# CITY OF FAIRLAWN
# SUMMIT COUNTY

## REGULAR AUDIT

## FOR THE YEAR ENDED DECEMBER 31, 2018



OHIO AUDITOR OF STATE
**KEITH FABER**

**CITY OF FAIRLAWN**
**SUMMIT COUNTY**
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**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, 2018, 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 such 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, 2018, and the respective changes in its financial position and where applicable, its cash flows thereof and the respective budgetary comparisons for the General Fund, thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note 3 to the financial statements, during the year ended December 31, 2018, the City adopted new accounting guidance in Governmental Accounting Standard Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. We did not modify our opinion regarding this matter.

***Other Matters***

*Required Supplementary Information*

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

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2019, 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.

Keith Faber
Auditor of State

Columbus, Ohio

September 16, 2019

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, 2018. 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 2018 are as follows:

- The total net position of the City decreased $2,436,691. The net position of governmental activities decreased $3,500,339 or 7.65% from 2017, to a total of $42,256,886 in 2018, while the net position of business-type activities increased by $1,063,648 to $10,437,576 in 2018.

- The City had $22,264,851 in total revenues in 2018, of which $20,764,413 related to governmental activities and $1,500,438 related to business-type activities. General revenues accounted for $17,617,375 or 79.13% of total revenues, while program specific revenues accounted for $4,647,476 or 20.87% of total revenues.

- The City had $24,701,542 in total expenses in 2018. Governmental activities accounted for $22,332,275 of total expenses; $3,148,491 of these expenses were offset by program specific charges for services, grants, or contributions. The remaining governmental activities expenses of $19,183,784 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 $2,369,267 of total expenses; $1,498,985 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 $15,692,942 in 2018. This represents an increase of $1,067,992 over 2017's revenues and other financing sources. The expenditures and other financing uses of the general fund, which totaled $15,014,130 in 2018, decreased $206,036 from 2017. The net increase in fund balance for the general fund was $732,159 or 4.75%.

- The capital improvement fund had revenues and other financing sources of $3,115,483 in 2018. The expenditures of the capital improvement fund totaled $4,758,783 in 2018. The net decrease in fund balance for the capital improvement fund was $1,643,300 or 30.46%.

- The broadband fund had operating revenues of $1,500,438 and operating expenses of $2,361,920, resulting in an operating loss of $861,482 in 2018. The net increase in net position for the broadband fund was $1,063,648 or 11.32%.

## 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.

## 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 2018?" The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets, deferred outflows of resources, liabilities, deferred inflows of resources, 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 19-20 of this report.

## Reporting the City's Most Significant Funds

### *Fund Financial Statements*

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into 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 capital improvement fund. The City's major proprietary fund is the broadband fund. The analysis of the City's major funds begins on page 12.

### *Governmental Funds*

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

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

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

The City maintains a multitude of individual governmental funds. The City has segregated these funds into major funds and nonmajor funds. The City's major governmental funds are the general fund and capital improvement fund. Information for major funds is presented separately in the governmental funds Balance Sheet and in the governmental Statement of Revenues, Expenditures, and Changes in fund balances. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 21-25 of this report.

***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 26-28 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 29 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 31-82 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 83-96 of this report.

## 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 2018 compared to 2017.

**Net Position**

| | Governmental Activities 2018 | Restated Governmental Activities 2017 | Business-Type Activities 2018 | Restated Business-Type Activities 2017 | Total 2018 | Restated Total 2017 |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Current and other assets | $ 25,174,002 | $ 26,401,509 | $ 972,175 | $ 953,584 | $ 26,146,177 | $ 27,355,093 |
| Capital assets, net | 54,098,978 | 55,692,769 | 9,793,213 | 8,587,898 | 63,892,191 | 64,280,667 |
| Total assets | 79,272,980 | 82,094,278 | 10,765,388 | 9,541,482 | 90,038,368 | 91,635,760 |
| **Deferred outflows of resources** | | | | | | |
| Pension | 2,871,437 | 3,731,899 | 84,816 | 41,362 | 2,956,253 | 3,773,261 |
| OPEB | 1,608,164 | 48,520 | 34,917 | 322 | 1,643,081 | 48,842 |
| Total deferred outflows of resources | 4,479,601 | 3,780,419 | 119,733 | 41,684 | 4,599,334 | 3,822,103 |
| **Liabilities** | | | | | | |
| Current and other liabilities | 1,297,135 | 1,526,354 | 203,944 | 102,278 | 1,501,079 | 1,628,632 |
| Long-term liabilities: | | | | | | |
| Due within one year | 1,149,841 | 1,421,494 | 10,538 | 17,088 | 1,160,379 | 1,438,582 |
| Net pension liability | 12,938,225 | 14,016,132 | 110,422 | 54,672 | 13,048,647 | 14,070,804 |
| Net OPEB liability | 10,878,267 | 8,649,822 | 71,697 | 22,782 | 10,949,964 | 8,672,604 |
| Other amounts | 12,732,502 | 13,435,890 | 19,720 | 12,093 | 12,752,222 | 13,447,983 |
| Total liabilities | 38,995,970 | 39,049,692 | 416,321 | 208,913 | 39,412,291 | 39,258,605 |
| **Deferred inflows of resources** | | | | | | |
| Property taxes | 804,844 | 824,231 | - | - | 804,844 | 824,231 |
| PILOTS | 23,986 | - | - | - | 23,986 | - |
| Pension | 1,385,563 | 243,549 | 25,883 | 325 | 1,411,446 | 243,874 |
| OPEB | 285,332 | - | 5,341 | - | 290,673 | - |
| Total deferred inflows of resources | 2,499,725 | 1,067,780 | 31,224 | 325 | 2,530,949 | 1,068,105 |
| **Net Position** | | | | | | |
| Net investment in capital assets | 52,005,938 | 52,890,365 | 9,793,213 | 8,587,898 | 61,799,151 | 61,478,263 |
| Restricted | 1,333,937 | 1,223,840 | - | - | 1,333,937 | 1,223,840 |
| Unrestricted | (11,082,989) | (8,356,980) | 644,363 | 786,030 | (10,438,626) | (7,570,950) |
| Total net position | $ 42,256,886 | $ 45,757,225 | $ 10,437,576 | $ 9,373,928 | $ 52,694,462 | $ 55,131,153 |

The net pension liability (NPL) is the largest single liability reported by the City at December 31, 2018 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." For 2018, the City adopted GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the City's actual financial condition by adding deferred inflows related to pension and OPEB, the net pension liability, and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability* or *net OPEB liability*. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension liability and the net OPEB liability to equal the City's proportionate share of each plan's collective:

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

GASB notes that pension and OPEB obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension and other postemployment benefits. GASB noted that the unfunded portion of this promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the City is not responsible for certain key factors affecting the balance of these liabilities. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The Ohio Revised Code permits, but does not require, the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *as against the public employer.* State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The retirement system is responsible for the administration of the pension and OPEB plans.

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

In accordance with GASB 68 and GASB 75, the City's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension liability and net OPEB liability, respectively, not accounted for as deferred inflows/outflows.

As a result of implementing GASB 75, the City is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at December 31, 2017, from $54,358,527 to $45,757,225 for governmental activities and $9,396,388 to $9,373,928 for business-type activities.

Over time, net position can serve as a useful indicator of a government's financial position. At December 31, 2018, the City's total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by $52,694,462. The net positions of the City's governmental and business-type activities were $42,256,886 and $10,437,576, respectively.

Capital assets, reported on the government-wide statements, represent the largest portion of the City's assets. At year-end, capital assets represented 70.96% of total assets. Capital assets include land, land improvements, buildings and improvements, machinery and equipment, licensed vehicles, infrastructure, and construction in progress.

The majority of the City's net position is reflected in 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, $1,333,937, 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 2018 and 2017.

**Change in Net Position**

| | Governmental Activities 2018 | Restated Governmental Activities 2017 | Business-Type Activities 2018 | Restated Business-Type Activities 2017 | Total 2018 | Total 2017 |
|---|---|---|---|---|---|---|
| Revenues | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | $ 1,021,152 | $ 987,861 | $ 1,498,985 | $ 584,148 | $ 2,520,137 | $ 1,572,009 |
| Operating grants and contributions | 334,883 | 338,272 | - | - | 334,883 | 338,272 |
| Capital grants and contributions | 1,792,456 | 223,431 | - | - | 1,792,456 | 223,431 |
| Total program revenues | 3,148,491 | 1,549,564 | 1,498,985 | 584,148 | 4,647,476 | 2,133,712 |

(Continued)

**Change in Net Position - (Continued)**

| | Governmental Activities 2018 | Restated Governmental Activities 2017 | Business-Type Activities 2018 | Restated Business-Type Activities 2017 | Total 2018 | Restated Total 2017 |
|---|---|---|---|---|---|---|
| General revenues: | | | | | | |
| Property and other taxes | 1,135,282 | 1,077,351 | - | - | 1,135,282 | 1,077,351 |
| Income taxes | 11,872,189 | 11,427,135 | - | - | 11,872,189 | 11,427,135 |
| Payments in lieu of taxes | 24,594 | - | - | - | 24,594 | - |
| Unrestricted grants and entitlements | 580,716 | 434,549 | - | - | 580,716 | 434,549 |
| JEDD revenues | 3,674,914 | 3,321,449 | - | - | 3,674,914 | 3,321,449 |
| Investment earnings | 232,323 | 124,177 | - | - | 232,323 | 124,177 |
| Gain on sale of capital asse | - | 28,038 | - | - | - | 28,038 |
| Miscellaneous | 95,904 | 209,925 | 1,453 | 392 | 97,357 | 210,317 |
| Total general revenues | 17,615,922 | 16,622,624 | 1,453 | 392 | 17,617,375 | 16,623,016 |
| Total revenues | 20,764,413 | 18,172,188 | 1,500,438 | 584,540 | 22,264,851 | 18,756,728 |
| Expenses | | | | | | |
| General government | 4,555,839 | 4,298,242 | - | - | 4,555,839 | 4,298,242 |
| Security of persons and property | 9,448,832 | 8,075,789 | - | - | 9,448,832 | 8,075,789 |
| Public health and welfare | 116,189 | 116,513 | - | - | 116,189 | 116,513 |
| Transportation | 5,440,697 | 4,491,140 | - | - | 5,440,697 | 4,491,140 |
| Community environment | 628,111 | 662,206 | - | - | 628,111 | 662,206 |
| Leisure time activity | 531,970 | 548,184 | - | - | 531,970 | 548,184 |
| Utility services | 1,193,920 | 1,155,361 | - | - | 1,193,920 | 1,155,361 |
| Interest and fiscal charges | 416,717 | 387,496 | - | - | 416,717 | 387,496 |
| Broadband | - | - | 2,369,267 | 1,712,089 | 2,369,267 | 1,712,089 |
| Total expenses | 22,332,275 | 19,734,931 | 2,369,267 | 1,712,089 | 24,701,542 | 21,447,020 |
| Change in net position before transfers | (1,567,862) | (1,562,743) | (868,829) | (1,127,549) | (2,436,691) | (2,690,292) |
| Transfers | (1,932,477) | (8,349,857) | 1,932,477 | 8,349,857 | - | - |
| Change in net position | (3,500,339) | (9,912,600) | 1,063,648 | 7,222,308 | (2,436,691) | (2,690,292) |
| Net position at beginning of year (restated) | 45,757,225 | n/a | 9,373,928 | n/a | 55,131,153 | n/a |
| Net position at end of year | $ 42,256,886 | $ 45,757,225 | $ 10,437,576 | $ 9,373,928 | $ 52,694,462 | $ 55,131,153 |

