus encumbrances from exceeding appropriations at the legal level of budgetary control. On the GAAP basis, encumbrances outstanding at year end are reported as assigned, committed, or restricted fund balances for subsequent-year expenditures for governmental funds.

## CITY OF FAIRLAWN, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

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

*Lapsing of Appropriations* - At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. Encumbrances are carried forward and are not re-appropriated 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 2016, the City invested in certificates of deposit and STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The City measures its investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For 2016, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

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 2016, interest revenue credited to the general fund amounted to \$44,961, which includes \$22,478 assigned from other City funds.

The City has a segregated bank account for monies held separate from the City's central bank account. This noninterest bearing depository account is presented in the financial statements as "cash and cash equivalents in segregated accounts" since it is not required to be deposited into the City treasury.

The City utilizes a financial institution to hold the unspent proceeds of the City's lease agreement with the Development Finance Authority of Summit County. The balance in this account is presented on the financial statements as "cash and cash equivalents with fiscal agent" and represents deposits or short-term investments.

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.

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016

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

**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 nonspendable fund balance 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**

General capital assets are those assets not specifically related to activities reported in the proprietary funds. 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 fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

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 acquisition 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. Interest incurred during the construction of capital assets is also capitalized for business-type activities.

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

**J. Compensated Absences**

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



## CITY OF FAIRLAWN, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

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

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, 2001.

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 \$182,549 in 2016.

#### **K. Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund 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. Bonds and capital leases are recognized as a liability on the governmental fund financial statements when due.

#### **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 and business-type activities columns of the Statement of Net Position, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

#### **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 the governmental funds and after nonoperating revenues/expenses in the proprietary 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, 2016

#### 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, 2016

#### 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, 2016 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.

##### **S. Fair Value Measurements**

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

##### **T. Contributions of Capital**

Voluntary contributions of capital assets from governmental funds to proprietary funds are reported as capital contributions in the proprietary funds and presented after nonoperating revenues/expenses. During 2016, the City’s proprietary fund reported \$1,943,568 in capital contributions from the governmental funds.

## CITY OF FAIRLAWN, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

#### NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

##### A. Change in Accounting Principles

For 2016, the City has implemented GASB Statement No. 72, "Fair Value Measurement and Application", GASB Statement No. 73 "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68", GASB Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", GASB Statement No. 77, "Tax Abatement Disclosures", GASB Statement No. 78, "Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans" and GASB Statement No. 79, "Certain External Investment Pools and Pool Participants."

GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurement. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The implementation of GASB Statement No. 72 did not have an effect on the financial statements of the City.

GASB Statement No. 73 improves the usefulness of information about pensions included in the general purposes external financial reports of state and local governments for making decisions and assessing accountability. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the City.

GASB Statement No. 76 identifies - in the context of the current governmental financial reporting environment - the hierarchy of generally accepted accounting principles (GAAP). This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the City.

GASB Statement No. 77 requires governments that enter into tax abatement agreements to disclose certain information about the agreement. GASB Statement No. 77 also requires disclosures related to tax abatement agreements that have been entered into by other governments that reduce the reporting government's tax revenues. The implementation of GASB Statement No. 77 did not have an effect on the financial statements of the City.

GASB Statement No. 78 establishes accounting and financial reporting standards for defined benefit pensions provided to the employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan (cost-sharing pension plan) that meets the criteria in paragraph 4 of Statement 68 and that (a) is not a state or local governmental pension plan, (b) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (c) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). The implementation of GASB Statement No. 78 did not have an effect on the financial statements of the City.

GASB Statement No. 79 establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure for financial reporting purposes all of their investments at amortized cost. This Statement provides accounting and financial reporting guidance and also establishes additional note disclosure requirements for governments that participate in those pools. The City participates in STAR Ohio which implemented GASB Statement No. 79 for 2016. The City incorporated the corresponding GASB 79 guidance into its 2016 financial statements; however, there was no effect on beginning net position/fund balance.

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)**

**B. Deficit Fund Balances**

Fund balances at December 31, 2016 included the following individual fund deficits:

<u>Nonmajor governmental funds</u>	<u>Deficit</u>
Permissive tax	\$ 62,363

The general fund is liable for any deficit in this fund and provides transfers when cash is required, not when accruals occur. The deficit fund balance resulted from adjustments for accrued liabilities and deferred inflows.

**NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS**

State statutes classify monies held by the City into three categories:

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the City Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that Council has identified as not required for use within the current five-year period of designation of depositories. Inactive deposits must be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including, but not limited to, passbook accounts. Interim monies may be deposited or invested in the following:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

## CITY OF FAIRLAWN, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

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

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."

#### **B. Cash in Segregated Accounts**

At December 31, 2016, the City had \$17,817 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. Cash with Fiscal Agent**

The City had \$10,338,812 in unspent lease proceeds in bank accounts outside of the City Treasury at year-end. These amounts are included on the financial statements as "cash and cash equivalents with fiscal agent" and represent uncollateralized deposits exposed to custodial credit risk, as discussed below.

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016

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

**D. Deposits with Financial Institutions**

At December 31, 2016, the carrying amount of the City's deposits was \$19,669,536. As of December 31, 2016, \$13,490,035 of the City's bank balance of \$20,077,849 was exposed to custodial credit risk as discussed below, while \$6,587,814 was covered by the 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.

**E. Investments**

The City had no investments at December 31, 2016.

**F. 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, 2016:

<u>Cash and Investments per Footnote</u>	
Carrying amount of deposits	\$ 19,669,536
Cash with fiscal agent	10,338,812
Investments	-
Cash on hand	1,300
Total	<u>\$ 30,009,648</u>
 <u>Cash and Investments per Statement of Net Position</u>	
Governmental activities	\$ 29,678,893
Business-type activities	267,989
Agency funds	62,766
Total	<u>\$ 30,009,648</u>

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016

**NOTE 5 - INTERFUND TRANSACTIONS**

A. Interfund transfers for the year ended December 31, 2016 consisted of the following:

Transfers to	Transfers from General
Governmental:	
Nonmajor governmental	\$ 454,300
Business-type:	
Broadband	437,829
Total	\$ 892,129

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, 2016:

Due to other funds	Due from other funds		
	General	Nonmajor Governmental	Total
Governmental:			
General	\$ -	\$ 25	\$ 25
Nonmajor governmental	78,576	-	78,576
Total	\$ 78,576	\$ 25	\$ 78,601

Amounts due from/to other funds represent: (1) Mayor’s Court fines collected by the court and due to the DUI enforcement and education fund and (2) an advance from the general fund to the permissive tax fund in anticipation of intergovernmental revenue. Amounts due from/to other funds between governmental funds are eliminated on the government-wide financial statements.

**NOTE 6 - PROPERTY TAXES**

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



**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016

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

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. 2016 public utility property taxes became a lien December 31, 2015, are levied after October 1, 2016, and are collected in 2017 with real property taxes. Public utility property taxes are payable on the same dates as real property taxes described previously.

The Fiscal Officer collects property taxes on behalf of all taxing districts in the County, including the City of Fairlawn. The Fiscal Officer periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real property taxes, public utility taxes, delinquent tangible personal property taxes and other outstanding delinquencies which are measurable as of December 31, 2016 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 2016 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, 2016 was \$2.70 per \$1,000 of assessed value. The assessed values of real and public utility property upon which 2016 property tax receipts were based are as follows:

<u>Real property</u>	
Residential/agricultural	\$ 156,048,780
Commercial/industrial/mineral	150,809,870
<u>Public utility</u>	
Personal	<u>3,770,990</u>
Total assessed value	<u><u>\$ 310,629,640</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, 2016

**NOTE 8 - RECEIVABLES**

Receivables at December 31, 2016, 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, 2016.

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

	Governmental Activities	Business-Type Activities
Income taxes	\$ 2,676,952	\$ -
Real and other taxes	817,520	-
Accounts	61,339	1,111
Special assessments	252,312	-
Accrued interest	40,808	-
Due from other governments	1,028,645	-
Total	\$ 4,877,576	\$ 1,111

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

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016

**NOTE 9 - CAPITAL ASSETS**

Capital assets of the governmental activities for the year ended December 31, 2016 was as follows:

	Balance 12/31/15	Additions	Disposals	Balance 12/31/16
<b>Governmental Activities:</b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 2,394,997	\$ 44,000	\$ -	\$ 2,438,997
Construction in progress	319,340	-	(319,340)	-
Total capital assets, not being depreciated	<u>2,714,337</u>	<u>44,000</u>	<u>(319,340)</u>	<u>2,438,997</u>
<i>Capital assets, being depreciated:</i>				
Buildings and improvements	14,054,581	30,230	-	14,084,811
Land improvements	3,200,798	27,920	(9,000)	3,219,718
Licensed vehicles	3,484,452	347,596	(97,306)	3,734,742
Machinery and equipment	4,004,989	235,581	(233,252)	4,007,318
Infrastructure	78,565,383	559,072	(69,124)	79,055,331
Total capital assets, being depreciated	<u>103,310,203</u>	<u>1,200,399</u>	<u>(408,682)</u>	<u>104,101,920</u>
<i>Less: accumulated depreciation:</i>				
Buildings and improvements	(4,673,773)	(274,771)	-	(4,948,544)
Land improvements	(1,180,797)	(97,834)	8,550	(1,270,081)
Licensed vehicles	(2,212,068)	(224,425)	88,306	(2,348,187)
Machinery and equipment	(2,567,995)	(174,276)	227,362	(2,514,909)
Infrastructure	(37,217,712)	(1,491,660)	51,318	(38,658,054)
Total accumulated depreciation	<u>(47,852,345)</u>	<u>(2,262,966)</u>	<u>375,536</u>	<u>(49,739,775)</u>
Total capital assets, being depreciated, net	<u>55,457,858</u>	<u>(1,062,567)</u>	<u>(33,146)</u>	<u>54,362,145</u>
Governmental activities capital assets, net	<u>\$ 58,172,195</u>	<u>\$ (1,018,567)</u>	<u>\$ (352,486)</u>	<u>\$ 56,801,142</u>

Depreciation expense was charged to governmental activities as follows:

<b>Governmental activities:</b>	
General government	\$ 44,632
Security of persons and property	334,764
Transportation	1,202,429
Community environment	2,147
Leisure time activity	98,274
Utility services	580,720
Total depreciation expense	<u>\$ 2,262,966</u>

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016

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

Capital assets of the business-type activities for the year ended December 31, 2016 was as follows:

	Balance 12/31/15	Additions	Disposals	Balance 12/31/16
<b>Business-Type Activities:</b>				
<i>Capital assets, not being depreciated:</i>				
Construction in progress	\$ -	\$ 1,943,568	\$ -	\$ 1,943,568

Assets valued at \$593,160 were donated to the City by the CIC and reported as capital assets of the City.

**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:

	Maturity Date	Interest Rate	Original Issue Amount
<u>General obligation bonds</u>			
2012 Various Purpose Refunding	2022	1.25 - 2.00%	\$ 4,500,000
<u>Capital lease obligation</u>			
2016 FairlawnGig Project	2046	1.00 - 4.00%	10,175,000

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

During 2016, the following changes occurred in governmental activities long-term obligations:

	Balance 12/31/15	Additions	Reductions	Balance 12/31/16	Due in One Year
<b>Governmental Activities:</b>					
<u>General obligation bonds</u>					
2012 Various purpose refunding	\$ 3,325,000	\$ -	\$ (620,000)	\$ 2,705,000	\$ 635,000
Add: Unamortized premium	129,365	-	(18,480)	110,885	-
Total general obligation bonds	3,454,365	-	(638,480)	2,815,885	635,000
<u>Net pension liability</u>					
OPERS	2,850,886	1,464,186	-	4,315,072	-
OP&F	7,002,572	1,793,189	-	8,795,761	-
Total net pension liability	9,853,458	3,257,375	-	13,110,833	-
<u>Other long-term obligations</u>					
Capital Lease	-	10,175,000	-	10,175,000	215,000
Add: Unamortized premium	-	644,899	(12,301)	632,598	-
Compensated absences	1,460,655	86,293	(58,606)	1,488,342	516,454
Total other obligations	1,460,655	10,906,192	(70,907)	12,295,940	731,454
Total long-term obligations	\$ 14,768,478	\$ 14,163,567	\$ (709,387)	\$ 28,222,658	\$ 1,366,454

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016

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

The general obligation bonds and capital lease will be paid from income taxes received 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.

**C. Debt Service Requirements**

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2016 are as follows:

Year	General Obligation Bonds		
	Principal	Interest	Total
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	360,000	14,500	374,500
2022	365,000	7,300	372,300
Total	\$ 2,705,000	\$ 167,500	\$ 2,872,500

**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, 2016, there was one series of Health Care Facilities Revenue Bonds with an aggregate outstanding principal amount payable of \$8,340,000 and an original issue amount of \$10,000,000.