The information necessary to restate the 2017 beginning balances and the 2017 OPEB expense amounts for the effects of the initial implementation of GASB 75 is not available. Therefore, 2017 functional expenses still include OPEB expense of $48,842 computed under GASB 45. GASB 45 required recognizing OPEB expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements report OPEB expense of $991,258. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

| | Governmental Activities | Business-Type Activities |
|---|---|---|
| Total 2018 program expenses under GASB 75 | $ 22,332,275 | $ 2,369,267 |
| OPEB expense under GASB 75 | 971,575 | 19,683 |
| 2018 contractually required contributions | 17,442 | 22 |
| Adjusted 2018 program expenses | 23,321,292 | 2,388,972 |
| Total 2017 program expenses under GASB 45 | 19,734,931 | 1,712,089 |
| Increase (decrease) in program expenses not related to OPEB | $ 3,586,361 | $ 676,883 |

***Governmental Activities***

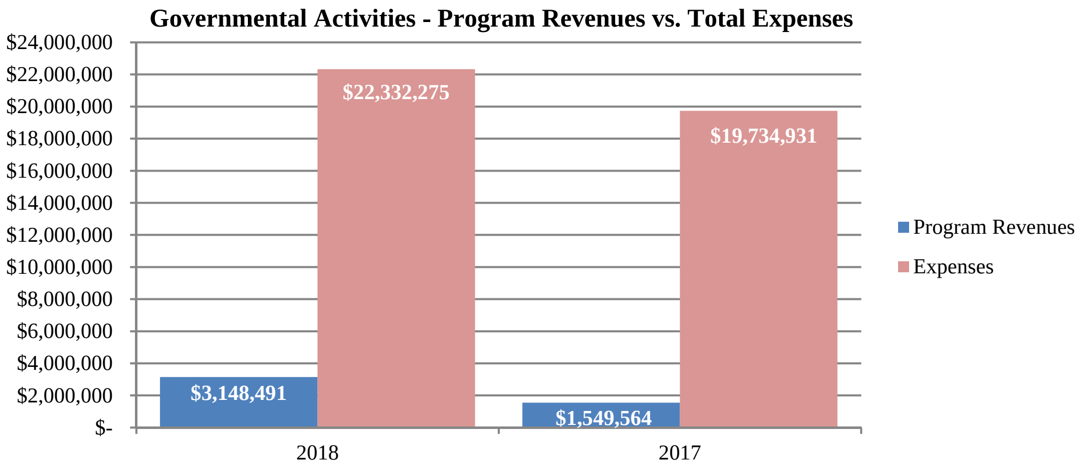
Governmental activities net position decreased $3,500,339 in 2018.

Security of persons and property, which primarily supports the operations of the police and fire departments accounted for $9,448,832 of the total expenses of the City. These expenses were partially funded by $457,725 in direct charges to users of the services and $2,440 in operating grants and contributions. Transportation expenses totaled $5,440,697. Transportation expenses were partially funded by $13,425 in direct charges to users of the services, $320,428 in operating grants and contributions, and $92,096 in capital grants and contributions.

The county, state, and federal governments contributed to the City a total of $334,883 in operating grants and contributions. These revenues are restricted to a particular program or purpose. Of the total operating grants and contributions, $2,440 subsidized security of persons and property, $320,428 subsidized transportation programs, $5,156 subsidized leisure time activity, and $6,859 subsidized utility services.

General revenues totaled $17,615,922, and amounted to 84.84% of total governmental revenues. These revenues primarily consist of property tax revenues of $1,135,282, income tax revenues of $11,872,189, and JEDD revenues of $3,674,914.

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

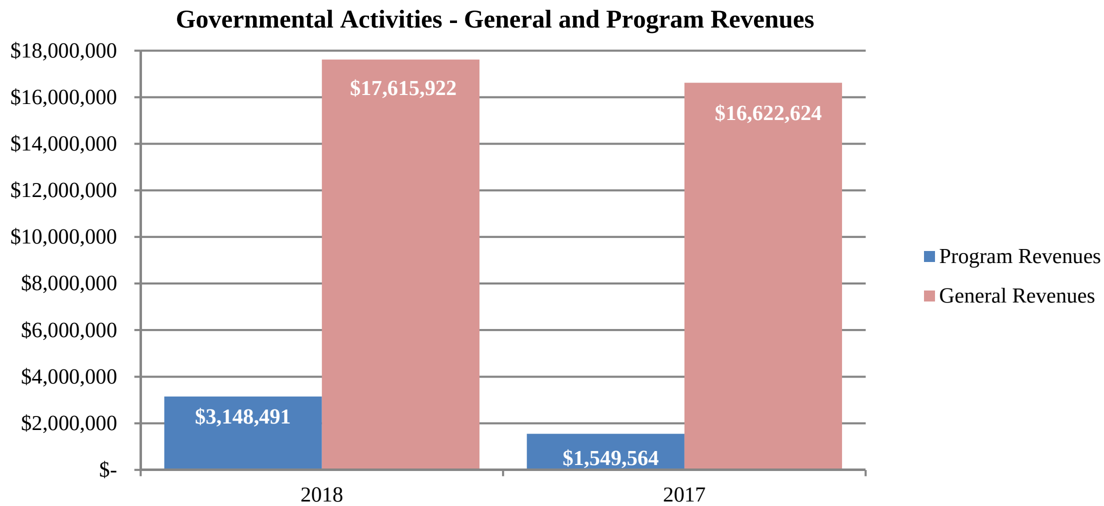



The Statement of Activities shows the cost of program services and the charges for services, grants, and contributions offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services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

| | Governmental Activities | | | |
|---|---|---|---|---|
| | Total Cost of Services 2018 | Net Cost of Services 2018 | Total Cost of Services 2017 | Net Cost of Services 2017 |
| Program Expenses: | | | | |
| General government | $ 4,555,839 | $ 2,607,530 | $ 4,298,242 | $ 3,967,414 |
| Security of persons and property | 9,448,832 | 8,988,667 | 8,075,789 | 7,650,864 |
| Public health and welfare | 116,189 | 116,189 | 116,513 | 116,513 |
| Transportation | 5,440,697 | 5,014,748 | 4,491,140 | 4,027,253 |
| Community environment | 628,111 | 485,653 | 662,206 | 535,222 |
| Leisure time activity | 531,970 | 516,322 | 548,184 | 533,939 |
| Utility services | 1,193,920 | 1,037,958 | 1,155,361 | 966,666 |
| Interest and fiscal charges | 416,717 | 416,717 | 387,496 | 387,496 |
| Total | $ 22,332,275 | $ 19,183,784 | $ 19,734,931 | $ 18,185,367 |

The dependence upon general revenues for governmental activities is apparent, with 85.90% of expenses supported through taxes and other general revenues.

The chart below illustrates the City's program revenues versus general revenues for 2018 and 2017:




***Business-Type Activities***

Business-type activities net position increased $1,063,648 in 2018.

Broadband expenses were $2,369,267 for the year. Broadband expenses were partially offset by direct charges to users of the City's broadband utility, which amounted to $1,498,985 or 63.27% of total business-type expenses.

During 2018, business-type activities received capital contributions of $1,450,477 and interfund transfers of $482,000 from the City's governmental activities.

## Financial Analysis of the Government's Funds

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

***Governmental Funds***

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

The City's governmental funds (as presented on the balance sheet on page 21) reported a combined fund balance of $21,267,173 which is $788,334 less than last year's total of $22,055,507. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2018 and 2017 for all major and nonmajor governmental funds.

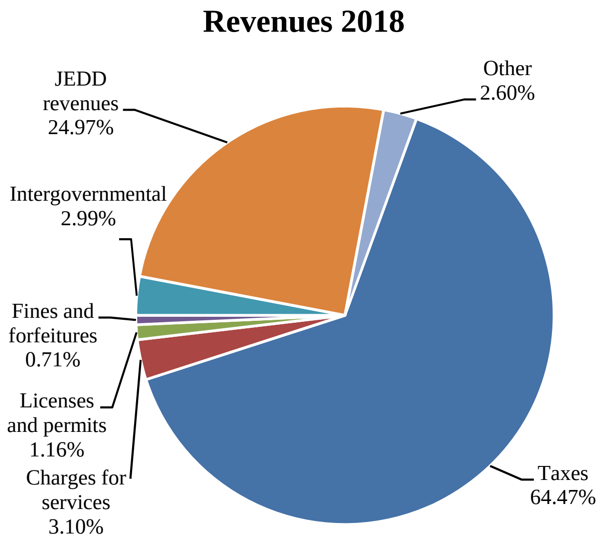
| | Fund Balances 12/31/18 | Fund Balances 12/31/17 | Increase/ (Decrease) |
|---|---|---|---|
| Major funds: | | | |
| General | $ 16,150,928 | $ 15,418,769 | $ 732,159 |
| Capital improvement | 3,751,772 | 5,395,072 | (1,643,300) |
| Other nonmajor governmental funds | 1,364,473 | 1,241,666 | 122,807 |
| Total | $ 21,267,173 | $ 22,055,507 | $ (788,334) |

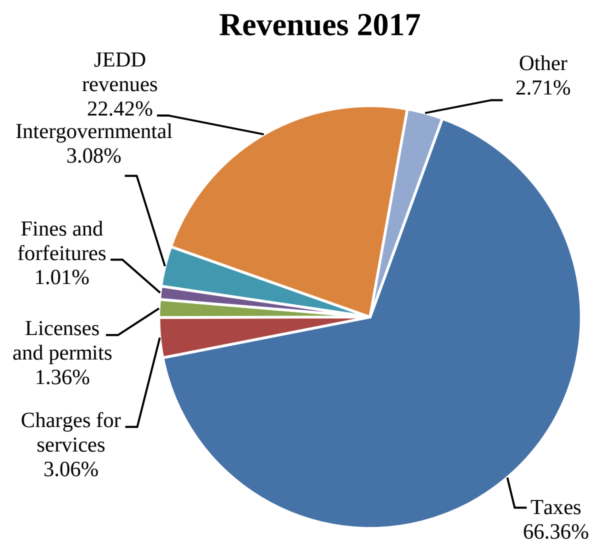
### *General Fund*

The City's general fund balance increased by $732,159. The table that follows assists in illustrating the revenues of the general fund.

| | 2018 | 2017 | Percentage Change |
|---|---|---|---|
| Revenues | | | |
| Taxes | $ 10,114,716 | $ 9,686,359 | 4.42 % |
| Charges for services | 487,099 | 446,029 | 9.21 % |
| Licenses and permits | 181,619 | 198,518 | (8.51) % |
| Fines and forfeitures | 112,182 | 146,892 | (23.63) % |
| Intergovernmental | 469,825 | 448,882 | 4.67 % |
| JEDD revenues | 3,917,989 | 3,272,521 | 19.72 % |
| Other | 406,501 | 398,025 | 2.13 % |
| Total | $ 15,689,931 | $ 14,597,226 | 7.49 % |

Tax revenue represents 64.47% of all general fund revenue, while income tax-based JEDD revenues accounted for another 24.97%. JEDD revenues increased 19.72% in 2018, due to the income tax rate in the district increasing from 2.25% to 2.50%. All other revenues remained comparable to 2017.

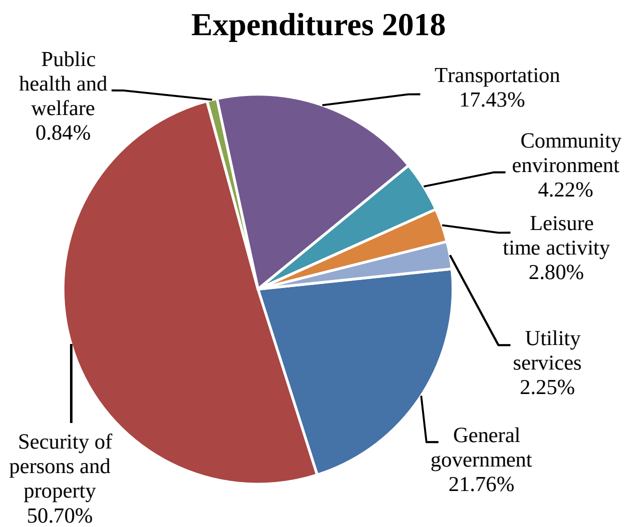


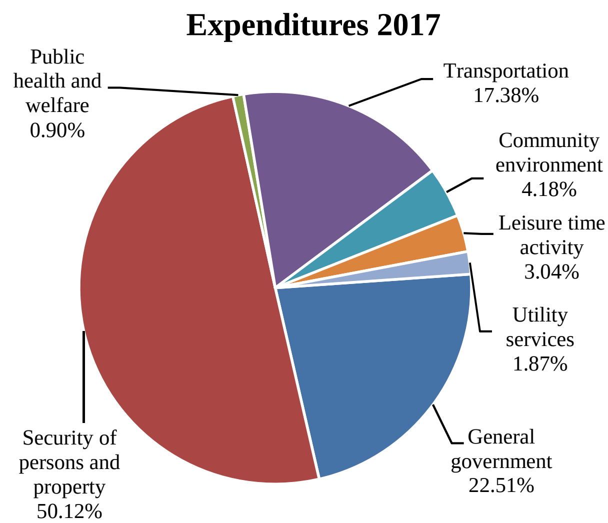




The table that follows assists in illustrating the expenditures of the general fund.

| | 2018 | 2017 | Percentage Change |
|---|---|---|---|
| Expenditures | | | |
| General government | $ 3,000,869 | $ 2,927,788 | 2.50 % |
| Security of persons and property | 6,992,922 | 6,518,760 | 7.27 % |
| Public health and welfare | 116,189 | 116,513 | (0.28) % |
| Transportation | 2,404,340 | 2,259,973 | 6.39 % |
| Community environment | 581,793 | 543,891 | 6.97 % |
| Leisure time activity | 385,561 | 395,547 | (2.52) % |
| Utility services | 312,156 | 242,567 | 28.69 % |
| Total | $ 13,793,830 | $ 13,005,039 | 6.07 % |

The general fund's resources were primarily used for general government, security of persons and property, and transportation purposes, which accounted for 89.89% of all general fund expenditures in 2018. Transportation expenditures increased by 6.39%, primarily due to the purchase of new software to operate the traffic signals on West Market Street. Security of persons and property expenditures increased by 7.27%. This increase resulted from increased personnel costs in the City Police, Dispatch, and Fire/EMS Departments. All other expenditures remained comparable to 2017.




***Capital Improvement Fund***

The capital improvement fund had revenues and other financing sources of $3,115,483 in 2018. The expenditures of the capital improvement fund totaled $4,758,783 in 2018. The net decrease in fund balance for the capital improvement fund was $1,643,300 or 30.46%, due to the ongoing construction of the City's municipal broadband utility, FairlawnGig.

***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. Net position for the City's broadband fund at the end of the year increased 11.35% to $10,437,576, while total assets increased to $10,765,388. These increases resulted from capital contributions and interfund transfers into the fund from the City's governmental funds.

***Budgeting Highlights***

Budgetary information is presented for the general fund on page 25. The final budget reflects revenues that were $315,535, or 2.21%, higher than the original budget. Actual revenues were $1,087,808 or 7.61% higher than the original budget, and were $772,273 or 5.29% more than the final budget. The revenue category with the largest positive variance was income taxes, with actual revenues equaling 108.05% of the final budget. The $667,609 revenue surplus in this category resulted from the City's utilization of conservative revenue estimates.

During 2018, actual expenditures (including current year encumbrances) were $900,541 or 5.79% under the original budget, while the final budget was $1,312,899 or 8.23% higher than actual spending. Actual general government expenditures were $330,259 or 9.03% less than the original budget and $333,516 or 9.11% less than the final budget. The security of persons and property original and final budgets exceeded actual expenditures by 3.80% and 6.68%, respectively, while actual transportation expenditures were 8.50% and 10.37% under the respective original and final budgets.

The original budget, as adopted by Council, called for a structural deficit (i.e. expenditures in excess of revenues) of approximately $2,586,386 with the final adopted budget calling for a $3,135,198 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 decrease in fund balance of $482,026, or approximately $2,653,172 less than that called for in the final budget.

## Capital Assets and Debt Administration

### *Capital Assets*

At the end of fiscal 2018, the City had $63,892,191 (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) decreased by $388,476 or 0.60%. The following table presents the City's capital assets, net of depreciation at December 31, 2018 and 2017.

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Land | $ 3,580,282 | $ 3,241,343 | $ - | $ - | $ 3,580,282 | $ 3,241,343 |
| Construction in progress | - | - | - | 8,587,898 | - | 8,587,898 |
| Buildings and improvements | 8,594,766 | 8,860,752 | - | - | 8,594,766 | 8,860,752 |
| Land improvements | 1,752,419 | 1,851,028 | - | - | 1,752,419 | 1,851,028 |
| Licensed vehicles | 1,276,487 | 1,343,535 | - | - | 1,276,487 | 1,343,535 |
| Machinery and equipment | 1,463,500 | 1,462,809 | 2,696,655 | - | 4,160,155 | 1,462,809 |
| Infrastructure | 37,431,524 | 38,933,302 | 7,096,558 | - | 44,528,082 | 38,933,302 |
| Total | $ 54,098,978 | $ 55,692,769 | $ 9,793,213 | $ 8,587,898 | $ 63,892,191 | $ 64,280,667 |

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

- Replacement of two police cruisers ($95,323)
- Replacement of a dispatch radio console ($110,000)
- Replacement of a street maintenance truck ($45,073)
- On-going construction of the FairlawnGig municipal broadband utility system ($1,450,477).

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, 2018 and 2017:

| | Governmental Activities | |
|---|---|---|
| | 2018 | 2017 |
| General obligation bonds | $ 1,430,000 | $ 2,070,000 |
| Notes payable | 589,117 | 640,000 |
| Capital lease | 9,745,000 | 9,960,000 |
| Total | $ 11,764,117 | $ 12,670,000 |

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

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

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

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

The City has established a strong corporate office presence. It is currently home to several corporate headquarters, 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.

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 1.8% in 2018 as compared to the previous year. Withholding taxes grew by 5.5% during 2018, as a result of several significant, non-recurring transactions. However, that growth was partially offset by declines in net profit taxes (12.0%) and individual income taxes (16.8%), with the latter being impacted by a HB 49 mandate pushing the fourth quarter estimated tax due date back to January 15 of the subsequent year.

The City is projecting a slight decrease in general fund revenues in 2019, net of interfund transfers and advances. While general fund expenditures for 2019, net of interfund transfers and advances, are budgeted at 4.80% greater than 2018 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, 2018

| | Primary Government | | | Component Unit |
|---|---|---|---|---|
| | Governmental Activities | Business-type Activities | Total | Community Improvement Corporation of Fairlawn |
| **Assets:** | | | | |
| Equity in pooled cash, cash equivalents, and investments | $ 19,476,965 | $ 698,358 | $ 20,175,323 | $ 273,119 |
| Cash and cash equivalents in segregated accounts | 10,971 | - | 10,971 | - |
| Cash and cash equivalents with fiscal agent | 551,770 | - | 551,770 | - |
| Receivables: | | | | |
| Income taxes | 2,299,210 | - | 2,299,210 | - |
| Real and other taxes | 844,834 | - | 844,834 | - |
| Payments in lieu of taxes | 23,986 | - | 23,986 | - |
| Accounts | 81,648 | 58,869 | 140,517 | - |
| Special assessments | 188,585 | - | 188,585 | - |
| Due from other governments | 919,663 | 118 | 919,781 | - |
| Rent receivable | - | - | - | 351,000 |
| Materials and supplies inventory | 570,771 | 213,115 | 783,886 | - |
| Prepayments | 205,483 | 1,712 | 207,195 | 1,042 |
| Assets held for sale | - | - | - | 522,000 |
| Net pension asset | 116 | 3 | 119 | - |
| Capital assets: | | | | |
| Land and construction in progress | 3,580,282 | - | 3,580,282 | - |
| Depreciable capital assets, net | 50,518,696 | 9,793,213 | 60,311,909 | - |
| Total capital assets, net | 54,098,978 | 9,793,213 | 63,892,191 | - |
| Total assets | 79,272,980 | 10,765,388 | 90,038,368 | 1,147,161 |
| **Deferred outflows of resources:** | | | | |
| Pension | 2,871,437 | 84,816 | 2,956,253 | - |
| OPEB | 1,608,164 | 34,917 | 1,643,081 | - |
| Total deferred outflows of resources | 4,479,601 | 119,733 | 4,599,334 | - |
| Total assets and deferred outflows of resources | 83,752,581 | 10,885,121 | 94,637,702 | 1,147,161 |
| **Liabilities:** | | | | |
| Accounts payable | 112,476 | 195,262 | 307,738 | 39,633 |
| Contracts payable | 61,185 | - | 61,185 | 103,000 |
| Retainage payable | 266,794 | - | 266,794 | - |
| Accrued wages and benefits payable | 336,871 | 3,177 | 340,048 | - |
| Compensated absences payable | 176,975 | 4,176 | 181,151 | - |
| Due to other governments | 292,780 | 1,329 | 294,109 | - |
| Accrued interest payable | 50,054 | - | 50,054 | - |
| Long-term liabilities: | | | | |
| Due within one year | 1,149,841 | 10,538 | 1,160,379 | - |
| Due in more than one year: | | | | |
| Net pension liability | 12,938,225 | 110,422 | 13,048,647 | - |
| Net OPEB liability | 10,878,267 | 71,697 | 10,949,964 | - |
| Other amounts | 12,732,502 | 19,720 | 12,752,222 | - |
| Total liabilities | 38,995,970 | 416,321 | 39,412,291 | 142,633 |
| **Deferred inflows of resources:** | | | | |
| Property taxes levied for the next fiscal year | 804,844 | - | 804,844 | - |
| PILOTS levied for the next fiscal year | 23,986 | - | 23,986 | - |
| Pension | 1,385,563 | 25,883 | 1,411,446 | - |
| OPEB | 285,332 | 5,341 | 290,673 | - |
| Total deferred inflows of resources | 2,499,725 | 31,224 | 2,530,949 | - |
| Total liabilities and deferred inflows of resources | 41,495,695 | 447,545 | 41,943,240 | 142,633 |
| **Net position:** | | | | |
| Net investment in capital assets | 52,005,938 | 9,793,213 | 61,799,151 | - |
| Restricted for: | | | | |
| Other purposes | 1,333,937 | - | 1,333,937 | - |
| Unrestricted | (11,082,989) | 644,363 | (10,438,626) | 1,004,528 |
| Total net position | $ 42,256,886 | $ 10,437,576 | $ 52,694,462 | $ 1,004,528 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FAIRLAWN, OHIO**