**E. Capital Lease Obligations**

During 2016, the City entered into a lease agreement with the Development Finance Authority of Summit County for the acquisition, construction, improvement and equipping of a municipal broadband utility to provide wireless and fiber optic high speed broadband internet services to the City.

Upon completion of the project, the general capital assets acquired by the agreement will be capitalized in the amount equal to the present value of the future minimum lease payments as of the date of their inception. For the City, a liability was recorded in the government-wide financial statements, as the capital improvement fund will be making the principal and interest payments. The City made \$198,730 in payments of interest and fees in fiscal year 2016.

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016

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

Capital assets consisting of construction in progress have been capitalized in the broadband fund, an enterprise fund of the City, in the amount of \$1,579,681. The remaining lease proceeds, issuance premium, and accumulated interest of \$10,338,812 were unspent as of December 31, 2016 and are held by a Trustee and included on the Statement of Net Position as cash with fiscal agent.

The following is a schedule of the future minimum lease payments required under the lease purchase agreement and the present value of the minimum lease payments as of December 31, 2016:

Year Ending December 31,	Governmental Activities
2017	\$ 586,650
2018	584,500
2019	587,350
2020	582,950
2021	583,550
2022-2026	2,931,250
2027-2031	2,925,000
2032-2036	2,920,600
2037-2041	2,919,800
2042-2046	2,927,000
Total minimum lease payments	17,548,650
Less: amount representing interest and fees	(7,373,650)
Present value of future minimum lease payments	\$ 10,175,000

**NOTE 11 - OTHER EMPLOYEE BENEFITS**

**A. Compensated Absences**

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

Employees earn sick leave at the rate of 1.25 days per month of service. Upon retirement, employees hired before 2001 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 2001 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, 2016, the total liability for unpaid compensated absences was \$1,488,342.

## CITY OF FAIRLAWN, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

#### NOTE 11 - OTHER EMPLOYEE BENEFITS – (Continued)

##### **B. Health Care Benefits**

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

#### 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 2016, 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.

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.

## CITY OF FAIRLAWN, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

#### NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

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, 2016

**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 CAFR referenced above for additional information):

<b>Group A</b>	<b>Group B</b>	<b>Group C</b>
Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Members not in other Groups and members hired on or after January 7, 2013
<b>State and Local</b>	<b>State and Local</b>	<b>State and Local</b>
<b>Age and Service Requirements:</b> Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	<b>Age and Service Requirements:</b> Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	<b>Age and Service Requirements:</b> Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
<b>Formula:</b> 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	<b>Formula:</b> 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	<b>Formula:</b> 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, 2016

**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
<b>2016 Statutory Maximum Contribution Rates</b>	
Employer	14.0 %
Employee	10.0 %
 <b>2016 Actual Contribution Rates</b>	
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 the Traditional Pension Plan, the Combined Plan and Member-Directed Plan was \$389,339 for 2016. Of this amount, \$18,436 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](http://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, 2016

**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 OPF 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>
<b>2016 Statutory Maximum Contribution Rates</b>		
Employer	19.50 %	24.00 %
Employee	12.25 %	12.25 %
 <b>2016 Actual Contribution Rates</b>		
Employer:		
Pension	19.00 %	23.50 %
Post-employment Health Care Benefits	<u>0.50 %</u>	<u>0.50 %</u>
 Total Employer	<u>19.50 %</u>	<u>24.00 %</u>
 Employee	12.25 %	12.25 %

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OP&F was \$607,180 for 2016. Of this amount \$26,025 is reported as due to other governments.

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016

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

*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 and Member-Directed Plan, respectively, were measured as of December 31, 2015, 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, 2015, and was determined by rolling forward the total pension liability as of January 1, 2015, to December 31, 2015. 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:

	OPERS	OP&F	Total
Proportion of the net pension liability prior measurement date	0.02363700%	0.13517390%	
Proportion of the net pension liability current measurement date	<u>0.02491200%</u>	<u>0.13672800%</u>	
Change in proportionate share	<u>0.00127500%</u>	<u>0.00155410%</u>	
Proportion of the net pension asset prior measurement date	0.01675400%		
Proportion of the net pension asset current measurement date	<u>0.01773900%</u>		
Change in proportionate share	<u>0.00098500%</u>		
Proportionate share of the net pension liability	\$ 4,315,072	\$ 8,795,761	\$ 13,110,833
Proportionate share of the net pension asset	6,841	-	6,841
Pension expense	658,082	1,209,324	1,867,406

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016

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

At December 31, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>OPERS</u>	<u>OP&amp;F</u>	<u>Total</u>
<b>Deferred outflows of resources</b>			
Differences between expected and actual experience	\$ 98	\$ -	\$ 98
Net difference between projected and actual earnings on pension plan investments	1,271,333	1,431,620	2,702,953
Changes in employer's proportionate percentage/difference between employer contributions	101,723	70,178	171,901
City contributions subsequent to the measurement date	<u>389,339</u>	<u>607,180</u>	<u>996,519</u>
Total deferred outflows of resources	<u>\$ 1,762,493</u>	<u>\$ 2,108,978</u>	<u>\$ 3,871,471</u>
<b>Deferred inflows of resources</b>			
Differences between expected and actual experience	<u>86,490</u>	<u>24,698</u>	<u>111,188</u>
Total deferred inflows of resources	<u>\$ 86,490</u>	<u>\$ 24,698</u>	<u>\$ 111,188</u>

\$996,519 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, 2017.

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

	<u>OPERS</u>	<u>OP&amp;F</u>	<u>Total</u>
Year Ending December 31:			
2017	\$ 324,874	\$ 385,980	\$ 710,854
2018	344,874	385,980	730,854
2019	331,072	385,978	717,050
2020	287,330	309,111	596,441
2021	(379)	8,446	8,067
Thereafter	<u>(1,107)</u>	<u>1,605</u>	<u>498</u>
Total	<u>\$ 1,286,664</u>	<u>\$ 1,477,100</u>	<u>\$ 2,763,764</u>

**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.

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016

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

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, 2015, 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	Pre 1/7/2013 retirees: 3 percent, simple Post 1/7/2013 retirees: 3 percent, simple through 2018, then 2.80% 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.

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 401 (h) Health Care Trust 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 0.40 percent for 2015.

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016

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

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 2015 and the long-term expected real rates of return:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u>
Fixed income	23.00 %	2.31 %
Domestic equities	20.70	5.84
Real estate	10.00	4.25
Private equity	10.00	9.25
International equities	18.30	7.40
Other investments	18.00	4.59
<b>Total</b>	<b>100.00 %</b>	<b>5.27 %</b>

**Discount Rate** - The discount rate used to measure the total pension liability/asset was 8 percent for both the Traditional Pension Plan, the Combined Plan and Member-Directed 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 contractually required rates, as actuarially determined. 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 for the Traditional Pension Plan, Combined Plan and Member-Directed Plan was applied to all periods of projected benefit payments to determine the total pension liability.

**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	\$ 6,874,965	\$ 4,315,072	\$ 2,155,884
Combined Plan	(140)	(6,827)	(12,206)
Member-Directed Plan	37	(14)	(37)

**Changes Between Measurement Date and Report Date** - In October 2016, the OPERS Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of December 31, 2016. The most significant change is a reduction in the discount rate from 8.0 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact to the Government's net pension liability is expected to be significant.

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016

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

*Actuarial Assumptions – OP&F*

OP&F's total pension liability as of December 31, 2015 is based on the results of an actuarial valuation date of January 1, 2015, 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, 2015, are presented below:

Valuation date	January 1, 2015
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 and 3.00 percent simple

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 for the five-year period ended December 31, 2011. The recommended assumption changes based on this experience study were adopted by OPF's Board and were effective beginning with the January 1, 2012 actuarial valuation.

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 expected. 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.



**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016

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

Best estimates of the long-term expected geometric real rates of return for each major asset class included in OPF's target asset allocation as of December 31, 2015 are summarized below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>10 Year Expected Real Rate of Return **</u>	<u>30 Year Expected Real Rate of Return **</u>
Cash and Cash Equivalents	- %		
Domestic Equity	16.00	4.47 %	7.80 %
Non-US Equity	16.00	4.47	8.00
Core Fixed Income *	20.00	1.62	5.35
Global Inflation			
Protected Securities *	20.00	1.33	4.73
High Yield	15.00	3.39	7.21
Real Estate	12.00	3.93	7.43
Private Markets	8.00	6.98	10.73
Timber	5.00	4.92	7.35
Master Limited Partnerships	8.00	7.03	10.75
 Total	 <u>120.00 %</u>		

\* levered 2x

\*\* numbers include inflation

OPF'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, 2016

**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	\$ 11,600,493	\$ 8,795,761	\$ 6,419,964

**NOTE 14 - POSTRETIREMENT BENEFIT PLANS**

**A. Ohio Public Employees Retirement System**

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

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

Disclosures for the healthcare plan are presented separately in the OPERS financial report which may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (800) 222-7377.