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018

| | | Program Revenues | | | Net (Expense) Revenues and Changes in Net Position | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | Primary Government | | | Component Unit |
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-type Activities | Total | Community Improvement Corporation of Fairlawn |
| **Governmental activities:** | | | | | | | | |
| Current: | | | | | | | | |
| General government | $ 4,555,839 | $ 310,820 | $ - | $ 1,637,489 | $ (2,607,530) | $ - | $ (2,607,530) | $ - |
| Security of persons and property | 9,448,832 | 457,725 | 2,440 | - | (8,988,667) | - | (8,988,667) | - |
| Public health and welfare | 116,189 | - | - | - | (116,189) | - | (116,189) | - |
| Transportation | 5,440,697 | 13,425 | 320,428 | 92,096 | (5,014,748) | - | (5,014,748) | - |
| Community environment | 628,111 | 79,587 | - | 62,871 | (485,653) | - | (485,653) | - |
| Leisure time activity | 531,970 | 10,492 | 5,156 | - | (516,322) | - | (516,322) | - |
| Utility services | 1,193,920 | 149,103 | 6,859 | - | (1,037,958) | - | (1,037,958) | - |
| Interest and fiscal charges | 416,717 | - | - | - | (416,717) | - | (416,717) | - |
| Total governmental activities | $ 22,332,275 | $ 1,021,152 | $ 334,883 | $ 1,792,456 | (19,183,784) | - | (19,183,784) | - |
| **Business-type activities:** | | | | | | | | |
| Broadband | 2,369,267 | 1,498,985 | - | - | - | (870,282) | (870,282) | - |
| Total primary government | $ 24,701,542 | $ 2,520,137 | $ 334,883 | $ 1,792,456 | (19,183,784) | (870,282) | (20,054,066) | - |
| **Component Unit:** | | | | | | | | |
| Community Improvement Corporation of Fairlawn | $ 1,707,115 | $ - | $ 667,000 | $ - | - | - | - | (1,040,115) |

| | Governmental Activities | Business-type Activities | Total | Community Improvement Corporation of Fairlawn |
|---|---|---|---|---|
| **General revenues:** | | | | |
| Property taxes levied for: | | | | |
| General purposes | 951,110 | - | 951,110 | - |
| Police and fire pension | 184,172 | - | 184,172 | - |
| Income taxes levied for: | | | | |
| General purposes | 9,060,920 | - | 9,060,920 | - |
| Capital outlay | 2,811,269 | - | 2,811,269 | - |
| Payments in lieu of taxes | 24,594 | - | 24,594 | - |
| Grants and entitlements not restricted to specific programs | 580,716 | - | 580,716 | - |
| JEDD revenues | 3,674,914 | | 3,674,914 | - |
| Investment earnings | 232,323 | - | 232,323 | - |
| Miscellaneous | 95,904 | 1,453 | 97,357 | - |
| Total general revenues | 17,615,922 | 1,453 | 17,617,375 | - |
| Transfers | (1,932,477) | 1,932,477 | - | - |
| Total general revenues and transfers | 15,683,445 | 1,933,930 | 17,617,375 | - |
| Change in net position | (3,500,339) | 1,063,648 | (2,436,691) | (1,040,115) |
| **Net position at beginning of year (restated)** | 45,757,225 | 9,373,928 | 55,131,153 | 2,044,643 |
| **Net position at end of year** | $ 42,256,886 | $ 10,437,576 | $ 52,694,462 | $ 1,004,528 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FAIRLAWN, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2018

| | General | Capital Improvement | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|
| **Assets:** | | | | |
| Equity in pooled cash, cash equivalents, and investments | $ 14,887,576 | $ 3,159,299 | $ 1,430,090 | $ 19,476,965 |
| Cash and cash equivalents in segregated accounts | 10,971 | - | - | 10,971 |
| Cash and cash equivalents with fiscal agent | - | 551,770 | - | 551,770 |
| Receivables: | | | | |
| Income taxes | 1,724,408 | 574,802 | - | 2,299,210 |
| Real and other taxes | 661,060 | - | 183,774 | 844,834 |
| Payments in lieu of taxes | - | - | 23,986 | 23,986 |
| Accounts | 80,186 | - | 1,462 | 81,648 |
| Special assessments | - | 125,714 | 62,871 | 188,585 |
| Due from other governments | 671,868 | 85,980 | 161,815 | 919,663 |
| Materials and supplies inventory | 570,771 | - | - | 570,771 |
| Prepayments | 205,483 | - | - | 205,483 |
| Total assets | $ 18,812,323 | $ 4,497,565 | $ 1,863,998 | $ 25,173,886 |
| **Liabilities:** | | | | |
| Accounts payable | $ 109,852 | $ 519 | $ 2,105 | $ 112,476 |
| Contracts payable | - | 61,185 | - | 61,185 |
| Retainage payable | - | 266,794 | - | 266,794 |
| Accrued wages and benefits payable | 336,871 | - | - | 336,871 |
| Compensated absences payable | 176,975 | - | - | 176,975 |
| Due to other governments | 203,639 | - | 89,141 | 292,780 |
| Total liabilities | 827,337 | 328,498 | 91,246 | 1,247,081 |
| **Deferred inflows of resources:** | | | | |
| Property taxes levied for the next fiscal year | 625,989 | - | 178,855 | 804,844 |
| Delinquent property tax revenue not available | 17,113 | - | 4,919 | 22,032 |
| PILOTS levied for the next fiscal year | - | - | 23,986 | 23,986 |
| Special assessments revenue not available | - | 125,714 | 62,871 | 188,585 |
| Miscellaneous revenue not available | 35,598 | - | 1,333 | 36,931 |
| Income tax revenue not available | 616,804 | 205,601 | - | 822,405 |
| Intergovernmental revenue not available | 224,652 | 85,980 | 136,315 | 446,947 |
| JEDD revenues not available | 313,902 | - | - | 313,902 |
| Total deferred inflows of resources | 1,834,058 | 417,295 | 408,279 | 2,659,632 |
| Total liabilities and deferred inflows of resources | 2,661,395 | 745,793 | 499,525 | 3,906,713 |
| **Fund balances:** | | | | |
| Nonspendable | 790,465 | - | - | 790,465 |
| Restricted | - | 3,751,772 | 1,364,473 | 5,116,245 |
| Committed | 5,000 | - | - | 5,000 |
| Assigned | 3,796,144 | - | - | 3,796,144 |
| Unassigned | 11,559,319 | - | - | 11,559,319 |
| Total fund balances | 16,150,928 | 3,751,772 | 1,364,473 | 21,267,173 |
| Total liabilities, deferred inflows of resources and fund balances | $ 18,812,323 | $ 4,497,565 | $ 1,863,998 | $ 25,173,886 |

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, 2018

| | | |
|---|---|---|
| **Total governmental fund balances** | | $ 21,267,173 |
| | | |
| *Amounts reported for governmental activities on the Statement of Net Position are different because:* | | |
| | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | | 54,098,978 |
| | | |
| Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds. | | |
| Income taxes receivable | $ 822,405 | |
| Real and other taxes receivable | 22,032 | |
| Accounts receivable | 36,931 | |
| Special assessments receivable | 188,585 | |
| Due from other governments | 760,849 | |
| Total | | 1,830,802 |
| | | |
| The net pension asset is not available to pay for current period expenditures; therefore, the asset is not reported in the governmental funds. | | 116 |
| | | |
| The net pension/OPEB liability is not due and payable in the current period; therefore, liability and related deferred inflows and outflows are not reported in governmental funds. | | |
| Deferred outflows - pension | 2,871,437 | |
| Deferred outflows - OPEB | 1,608,164 | |
| Deferred inflows - pension | (1,385,563) | |
| Deferred inflows - OPEB | (285,332) | |
| Net pension liability | (12,938,225) | |
| Net OPEB liability | (10,878,267) | |
| Total | | (21,007,786) |
| | | |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. | | |
| Accrued interest payable | (50,054) | |
| General obligation bonds payable | (1,430,000) | |
| Unamortized premium on bond issuance | (73,923) | |
| Notes payable | (589,117) | |
| Capital lease payable | (9,745,000) | |
| Unamortized premium on capital lease issuance | (590,424) | |
| Compensated absences | (1,453,879) | |
| Total | | (13,932,397) |
| **Net position of governmental activities** | | $ 42,256,886 |

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, 2018

| | General | Capital Improvement | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|
| **Revenues:** | | | | |
| Income taxes | $ 9,173,370 | $ 2,848,752 | $ - | $ 12,022,122 |
| Real and other taxes | 941,346 | - | 181,390 | 1,122,736 |
| Charges for services | 487,099 | - | 129,843 | 616,942 |
| Licenses and permits | 181,619 | - | - | 181,619 |
| Fines and forfeitures | 112,182 | - | 2,999 | 115,181 |
| Intergovernmental | 469,825 | - | 340,539 | 810,364 |
| Special assessments | - | 42,978 | 49,059 | 92,037 |
| Investment income | 241,542 | 3,397 | 5,801 | 250,740 |
| Rental income | 72,411 | - | - | 72,411 |
| Contributions and donations | 35 | - | - | 35 |
| JEDD revenues | 3,917,989 | - | - | 3,917,989 |
| Payments in lieu of taxes | - | - | 24,594 | 24,594 |
| Other | 92,513 | 3,356 | 5,554 | 101,423 |
| Total revenues | 15,689,931 | 2,898,483 | 739,779 | 19,328,193 |
| **Expenditures:** | | | | |
| Current: | | | | |
| General government | 3,000,869 | - | - | 3,000,869 |
| Security of persons and property | 6,992,922 | - | 712,879 | 7,705,801 |
| Public health and welfare | 116,189 | - | - | 116,189 |
| Transportation | 2,404,340 | - | 341,839 | 2,746,179 |
| Community environment | 581,793 | - | 49,346 | 631,139 |
| Leisure time activity | 385,561 | - | - | 385,561 |
| Utility services | 312,156 | - | 51,208 | 363,364 |
| Capital outlay | - | 3,410,000 | - | 3,410,000 |
| Debt service: | | | | |
| Principal retirement | - | 905,883 | - | 905,883 |
| Interest and fiscal charges | - | 442,900 | - | 442,900 |
| Total expenditures | 13,793,830 | 4,758,783 | 1,155,272 | 19,707,885 |
| Excess (deficiency) of revenues over (under) expenditures | 1,896,101 | (1,860,300) | (415,493) | (379,692) |
| **Other financing sources (uses):** | | | | |
| Sale of capital assets | 3,011 | 17,000 | - | 20,011 |
| Transfers in | - | 200,000 | 538,300 | 738,300 |
| Transfers (out) | (1,220,300) | - | - | (1,220,300) |
| Total other financing sources (uses) | (1,217,289) | 217,000 | 538,300 | (461,989) |
| Net change in fund balances | 678,812 | (1,643,300) | 122,807 | (841,681) |
| **Fund balances at beginning of year** | 15,418,769 | 5,395,072 | 1,241,666 | 22,055,507 |
| **Decrease in reserve for inventory** | 53,347 | - | - | 53,347 |
| **Fund balances at end of year** | $ 16,150,928 | $ 3,751,772 | $ 1,364,473 | $ 21,267,173 |