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

Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2016, local government employers contributed 14.00% of covered payroll. Each year the OPERS' Retirement Board determines the portion of the employer contribution rate that will be set aside for the funding of the postemployment health care benefits. The portion of employer contributions allocated to fund post-employment healthcare for members in the Traditional Plan and Combined Plan for 2016 was 2.00%.

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

## CITY OF FAIRLAWN, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

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

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2016, 2015, and 2014 were \$65,430, \$63,294, and \$59,156, respectively; 95.95% has been contributed for 2016 and 100% has been contributed for 2015 and 2014. The remaining 2016 post-employment health care benefits liability has been reported as due to other governments on the basic financial statements.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under State Bill 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4.00% of the employer contributions toward the health care fund after the end of the transition period.

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

**Plan Description** - The City contributes to the OP&F Pension Fund sponsored health care program, a cost-sharing multiple-employer defined 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](http://www.op-f.org).

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

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.

## CITY OF FAIRLAWN, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan into the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. The portion of employer contributions allocated to health care was .5% of covered payroll from January 1, 2016 thru December 31, 2016. 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 \$8,607 and \$5,960 for the year ended December 31, 2016, \$8,581 and \$5,781 for the year ended December 31, 2015, and \$8,217 and \$5,388, for the year ended December 31, 2014. 100% has been contributed for 2015 and 2014. 95.67% has been contributed for police and 95.98% has been contributed for firefighters for 2016. The remaining 2016 post-employment health care benefits liability has been reported as due to other governments on the basic financial statements.

#### **NOTE 15 - BUDGETARY BASIS OF ACCOUNTING**

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

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

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016

**NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - (Continued)**

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

<b>Net Change in Fund Balance</b>	
	<u>General</u>
Budget basis	\$ 310,225
Net adjustment for revenue accruals	69,665
Net adjustment for expenditure accruals	215,817
Adjustment for encumbrances	<u>798,087</u>
GAAP basis	<u><u>\$ 1,393,794</u></u>

**NOTE 16 - FUND BALANCE**

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

<u>Fund Balance</u>	<u>General</u>	<u>Capital Improvement</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
Nonspendable:				
Materials & supplies inventory	\$ 509,452	\$ -	\$ -	\$ 509,452
Prepayments	174,399	-	-	174,399
Unclaimed monies	18,431	-	-	18,431
Total nonspendable	<u>702,282</u>	<u>-</u>	<u>-</u>	<u>702,282</u>
Restricted:				
Capital Improvements	-	12,567,606	-	12,567,606
Law enforcement	-	-	85,390	85,390
Police and fire pensions	-	-	195,278	195,278
Sewer maintenance	-	-	378,006	378,006
Streets and highways	-	-	313,228	313,228
Total restricted	<u>-</u>	<u>12,567,606</u>	<u>971,902</u>	<u>13,539,508</u>
Committed:				
Law enforcement	5,000	-	-	5,000
Assigned:				
Encumbrances	620,112	-	-	620,112
Subsequent year operations	1,493,944	-	-	1,493,944
Total assigned	<u>2,114,056</u>	<u>-</u>	<u>-</u>	<u>2,114,056</u>
Unassigned	<u>13,184,675</u>	<u>-</u>	<u>(62,363)</u>	<u>13,122,312</u>
Total fund balances	<u><u>\$ 16,006,013</u></u>	<u><u>\$ 12,567,606</u></u>	<u><u>\$ 909,539</u></u>	<u><u>\$ 29,483,158</u></u>

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016

**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, 2016.

**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**

**A. Contractual Commitments**

As of December 31, 2016, the City had the following significant contractual commitments:

<u>Project</u>	<u>Contracts Awarded</u>	<u>Paid</u>	<u>Remaining</u>
FairlawnGig construction	\$ 10,110,414	\$ 1,444,851	\$ 8,665,563

**B. Encumbrances**

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	\$ 620,112
Capital improvement	9,051,166
Other governmental	<u>73,805</u>
Total	<u>\$ 9,745,083</u>

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

The Community Improvement Corporation of Fairlawn, Ohio (the "CIC") was formed pursuant to Ordinance 2010-030 passed June 21, 2010 and incorporated as a corporation not-for-profit under Title XVII, Chapters 1702 and 1724 of the Ohio Revised Code for the purpose 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, 2016

#### **NOTE 19 - 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 2016.

#### **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.

#### **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.

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016

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

Assets Held for Sale activity for the year ended December 31, 2016 was as follows:

	Balance 12/31/15	Additions	Disposals	Balance 12/30/16
Assets Held for Sale	\$ 137,134	\$ 55,991	\$ (58,249)	\$ 134,876

**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, 2016, the carrying amount of the CIC's deposits was \$217,619. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2016, the CIC's entire bank balance of \$217,619 was covered by the Federal Deposit Insurance 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, 2016

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

The future minimum lease payments as of December 31, 2016, were as follows:

<u>Year Ending December 31</u>	<u>Future Minimum Lease Payments</u>
2017	\$ 13,000
2018	13,000
2019	13,000
2020	13,000
2021	13,000
2022-2026	65,000
2027-2030	<u>234,000</u>
Total	<u>\$ 364,000</u>

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

**Cash**

The CIC received \$91,916 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 did not receive any donated property from the City during the year.

Donations of property to the City are reported as decreases to assets held for sale at the date of donation. The CIC donated a parcel of real property, with a carrying value of \$44,000, to 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 2016, 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.

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**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 THREE YEARS  
(SEE ACCOUNTANT'S COMPILATION REPORT)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<i>Traditional Plan:</i>			
City's proportion of the net pension liability	0.024912%	0.023637%	0.023637%
City's proportionate share of the net pension liability	\$ 4,315,072	\$ 2,850,886	\$ 2,786,494
City's covered-employee payroll	\$ 3,105,650	\$ 2,906,808	\$ 2,887,162
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	138.94%	98.08%	96.51%
Plan fiduciary net position as a percentage of the total pension liability	81.08%	86.45%	86.36%
<i>Combined Plan:</i>			
City's proportion of the net pension asset	0.014030%	0.016754%	0.016754%
City's proportionate share of the net pension asset	\$ 6,827	\$ 6,451	\$ 1,758
City's covered-employee payroll	\$ 59,025	\$ 61,242	\$ 51,038
City's proportionate share of the net pension asset as a percentage of its covered-employee payroll	11.57%	10.53%	3.44%
Plan fiduciary net position as a percentage of the total pension asset	116.90%	114.83%	104.56%
<i>Member Directed Plan:</i>			
City's proportion of the net pension asset	0.003709%	n/a	n/a
City's proportionate share of the net pension asset	\$ 14	n/a	n/a
City's covered-employee payroll	\$ 20,658	n/a	n/a
City's proportionate share of the net pension asset as a percentage of its covered-employee payroll	0.07%	n/a	n/a
Plan fiduciary net position as a percentage of the total pension asset	103.91%	n/a	n/a

Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each year were determined as of the City's measurement date which is the prior year-end.

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 THREE YEARS  
(SEE ACCOUNTANT'S COMPILATION REPORT)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
City's proportion of the net pension liability	0.13672800%	0.13517390%	0.13517390%
City's proportionate share of the net pension liability	\$ 8,795,761	\$ 7,002,572	\$ 6,583,393
City's covered-employee payroll	\$ 2,827,364	\$ 2,735,974	\$ 2,649,515
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	311.09%	255.94%	248.48%
Plan fiduciary net position as a percentage of the total pension liability	66.77%	72.20%	73.00%

Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each year were determined as of the City's measurement date which is the prior year-end.

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  
(SEE ACCOUNTANT'S COMPILATION REPORT)