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, 2018

| | | |
|---|---|---|
| **Net change in fund balances - total governmental funds** | | $ (841,681) |
| *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 | $ 392,035 | |
| Current year depreciation | (2,299,347) | |
| Total | | (1,907,312) |
| The net effect of various transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to increase net position. | | 313,521 |
| Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. | | |
| Income taxes | (149,933) | |
| Real and other taxes | 12,546 | |
| Charges for services | 10,796 | |
| Licenses and permits | 17,316 | |
| Intergovernmental revenues | 191,215 | |
| Special assessments | (23,050) | |
| Investment income | (18,417) | |
| JEDD revenues | (243,075) | |
| Other | 1,333 | |
| Total | | (201,269) |
| Governmental funds report expenditures for inventory when purchased. However, in the Statement of Activities, they are reported as an expense when consumed. | | 53,347 |
| 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. | | 905,883 |
| In the Statement of Activities, interest is accrued on outstanding bonds and capital leases, whereas in governmental funds, an interest expenditure is reported when due. | | |
| Accrued interest payable | (13,385) | |
| Amortization of premium on bonds | 18,481 | |
| Amortization of premium on capital lease | 21,087 | |
| Total | | 26,183 |
| Contractually required pension/OPEB contributions are reported as expenditures in governmental funds; however, the Statement of Activities reports these amounts as deferred outflows. | | |
| Pension contributions | 1,145,084 | |
| OPEB contributions | 17,442 | |
| Total | | 1,162,526 |
| Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the Statement of Activities. | | |
| Changes in net pension liability | (2,069,552) | |
| Changes in net OPEB liability | (971,575) | |
| Total | | (3,041,127) |
| 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. | | 29,590 |
| **Change in net position of governmental activities** | | $ (3,500,339) |

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, 2018

| | Budgeted Amounts | | | Variance with Final Budget Positive |
|---|---|---|---|---|
| | **Original** | **Final** | **Actual** | **(Negative)** |
| **Revenues:** | | | | |
| Income taxes | $ 8,769,025 | $ 8,292,025 | $ 8,959,634 | $ 667,609 |
| Real and other taxes | 933,791 | 932,840 | 956,107 | 23,267 |
| Charges for services | 425,160 | 431,534 | 472,859 | 41,325 |
| Licenses and permits | 188,500 | 178,550 | 177,481 | (1,069) |
| Fines and forfeitures | 142,000 | 111,678 | 112,009 | 331 |
| Intergovernmental | 300,696 | 459,164 | 458,924 | (240) |
| Investment income | 40,310 | 215,310 | 241,542 | 26,232 |
| Rental income | 66,370 | 69,370 | 72,411 | 3,041 |
| Contributions and donations | - | - | 35 | 35 |
| JEDD revenues | 3,305,240 | 3,820,280 | 3,820,280 | - |
| Other | 118,652 | 94,528 | 106,270 | 11,742 |
| Total revenues | 14,289,744 | 14,605,279 | 15,377,552 | 772,273 |
| **Expenditures:** | | | | |
| Current: | | | | |
| General government | 3,658,963 | 3,662,220 | 3,328,704 | 333,516 |
| Security of persons and property | 7,326,818 | 7,552,810 | 7,048,096 | 504,714 |
| Public health and welfare | 123,500 | 116,189 | 116,189 | - |
| Transportation | 2,922,322 | 2,983,322 | 2,673,907 | 309,415 |
| Community environment | 701,404 | 829,224 | 762,374 | 66,850 |
| Leisure time activity | 484,576 | 484,576 | 400,077 | 84,499 |
| Utility services | 325,247 | 326,847 | 312,942 | 13,905 |
| Total expenditures | 15,542,830 | 15,955,188 | 14,642,289 | 1,312,899 |
| Excess (deficiency) of revenues over (under) expenditures | (1,253,086) | (1,349,909) | 735,263 | 2,085,172 |
| **Other financing sources (uses):** | | | | |
| Sale of capital assets | 5,000 | 3,011 | 3,011 | - |
| Transfers (out) | (1,338,300) | (1,788,300) | (1,220,300) | 568,000 |
| Total other financing sources (uses) | (1,333,300) | (1,785,289) | (1,217,289) | 568,000 |
| Net change in fund balances | (2,586,386) | (3,135,198) | (482,026) | 2,653,172 |
| **Fund balances at beginning of year** | 13,175,458 | 13,175,458 | 13,175,458 | - |
| **Prior year encumbrances appropriated** | 1,077,356 | 1,077,356 | 1,077,356 | - |
| **Fund balance at end of year** | $ 11,666,428 | $ 11,117,616 | $ 13,770,788 | $ 2,653,172 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FAIRLAWN, OHIO**

STATEMENT OF NET POSITION
PROPRIETARY FUND
DECEMBER 31, 2018

| | Business-type Activities - Enterprise Fund |
|---|---|
| | **Broadband** |
| **Assets:** | |
| Current assets: | |
| Equity in pooled cash, cash equivalents, and investments | $ 698,358 |
| Receivables: | |
| Accounts | 58,869 |
| Due from other governments | 118 |
| Materials and supplies inventory | 213,115 |
| Prepayments | 1,712 |
| Total current assets | 972,172 |
| | |
| Noncurrent assets: | |
| Net pension asset | 3 |
| Capital assets: | |
| Depreciable capital assets, net | 9,793,213 |
| Total noncurrent assets | 9,793,216 |
| Total assets | 10,765,388 |
| | |
| **Deferred outflows of resources:** | |
| Pension | 84,816 |
| OPEB | 34,917 |
| Total deferred outflows of resources | 119,733 |
| Total assets and deferred outflows of resources | 10,885,121 |
| | |
| **Liabilities:** | |
| Current liabilities: | |
| Accounts payable | 195,262 |
| Accrued wages and benefits payable | 3,177 |
| Due to other governments | 1,329 |
| Compensated absences payable - current | 4,176 |
| Total current liabilities | 203,944 |
| | |
| Long-term liabilities: | |
| Compensated absences payable | 30,258 |
| Net pension liability | 110,422 |
| Net OPEB liability | 71,697 |
| Total long-term liabilities | 212,377 |
| Total liabilities | 416,321 |
| | |
| **Deferred inflows of resources:** | |
| Pension | 25,883 |
| OPEB | 5,341 |
| Total deferred inflows of resources | 31,224 |
| Total liabilities and deferred inflows of resources | 447,545 |
| | |
| **Net position:** | |
| Net investment in capital assets | 9,793,213 |
| Unrestricted | 644,363 |
| Total net position | $ 10,437,576 |

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, 2018

| | Business-type Activities - Enterprise Fund |
|---|---|
| | **Broadband** |
| **Operating revenues:** | |
| Charges for services | $ 1,498,985 |
| Other operating revenues | 1,453 |
| Total operating revenues | 1,500,438 |
| **Operating expenses:** | |
| Personal services | 106,686 |
| Fringe benefits | 102,559 |
| Contract services | 1,897,639 |
| Materials and supplies | 11,620 |
| Depreciation | 237,815 |
| Other | 5,601 |
| Total operating expenses | 2,361,920 |
| Operating loss | (861,482) |
| **Nonoperating expenses:** | |
| Loss on sale of capital assets | (7,347) |
| Income (loss) before contributions and transfers | (868,829) |
| Transfer in | 482,000 |
| Capital contributions | 1,450,477 |
| Change in net position | 1,063,648 |
| **Net position at beginning of year (restated)** | 9,373,928 |
| **Net position at end of year** | $ 10,437,576 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FAIRLAWN, OHIO**

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2018

| | Business-type Activities - Enterprise Fund |
|---|---|
| | **Broadband** |
| **Cash flows from operating activities:** | |
| Cash received from sales/charges for services | $ 1,500,992 |
| Cash received from other operations | 1,335 |
| Cash payments for contractual services | (1,887,610) |
| Cash payments for personal services | (109,238) |
| Cash payments for fringe benefits | (46,744) |
| Cash payments for materials and supplies | (11,620) |
| Cash payments for other expenses | (5,601) |
| Net cash used in operating activities | (558,486) |
| **Cash flows from noncapital financing activities:** | |
| Cash received from transfers in | 482,000 |
| Net cash provided by financing activities | 482,000 |
| Net increase in cash, cash equivalents, and investments | (76,486) |
| **Cash, cash equivalents, and investments at beginning of year** | 774,844 |
| **Cash, cash equivalents, and investments at end of year** | $ 698,358 |
| **Reconciliation of operating loss to net cash used in operating activities:** | |
| Operating loss | $ (861,482) |
| Adjustments: | |
| Depreciation | 237,815 |
| Changes in assets and liabilities: | |
| Increase in materials and supplies inventory | (96,045) |
| Decrease in accounts receivable | 2,007 |
| Increase in intergovernmental receivable | (118) |
| Increase in prepayments | (918) |
| Increase in net pension asset | (3) |
| Increase in accounts and contracts payable | 106,074 |
| Decrease in accrued wages and benefits | (1,430) |
| Decrease in intergovernmental payable | (779) |
| Decrease in compensated absences payable | (1,122) |
| Increase in pension obligation payable | 37,854 |
| Increase in OPEB obligation payable | 19,661 |
| Net cash used in operating activities | $ (558,486) |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FAIRLAWN, OHIO**

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2018

| | Agency |
|---|---|
| **Assets:** | |
| Current assets: | |
| Equity in pooled cash, cash equivalents, and investments | $ 61,764 |
| Total assets | $ 61,764 |
| **Liabilities:** | |
| Undistributed monies | $ 61,764 |
| Total liabilities | $ 61,764 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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## NOTE 1 - DESCRIPTION OF THE CITY

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

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### A. Reporting Entity

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

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

The City provides various services including police and fire protection, emergency medical, recreation (including parks), planning, zoning, street maintenance and repair, 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.

**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 2018 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.

**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.

## 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.

**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/OPEB liability: (1) the net difference between projected and actual investment earnings on pension/OPEB plan assets; (2) the City's contributions to the pension/OPEB 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, payments in lieu of revenue, and unavailable revenue. Property taxes and payments in lieu of revenue represent amounts for which there is an enforceable legal claim as of December 31, 2018, but which were levied to finance 2019 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, intergovernmental grants, 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/OPEB 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.

## 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 (or the alternative tax budget as permitted by law), 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 2018.

***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.

## 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, Cash Equivalents, and Investments

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, cash equivalents, and investments" on the financial statements.

Except for nonparticipating investment contracts and STAR Ohio, 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.

During 2018, the City invested in 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 2018, 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.

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 2018, interest revenue credited to the general fund amounted to $241,542, which includes $59,824 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.

## 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:

| Description | Estimated Lives |
|---|---|
| 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.

**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 January 1, 2004.

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 $176,975 in the general fund in 2018.

**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.

## 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 or ordinances of the City Council or by State statute. State statute authorizes the Director of Finance to assign fund balance for purchases on order, provided such amounts have been lawfully appropriated.

*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.

## 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 includes limitations imposed for law enforcement, sewer maintenance, and streets and highways maintenance purposes. 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, 2018 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/Other Postemployment Benefits (OPEB)

For purposes of measuring the net pension/OPEB liability, deferred outflows of resources and deferred inflows of resources related pensions/OPEB, and pension/OPEB expense, information about the fiduciary net position of the pension/OPEB plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension/OPEB plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension/OPEB plans 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 2018, the City's proprietary fund reported $1,450,477 in capital contributions from the governmental funds.

## NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLE

### Change in Accounting Principles/Restatement of Net Position

For fiscal year 2018, the City has implemented GASB Statement No. 75, "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*", GASB Statement No. 85, "*Omnibus 2017*" and GASB Statement No. 86, "*Certain Debt Extinguishments*".

GASB Statement No. 75 improves the accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The implementation of GASB Statement No. 75 effected the City's postemployment benefit plan disclosures, as presented in Note 14 to the basic financial statements, and added required supplementary information which is presented after the notes to the basic financial statements.

GASB Statement No. 85 addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and OPEB. The implementation of GASB Statement No. 85 did not have an effect on the financial statements of the City.

GASB Statement No. 86 improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources - resources other than the proceeds of refunding debt - are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The implementation of GASB Statement No. 86 did not have an effect on the financial statements of the City.

A net position restatement is required in order to implement GASB Statement No 75. The governmental activities and business-type activities at January 1, 2018 have been restated as follows:

| | Governmental Activities | Business-Type Activities |
|---|---|---|
| Net position as previously reported | $ 54,358,527 | $ 9,396,388 |
| Deferred outflows - payments subsequent to measurement date | 48,520 | 322 |
| Net OPEB liability | (8,649,822) | (22,782) |
| Restated net position at January 1, 2018 | $ 45,757,225 | $ 9,373,928 |

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

## NOTE 4 - DEPOSITS AND INVESTMENTS

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.

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

4. Bonds and other obligations of the State of Ohio;

5. No-load money market mutual funds consisting exclusively of obligations described in items (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

6. The State Treasury Asset Reserve of Ohio investment pool (STAR Ohio);

7. High grade commercial paper for a period not to exceed 270 days in an amount not to exceed forty 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 forty 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.

## NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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, cash equivalents, and investments."

### B. Cash in Segregated Accounts

At December 31, 2018, the City had $10,971 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 $551,770 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.

### D. Deposits with Financial Institutions

At December 31, 2018, the carrying amount of the City's deposits was $9,311,249, and the bank balance of the City's deposits was $9,781,465. Of the bank balance, $3,187,102 was covered by the Federal Deposit Insurance Corporation (FDIC) and $6,594,363 was covered by the Ohio Pooled Collateral System (OPCS).

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. Ohio law requires that deposits either be insured or protected by: (1) eligible securities pledged to the City and deposited with a qualified trustee by the financial institution as security for repayment, whose market value at all times shall be at least 105 percent of the deposits being secured; or (2) participation in the OPCS, a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or a reduced rate set by the Treasurer of State. 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.

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

**E. Investments**

As of December 31, 2018, the City had the following investments and maturities:

| Measurement/ Investment Type | Measurement Value | Investment Maturities 6 months or less |
|---|---|---|
| Amortized Cost: | | |
| STAR Ohio | $ 10,935,509 | $ 10,935,509 |

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

*Custodial Credit Risk:* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The City has no investment policy dealing with investment custodial risk beyond the requirement in Ohio law that prohibits payments for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

*Credit Risk:* STAR Ohio carries a rating of AAAm by Standard & Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The City's investments in federal agency securities were rated AA+ and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Negotiable certificates of deposit are not rated. The City's investment policy does not specifically address credit risk beyond requiring the City to only invest in securities authorized by State statute.

*Concentration of Credit Risk:* The City's investment policy addresses concentration of credit risk by requiring investments to be diversified to reduce the risk of loss resulting from over concentration of assets in a specific issue or specific class of securities. The following table includes the percentage of each investment type held by the City at December 31, 2018:

| Measurement/ Investment Type | Measurement Amount | % of Total |
|---|---|---|
| Amortized Cost: | | |
| STAR Ohio | $ 10,935,509 | 100.00 |

## NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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, 2018:

| | | |
|---|---|---|
| Cash and Investments per Footnote | | |
| Cash on hand | $ | 1,300 |
| Cash in segregated accounts | | 10,971 |
| Cash with fiscal agent | | 551,770 |
| Carrying amount of deposits | | 9,300,278 |
| Investments | | 10,935,509 |
| Total | $ | 20,799,828 |
| Cash and Investments per Statement of Net Position | | |
| Governmental activities | $ | 20,039,706 |
| Business-type activities | | 698,358 |
| Agency funds | | 61,764 |
| Total | $ | 20,799,828 |

## NOTE 5 - INTERFUND TRANSACTIONS

Interfund transfers for the year ended December 31, 2018 consisted of the following:

| Transfers to | | Transfers from General |
|---|---|---|
| Governmental: | | |
| Major | | |
| Capital Improvement | $ | 200,000 |
| Nonmajor governmental | | 538,300 |
| Business-type: | | |
| Broadband | | 482,000 |
| Total | $ | 1,220,300 |

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 Ohio Revised Code Sections 5705.14-16, are eliminated for reporting on the government-wide Statement of Activities.

## NOTE 6 - PROPERTY TAXES

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

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Public utility tangible personal property is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2018 public utility property taxes became a lien December 31, 2017, are levied after October 1, 2018, and are collected in 2019 with real property taxes. Public utility property taxes are payable on the same dates as real property taxes described previously.

The Summit County Fiscal Officer collects property taxes on behalf of all taxing districts in the County, including the City of Fairlawn. The Summit County Fiscal Officer periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real property taxes, public utility taxes, delinquent tangible personal property taxes and other outstanding delinquencies which are measurable as of December 31, 2018 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 2018 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, 2018 was $2.70 per $1,000 of assessed value. The assessed values of real and public utility property upon which 2018 property tax receipts were based are as follows:

| | |
|---|---|
| Real property | |
| Residential/agricultural | $ 173,818,510 |
| Commercial/industrial/mineral | 159,091,260 |
| Public utility | |
| Personal | 4,290,830 |
| Total assessed value | $ 337,200,600 |

## 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.

## NOTE 7 - LOCAL INCOME TAX - (Continued)

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 2.50 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 46.67 percent of income tax proceeds from the JEDD, net of collection expenditures.

## NOTE 8 - RECEIVABLES

Receivables at December 31, 2018, consisted of taxes, accounts (billings for user charged services), 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, 2018.

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

| | Governmental Activities | Business-Type Activities |
|---|---|---|
| Income taxes | $ 2,299,210 | $ - |
| Real and other taxes | 844,834 | - |
| Payments in lieu of taxes | 23,986 | - |
| Accounts | 81,648 | 58,869 |
| Special assessments | 188,585 | - |
| Due from other governments | 919,663 | 118 |
| Total | $ 4,357,926 | $ 58,987 |

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.

## NOTE 9 - CAPITAL ASSETS

Capital assets of the governmental activities for the year ended December 31, 2018 were as follows:

| | Balance 12/31/17 | Additions | Disposals | Balance 12/31/18 |
|---|---|---|---|---|
| **Governmental Activities:** | | | | |
| *Capital assets, not being depreciated:* | | | | |
| Land | $ 3,241,343 | $ 1,637,489 | $ (1,298,550) | $ 3,580,282 |
| *Capital assets, being depreciated:* | | | | |
| Buildings and improvements | 14,084,811 | 9,972 | - | 14,094,783 |
| Land improvements | 3,219,718 | - | - | 3,219,718 |
| Licensed vehicles | 3,764,311 | 177,807 | (133,514) | 3,808,604 |
| Machinery and equipment | 4,130,079 | 204,256 | (37,369) | 4,296,966 |
| Infrastructure | 79,091,915 | - | - | 79,091,915 |
| Total capital assets, being depreciated | 104,290,834 | 392,035 | (170,883) | 104,511,986 |
| *Less: accumulated depreciation:* | | | | |
| Buildings and improvements | (5,224,059) | (275,958) | - | (5,500,017) |
| Land improvements | (1,368,690) | (98,609) | - | (1,467,299) |
| Licensed vehicles | (2,420,776) | (226,915) | 115,574 | (2,532,117) |
| Machinery and equipment | (2,667,270) | (196,087) | 29,891 | (2,833,466) |
| Infrastructure | (40,158,613) | (1,501,778) | - | (41,660,391) |
| Total accumulated depreciation | (51,839,408) | (2,299,347) | 145,465 | (53,993,290) |
| Total capital assets, being depreciated, net | 52,451,426 | (1,907,312) | (25,418) | 50,518,696 |
| Governmental activities capital assets, net | $ 55,692,769 | $ (269,823) | $ (1,323,968) | $ 54,098,978 |

Assets valued at $1,637,489 were donated to the City by the CIC and reported as capital assets of the City.

Depreciation expense was charged to governmental activities as follows:

| | |
|---|---|
| Governmental activities: | |
| General government | $ 49,114 |
| Security of persons and property | 342,112 |
| Transportation | 1,222,631 |
| Community environment | 2,147 |
| Leisure time activity | 99,049 |
| Utility services | 584,294 |
| Total depreciation expense | $ 2,299,347 |

## NOTE 9 - CAPITAL ASSETS - (Continued)

Capital assets of the business-type activities for the year ended December 31, 2018 were as follows:

| | Balance 12/31/17 | Additions | Disposals | Balance 12/31/18 |
|---|---|---|---|---|
| **Business-Type Activities:** | | | | |
| *Capital assets, not being depreciated:* | | | | |
| Construction in progress | $ 8,587,898 | $ - | $ (8,587,898) | $ - |
| *Capital assets, being depreciated:* | | | | |
| Machinery and equipment | - | 2,789,643 | - | 2,789,643 |
| Infrastructure | - | 7,241,385 | - | 7,241,385 |
| Total capital assets, being depreciated | - | 10,031,028 | - | 10,031,028 |
| *Less: accumulated depreciation:* | | | | |
| Machinery and equipment | - | (92,988) | | (92,988) |
| Infrastructure | - | (144,827) | | (144,827) |
| Total accumulated depreciation | - | (237,815) | - | (237,815) |
| Total capital assets, being depreciated, net | - | 9,793,213 | - | 9,793,213 |
| Total capital assets, net | $ 8,587,898 | $ 9,793,213 | $ (8,587,898) | $ 9,793,213 |

## 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 |
|---|---|---|---|
| General obligation bonds | | | |
| 2012 Various purpose refunding | 2022 | 1.25 - 2.00% | $ 4,500,000 |
| Note payable | | | |
| 2017 Real property note | 2027 | 5.00% | 640,000 |
| Capital lease obligation | | | |
| 2016 FairlawnGig project | 2046 | 1.00 - 4.00% | 10,175,000 |

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

### B. Changes in Long-Term Obligations

During 2018, the following changes occurred in governmental activities long-term obligations:

| | Restated Balance 12/31/17 | Additions | Reductions | Balance 12/31/18 | Due in One Year |
|---|---|---|---|---|---|
| **Governmental Activities:** | | | | | |
| General obligation bonds | | | | | |
| 2012 Various purpose refunding | $ 2,070,000 | $ - | $ (640,000) | $ 1,430,000 | $ 350,000 |
| Add: Unamortized premium | 92,404 | - | (18,481) | 73,923 | - |
| Total general obligation bonds | 2,162,404 | - | (658,481) | 1,503,923 | 350,000 |
| Long term note | | | | | |
| 2017 Real property note | 640,000 | - | (50,883) | 589,117 | 53,427 |
| Net pension liability | | | | | |
| OPERS | 5,577,668 | - | (1,685,909) | 3,891,759 | - |
| OP&F | 8,438,464 | 608,002 | - | 9,046,466 | - |
| Total net pension liability | 14,016,132 | 608,002 | (1,685,909) | 12,938,225 | - |
| Net OPEB liability | | | | | |
| OPERS | 2,325,836 | 201,089 | - | 2,526,925 | - |
| OP&F | 6,323,986 | 2,027,356 | - | 8,351,342 | - |
| Total Net OPEB Liability | 8,649,822 | 2,228,445 | - | 10,878,267 | - |
| Other long-term obligations | | | | | |
| Capital Lease | 9,960,000 | - | (215,000) | 9,745,000 | 220,000 |
| Add: Unamortized premium | 611,511 | - | (21,087) | 590,424 | - |
| Compensated absences | 1,483,469 | 58,613 | (88,203) | 1,453,879 | 526,414 |
| Total other obligations | 12,054,980 | 58,613 | (324,290) | 11,789,303 | 746,414 |
| Total governmental activities | $ 37,523,338 | $ 2,895,060 | $ (2,719,563) | $ 37,698,835 | $ 1,149,841 |

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

During 2018, the following changes occurred in business-type activities long-term obligations:

| | Restated Balance 12/31/17 | Additions | Reductions | Balance 12/31/18 | Due in One Year |
|---|---|---|---|---|---|
| **Business Type Activities:** | | | | | |
| Net pension liability | | | | | |
| OPERS | $ 54,672 | $ 55,750 | $ - | $110,422 | $ - |
| Net OPEB liability | | | | | |
| OPERS | 22,782 | 48,915 | - | 71,697 | - |
| Other long-term obligations | | | | | |
| Compensated absences | 29,181 | 1,077 | - | 30,258 | 10,538 |
| Total business-type activities | $106,635 | $105,742 | $ - | $212,377 | $ 10,538 |

The general obligation bonds and capital lease will be paid from income taxes receipted into the capital improvement fund. Compensated absences reported in the “long-term liabilities” accounts for the governmental activities and business-type activities will be paid from the funds from which the employees’ salaries are paid, the general fund and broadband fund, respectively.