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<i>Traditional Plan:</i>				
Contractually required contribution	\$ 387,577	\$ 372,678	\$ 348,817	\$ 375,331
Contributions in relation to the contractually required contribution	<u>(387,577)</u>	<u>(372,678)</u>	<u>(348,817)</u>	<u>(375,331)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 3,229,808	\$ 3,105,650	\$ 2,906,808	\$ 2,887,162
Contributions as a percentage of covered-employee payroll	12.00%	12.00%	12.00%	13.00%
<i>Combined Plan:</i>				
Contractually required contribution	\$ -	\$ 7,083	\$ 7,349	\$ 6,635
Contributions in relation to the contractually required contribution	<u>-</u>	<u>(7,083)</u>	<u>(7,349)</u>	<u>(6,635)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ -	\$ 59,025	\$ 61,242	\$ 51,038
Contributions as a percentage of covered-employee payroll	12.00%	12.00%	12.00%	13.00%
<i>Member Directed Plan:</i>				
Contractually required contribution	\$ 1,762	\$ 2,479		
Contributions in relation to the contractually required contribution	<u>(1,762)</u>	<u>(2,479)</u>		
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>		
City's covered-employee payroll	\$ 14,683	\$ 20,658		
Contributions as a percentage of covered-employee payroll	12.00%	12.00%		

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 271,543	\$ 272,035	\$ 253,143	\$ 246,865	\$ 197,378	\$ 221,691
<u>(271,543)</u>	<u>(272,035)</u>	<u>(253,143)</u>	<u>(246,865)</u>	<u>(197,378)</u>	<u>(221,691)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 2,715,430	\$ 2,720,350	\$ 2,838,987	\$ 3,038,338	\$ 2,819,686	\$ 2,654,982
10.00%	10.00%	8.92%	8.13%	7.00%	8.35%
\$ 4,881	\$ 6,314	\$ -	\$ -	\$ -	\$ -
<u>(4,881)</u>	<u>(6,314)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 61,396	\$ 79,421	\$ -	\$ -	\$ -	\$ -
7.95%	7.95%	9.69%	8.13%	7.00%	8.35%

**CITY OF FAIRLAWN, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN YEARS  
(SEE ACCOUNTANT'S COMPILATION REPORT)

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<i>Police:</i>				
Contractually required contribution	\$ 327,066	\$ 317,509	\$ 314,593	\$ 258,005
Contributions in relation to the contractually required contribution	<u>(327,066)</u>	<u>(317,509)</u>	<u>(314,593)</u>	<u>(258,005)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 1,721,400	\$ 1,671,100	\$ 1,655,753	\$ 1,624,376
Contributions as a percentage of covered-employee payroll	19.00%	19.00%	19.00%	15.88%
<i>Fire:</i>				
Contractually required contribution	\$ 280,114	\$ 271,722	\$ 253,852	\$ 208,854
Contributions in relation to the contractually required contribution	<u>(280,114)</u>	<u>(271,722)</u>	<u>(253,852)</u>	<u>(208,854)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 1,191,974	\$ 1,156,264	\$ 1,080,221	\$ 1,024,631
Contributions as a percentage of covered-employee payroll	23.50%	23.50%	23.50%	20.38%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION



<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 204,674	\$ 197,448	\$ 197,359	\$ 205,137	\$ 195,027	\$ 176,094
<u>(204,674)</u>	<u>(197,448)</u>	<u>(197,359)</u>	<u>(205,137)</u>	<u>(195,027)</u>	<u>(176,094)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 1,605,286	\$ 1,548,612	\$ 1,547,914	\$ 1,608,918	\$ 1,529,624	\$ 1,381,129
12.75%	12.75%	12.75%	12.75%	12.75%	12.75%
\$ 164,450	\$ 178,967	\$ 183,840	\$ 180,975	\$ 168,470	\$ 153,083
<u>(164,450)</u>	<u>(178,967)</u>	<u>(183,840)</u>	<u>(180,975)</u>	<u>(168,470)</u>	<u>(153,083)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 953,333	\$ 1,037,490	\$ 1,065,739	\$ 1,049,130	\$ 976,638	\$ 887,438
17.25%	17.25%	17.25%	17.25%	17.25%	17.25%

**CITY OF FAIRLAWN, OHIO**

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(SEE ACCOUNTANT'S COMPILATION REPORT)

*OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)*

*Changes in benefit terms* : There were no changes in benefit terms from the amounts reported for 2014-2016.

*Changes in assumptions* : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2014-2016. 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 2014-2016.

*Changes in assumptions* : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2014-2016. 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 business-type 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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 11, 2017.

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

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

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

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

***Compliance and Other Matters***

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

***Purpose of this Report***

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

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

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

August 11, 2017

CITY OF FAIRLAWN  
SUMMIT COUNTY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2016

Finding Number	Finding Summary	Status	Additional Information
2015-001	<b>Material Weakness – Special Assessments Receivable Reversing Entry</b> – 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.	Corrected	N/A

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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  
AUGUST 29, 2017