On October 23, 2012, the City issued $4,500,000 in Various Purpose Refunding Bonds (Series 2012). The net proceeds of $4,600,000 (including a premium of $187,888) were used for the current refunding of the 1998 Municipal Building Improvement Bonds and 2002 Municipal Service Building Improvement Bonds. The refunding reduced the City’s total debt service payments by $661,198 over 10 years and resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of $650,872. The reacquisition price equaled the net carrying amount of the old debt.

On October 29, 2017, the City entered into an agreement with the Presentation of Our Lord Romanian Orthodox Church to purchase approximately 14 acres of real property for a purchase price of $800,000, with a 20% down payment. The remaining balance of $640,000 is payable over 10 years from the capital improvement fund.

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

**C. Debt Service Requirements**

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2018 are as follows:

| | General Obligation Bonds | | | Long-Term Note | | |
|---|---|---|---|---|---|---|
| Year | Principal | Interest | Total | Principal | Interest | Total |
| 2019 | $ 350,000 | $ 28,600 | $ 378,600 | $ 53,427 | $ 29,456 | $ 82,883 |
| 2020 | 355,000 | 21,600 | 376,600 | 56,098 | 26,785 | 82,883 |
| 2021 | 360,000 | 14,500 | 374,500 | 58,903 | 23,980 | 82,883 |
| 2022 | 365,000 | 7,300 | 372,300 | 61,849 | 21,034 | 82,883 |
| 2023 | - | - | - | 64,941 | 17,942 | 82,883 |
| 2024-2027 | - | - | - | 293,899 | 37,633 | 331,532 |
| Total | $1,430,000 | $ 72,000 | $1,502,000 | $ 589,117 | $ 156,830 | $ 745,947 |

**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, 2018, there was one series of Health Care Facilities Revenue Bonds with an aggregate outstanding principal amount payable of $6,675,000 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 principal payments of $215,000 and interest and fiscal charges payments of $369,500 in fiscal year 2018.

Capital assets consisting of machinery and equipment and infrastructure have been capitalized in the broadband fund, an enterprise fund of the City, in the amount of $10,031,028. The remaining lease proceeds, issuance premium, and accumulated interest of $551,770 were unspent as of December 31, 2018 and are held by a Trustee and included on the Statement of Net Position as cash with fiscal agent.

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

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, 2018:

| Year Ending December 31, | Governmental Activities |
|---|---|
| 2019 | $ 587,350 |
| 2020 | 582,950 |
| 2021 | 583,550 |
| 2022 | 584,050 |
| 2023 | 587,150 |
| 2024-2028 | 2,931,450 |
| 2029-2033 | 2,923,400 |
| 2034-2038 | 2,919,000 |
| 2039-2043 | 2,922,600 |
| 2044-2046 | 1,756,000 |
| Total minimum lease payments | 16,377,500 |
| Less: amount representing interest and fiscal charges | (6,632,500) |
| Present value of future minimum lease payments | $ 9,745,000 |

## 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 January 1, 2004 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 December 31, 2003 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, 2018, the total liability for unpaid compensated absences was $1,630,854 in the governmental activities and $34,434 in the business-type activities.

### 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 2018, 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 Hudson Insurance 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.

GASB 68 assumes any net pension liability/asset 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.

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

***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.

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):

| **Group A**<br>Eligible to retire prior to January 7, 2013 or five years after January 7, 2013 | **Group B**<br>20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013 | **Group C**<br>Members not in other Groups and members hired on or after January 7, 2013 |
|---|---|---|
| **State and Local** | **State and Local** | **State and Local** |
| **Age and Service Requirements:**<br>Age 60 with 60 months of service credit or Age 55 with 25 years of service credit | **Age and Service Requirements:**<br>Age 60 with 60 months of service credit or Age 55 with 25 years of service credit | **Age and Service Requirements:**<br>Age 57 with 25 years of service credit or Age 62 with 5 years of service credit |
| **Formula:**<br>2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30 | **Formula:**<br>2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30 | **Formula:**<br>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 3.00% 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 3.00%.

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

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 1.00% 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 2.25% COLA adjustment on the defined benefit portion of their benefit.

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 |
|---|---|
| **2018 Statutory Maximum Contribution Rates** | |
| Employer | 14.0 % |
| Employee | 10.0 % |
| **2018 Actual Contribution Rates** | |
| Employer: | |
| Pension | 14.0 % |
| Post-employment Health Care Benefits | 0.0 % |
| 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 $462,129 for 2018.

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

***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 may be obtained by visiting the OP&F website at www.op-f.org, or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

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 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 2.50% for each of the first 20 years of service credit, 2.00% for each of the next five years of service credit and 1.50% for each year of service credit in excess of 25 years. The maximum pension of 72.00% of the allowable average annual salary is paid after 33 years of service credit.

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

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

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

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

| | Police | Firefighters |
|---|---|---|
| **2018 Statutory Maximum Contribution Rates** | | |
| Employer | 19.50 % | 24.00 % |
| Employee | 12.25 % | 12.25 % |
| **2018 Actual Contribution Rates** | | |
| Employer: | | |
| Pension | 19.00 % | 23.50 % |
| Post-employment Health Care Benefits | 0.50 % | 0.50 % |
| Total Employer | 19.50 % | 24.00 % |
| 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 $695,705 for 2018.

**Net 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, Combined Plan and Member-Directed Plan, respectively, were measured as of December 31, 2017, 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, 2017, and was determined by rolling forward the total pension liability as of January 1, 2017, to December 31, 2017. 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 - Traditional | OPERS - Member-Directed | OP&F | Total |
|---|---|---|---|---|
| Proportion of the net pension liability/asset prior measurement date | 0.02480300% | 0.00357300% | 0.13322700% | |
| Proportion of the net pension liability/asset current measurement date | 0.02551100% | 0.00342200% | 0.14739800% | |
| Change in proportionate share | 0.00070800% | -0.00015100% | 0.01417100% | |
| Proportionate share of the net pension liability | $ 4,002,181 | $ - | $ 9,046,466 | $ 13,048,647 |
| Proportionate share of the net pension asset | - | (119) | - | (119) |
| Pension expense | 933,326 | (39) | 1,186,866 | 2,120,153 |

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

At December 31, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | OPERS - Traditional | OPERS - Member-Directed | OP&F | Total |
|---|---|---|---|---|
| **Deferred outflows of resources** | | | | |
| Differences between expected and actual experience | $ 4,087 | $ 232 | $ 137,286 | $ 141,605 |
| Changes of assumptions | 478,288 | 14 | 394,202 | 872,504 |
| Changes in employer's proportionate percentage/ difference between employer contributions | 80,390 | - | 703,919 | 784,309 |
| City contributions subsequent to the measurement date | 460,173 | 1,956 | 695,705 | 1,157,834 |
| Total deferred outflows of resources | $ 1,022,938 | $ 2,202 | $ 1,931,112 | $ 2,956,252 |

| | OPERS - Traditional | OPERS - Member-Directed | OP&F | Total |
|---|---|---|---|---|
| **Deferred inflows of resources** | | | | |
| Differences between expected and actual experience | $ 78,871 | $ - | $ 16,366 | $ 95,237 |
| Net difference between projected and actual earnings on pension plan investments | 859,217 | 36 | 312,939 | 1,172,192 |
| Changes in employer's proportionate percentage/ difference between employer contributions | 17,394 | - | 126,623 | 144,017 |
| Total deferred inflows of resources | $ 955,482 | $ 36 | $ 455,928 | $ 1,411,446 |

$1,157,834 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, 2019.

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

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

| | OPERS - Traditional | OPERS - Member-Directed | OP&F | Total |
|---|---|---|---|---|
| Year Ending December 31: | | | | |
| 2019 | $ 391,751 | $ 27 | $ 336,502 | $ 728,280 |
| 2020 | (53,051) | 25 | 254,228 | 201,202 |
| 2021 | (378,352) | 23 | (70,232) | (448,561) |
| 2022 | (353,064) | 23 | (19,623) | (372,664) |
| 2023 | (1) | 31 | 224,095 | 224,125 |
| Thereafter | - | 81 | 54,509 | 54,590 |
| Total | $ (392,717) | $ 210 | $ 779,479 | $ 386,972 |

***Actuarial Assumptions - OPERS***

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability was determined by an actuarial valuation as of December 31, 2017, using the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB 67.

| | |
|---|---|
| Wage inflation | 3.25% |
| Future salary increases, including inflation | 3.25% to 10.75% including wage inflation |
| COLA or ad hoc COLA | Pre 1/7/2013 retirees: 3.00%, simple<br>Post 1/7/2013 retirees: 3.00%, simple through 2018, then 2.15% simple |
| Investment rate of return | 7.50% |
| Actuarial cost method | Individual entry age |

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables.

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

The most recent experience study was completed for the five-year period ended December 31, 2015.

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.

During 2017, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio, and the Defined Contribution portfolio. The Defined Benefit portfolio contains the investment assets for the Traditional Pension Plan, the defined benefit component of the Combined Plan and the annuitized accounts of the Member-Directed Plan. 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 annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio was 16.82% for 2017.

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 2017 and the long-term expected real rates of return:

| Asset Class | Target Allocation | Weighted Average Long-Term Expected Real Rate of Return (Arithmetic) |
|---|---|---|
| Fixed income | 23.00 % | 2.20 % |
| Domestic equities | 19.00 | 6.37 |
| Real estate | 10.00 | 5.26 |
| Private equity | 10.00 | 8.97 |
| International equities | 20.00 | 7.88 |
| Other investments | 18.00 | 5.26 |
| Total | 100.00 % | 5.66 % |

***Discount Rate*** **-** The discount rate used to measure the total pension liability/asset was 7.50%, post-experience study results, for 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.

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

***Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate -*** The following table presents the City's proportionate share of the net pension liability/asset calculated using the current period discount rate assumption of 7.50%, 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 (6.50%) or one-percentage-point higher (8.50%) than the current rate:

| | 1% Decrease (6.50%) | Current Discount Rate (7.50%) | 1% Increase (8.50%) |
|---|---|---|---|
| City's proportionate share of the net pension liability (asset): | | | |
| Traditional Pension Plan | $ 7,106,854 | $ 4,002,181 | $ 1,413,820 |
| Member-Directed Plan | (68) | (119) | (171) |

***Actuarial Assumptions – OP&F***

OP&F's total pension liability as of December 31, 2017 is based on the results of an actuarial valuation date of January 1, 2017, 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, 2017, are presented below. The following were the most significant changes of assumptions that affected the total pension liability since the prior measurement date: (a) reduction in the investment rate of return from 8.25% to 8.00%, (b) projected salary increases decreased from 4.25% - 11.00% to 3.75% - 10.50%, (c) payroll increases decreased from 3.75% to 3.25%, (d) inflation assumptions decreased from 3.25% to 2.75% and (e) Cost of Living Adjustments (COLAs) decreased from 2.60% to 2.20%.

| | |
|---|---|
| Valuation date | 1/1/17 with actuarial liabilities rolled forward to 12/31/17 |
| Actuarial cost method | Entry age normal |
| Investment rate of return | 8.00% |
| Projected salary increases | 3.75% - 10.50% |
| Payroll increases | 3.25% |
| Inflation assumptions | 2.75% |
| Cost of living adjustments | 2.20% and 3.00% for increases based on the lessor of the increase in CPI and 3.00% 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.

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

The most recent experience study was completed for the five-year period ended December 31, 2016. The recommended assumption changes based on this experience study were adopted by OP&F's Board and were effective beginning with the January 1, 2017 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 and Guidelines. 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 average of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes.

Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F's target asset allocation as of December 31, 2017 are summarized below:

| Asset Class | Target Allocation | 10 Year Expected Real Rate of Return ** | 30 Year Expected Real Rate of Return ** |
|---|---|---|---|
| Cash and Cash Equivalents | - % | | |
| Domestic Equity | 16.00 | 4.22 % | 5.39 % |
| Non-US Equity | 16.00 | 4.41 | 5.59 |
| Private Markets | 8.00 | 6.67 | 8.08 |
| Core Fixed Income * | 23.00 | 1.57 | 2.71 |
| High Yield Fixed Income | 7.00 | 2.94 | 4.71 |
| Private Credit | 5.00 | 6.93 | 7.26 |
| U.S. Inflation Linked Bonds | 17.00 | 0.98 | 2.52 |
| Master Limited Partnerships | 8.00 | 7.50 | 7.93 |
| Real Assets | 8.00 | 6.88 | 7.24 |
| Private Real Estate | 12.00 | 5.58 | 6.34 |
| Total | 120.00 % | | |

Note: assumptions are geometric.
* levered 2x
** numbers include inflation

OP&F's Board of Trustees has incorporated the risk parity concept into OP&F's asset liability valuation with the goal of reducing equity risk exposure, which reduces overall Total Portfolio risk without sacrificing return and creating a more risk-balanced portfolio based on the relationship between asset classes and economic environments. From the notional portfolio perspective above, the Total Portfolio may be levered up to 1.20 times due to the application of leverage in certain fixed income asset classes.

***Discount Rate -*** The total pension liability/asset was calculated using the discount rate of 8.00%. A discount rate of 8.25% was used in the prior measurement period. 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 8.00%. 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/asset.

**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 8.00%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.00%), or one percentage point higher (9.00%) 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 | $ 12,540,795 | $ 9,046,466 | $ 6,196,548 |

**NOTE 14 - DEFINED BENEFIT OPEB PLANS**

***Net OPEB Liability***

The net OPEB liability reported on the statement of net position represents a liability to employees for OPEB. OPEB is a component of exchange transactions-–between an employer and its employees—of salaries and benefits for employee services. OPEB 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 OPEB is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net OPEB liability represents the City’s proportionate share of each OPEB plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each OPEB plan’s fiduciary net position. The net OPEB liability 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 these estimates annually.

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 OPEB are financed; however, the City does receive the benefit of employees’ services in exchange for compensation including OPEB.

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The proportionate share of each plan’s unfunded benefits is presented as a long-term net OPEB liability on the accrual basis of accounting. Any liability for the contractually-required OPEB contribution outstanding at the end of the year is included in intergovernmental payable on both the accrual and modified accrual bases of accounting.

**NOTE 14 - DEFINED BENEFIT OPEB PLANS - (Continued)**

***Plan Description – Ohio Public Employees Retirement System (OPERS)***

Plan Description - The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the traditional pension plan, a cost-sharing, multiple-employer defined benefit pension plan; the member-directed plan, a defined contribution plan; and the combined plan, a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the traditional pension and the combined plans. This trust is also used to fund health care for member-directed plan participants, in the form of a Retiree Medical Account (RMA). At retirement or refund, member directed plan participants may be eligible for reimbursement of qualified medical expenses from their vested RMA balance.

In order to qualify for postemployment health care coverage, age and service retirees under the traditional pension and combined plans must have twenty or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 75. See OPERS' CAFR referenced below for additional information.

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

Disclosures for the health care plan are presented separately in the OPERS financial report. Interested parties may obtain a copy by visiting https://www.opers.org/financial/reports.shtml, by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

Funding Policy - The Ohio Revised Code provides the statutory authority requiring public employers to fund postemployment health care through their contributions to OPERS. When funding is approved by OPERS' Board of Trustees, a portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans. Beginning in 2018, health care is not being funded.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2018, state and local employers contributed at a rate of 14.0 percent of earnable salary and public safety and law enforcement employers contributed at 18.1 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 1.0 percent during calendar year 2017. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2018 decreased to 0 percent for both plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the RMA for participants in the Member-Directed Plan for 2018 was 4.0 percent.

**NOTE 14 - DEFINED BENEFIT OPEB PLANS - (Continued)**

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was $783 for 2018.

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

Plan Description – The City contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored healthcare program, a cost-sharing, multiple-employer defined post-employment healthcare plan administered by a third-party provider. This program is not guaranteed and is subject to change at any time upon action of the Board of Trustees. OP&F provides health care benefits including coverage for medical, prescription drug, dental, vision, and Medicare Part B Premium to retirees, qualifying benefit recipients and their eligible dependents.

OP&F provides access to postretirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or statutory survivor benefit, 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 Government Accounting Standards Board (GASB) Statement No. 75.

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 information and required supplementary information for the plan. The report may be obtained by visiting the OP&F website at www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

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 19.5 percent and 24 percent of covered payroll for police and fire employer units, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.5 percent of covered payroll for police employer units and 24 percent of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

OP&F maintains funds for health care in two separate accounts. There is one account for health care benefits and one account for Medicare Part B reimbursements. A separate health care trust accrual account is maintained for health care benefits under IRS Code Section 115 trust. An Internal Revenue Code 401(h) account is maintained for Medicare Part B reimbursements.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For 2018, the portion of employer contributions allocated to health care was 0.5 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

The OP&F Board of Trustees is also 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.

**NOTE 14 - DEFINED BENEFIT OPEB PLANS - (Continued)**

Beginning January 1, 2019, OP&F is changing its retiree health care model and the current self-insured health care plan will no longer be offered. In its place is a stipend-based health care model. A stipend funded by OP&F will be placed in individual Health Reimbursement Accounts that retirees will use to be reimbursed for health care expenses.

The City's contractually required contribution to OP&F was $16,681 for 2018.

***Net OPEB Liabilities, OPEB Expense, and Deferred Outflows or Resources and Deferred Inflows of Resources Related to OPEB***

The net OPEB liability and total OPEB liability for OPERS were determined by an actuarial valuation as of December 31, 2016, rolled forward to the measurement date of December 31, 2017, by incorporating the expected value of health care cost accruals, the actual health care payment, and interest accruals during the year. OP&F's total OPEB liability was measured as of December 31, 2017, and was determined by rolling forward the total OPEB liability as of January 1, 2017, to December 31, 2017. The City's proportion of the net OPEB liability was based on the City's share of contributions to the retirement plan relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

| | OPERS | OP&F | Total |
|---|---|---|---|
| Proportion of the net OPEB liability prior measurement date | 0.02325300% | 0.13322700% | |
| Proportion of the net OPEB liability current measurement date | 0.02393000% | 0.14739800% | |
| Change in proportionate share | 0.00067700% | 0.01417100% | |
| Proportionate share of the net OPEB liability | $ 2,598,622 | $ 8,351,342 | $ 10,949,964 |
| OPEB expense | $ 242,290 | $ 748,968 | $ 991,258 |

At December 31, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

**NOTE 14 - DEFINED BENEFIT OPEB PLANS - (Continued)**

| | OPERS | OP&F | Total |
|---|---|---|---|
| **Deferred outflows of resources** | | | |
| Differences between expected and actual experience | $ 2,024 | $ - | $ 2,024 |
| Changes of assumptions | 189,207 | 814,915 | 1,004,122 |
| Changes in employer's proportionate percentage/ difference between employer contributions | 43,210 | 576,262 | 619,472 |
| City contributions subsequent to the measurement date | 783 | 16,681 | 17,464 |
| Total deferred outflows of resources | $ 235,224 | $ 1,407,858 | $ 1,643,082 |

| | OPERS | OP&F | Total |
|---|---|---|---|
| **Deferred inflows of resources** | | | |
| Differences between expected and actual experience | $ - | $ 42,121 | $ 42,121 |
| Net difference between projected and actual earnings on pension plan investments | 193,580 | 54,972 | 248,552 |
| Total deferred inflows of resources | $ 193,580 | $ 97,093 | $ 290,673 |

$17,464 reported as deferred outflows of resources related to OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2019.

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

| | OPERS | OP&F | Total |
|---|---|---|---|
| Year Ending December 31: | | | |
| 2019 | $ 63,693 | $ 183,488 | $ 247,181 |
| 2020 | 63,693 | 183,488 | 247,181 |
| 2021 | (38,130) | 183,488 | 145,358 |
| 2022 | (48,395) | 183,488 | 135,093 |
| 2023 | - | 197,231 | 197,231 |
| Thereafter | - | 362,901 | 362,901 |
| Total | $ 40,861 | $ 1,294,084 | $ 1,334,945 |

**NOTE 14 - DEFINED BENEFIT OPEB PLANS - (Continued)**

***Actuarial Assumptions - OPERS***

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

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of coverage provided at the time of each valuation and the historical pattern of sharing of costs between OPERS and plan members. The total OPEB liability was determined by an actuarial valuation as of December 31, 2016, rolled forward to the measurement date of December 31, 2017. The actuarial valuation used the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB 74:

| | |
|---|---|
| Wage Inflation | 3.25 percent |
| Projected Salary Increases, | 3.25 to 10.75 percent |
| including inflation | including wage inflation |
| Single Discount Rate: | |
| Current measurement date | 3.85 percent |
| Prior Measurement date | 4.23 percent |
| Investment Rate of Return | 6.50 percent |
| Municipal Bond Rate | 3.31 percent |
| Health Care Cost Trend Rate | 7.5 percent, initial |
| | 3.25 percent, ultimate in 2028 |
| Actuarial Cost Method | Individual Entry Age |

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to all of the above described tables.

The most recent experience study was completed for the five-year period ended December 31, 2015.

The long-term expected rate of return on health care 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.

During 2017, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio and the Defined Contribution portfolio. The Health Care portfolio includes the assets for health care expenses for the Traditional Pension Plan, Combined Plan and Member-Directed Plan eligible members.

**NOTE 14 - DEFINED BENEFIT OPEB PLANS - (Continued)**

Within the Health Care portfolio, contributions into the plans are assumed to be received continuously throughout the year based on the actual payroll payable at the time contributions are made, and health care-related payments are assumed to occur mid-year. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Health Care portfolio is 15.2 percent for 2017.

The allocation of investment assets with the Health Care portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Assets are managed on a total return basis with a long-term objective of continuing to offer a sustainable health care program for current and future retirees. OPERS' primary goal is to achieve and maintain a fully funded status for the benefits provided through the defined pension plans. Health care is a discretionary benefit. The table below displays the Board-approved asset allocation policy for 2017 and the long-term expected real rates of return:

| Asset Class | Target Allocation | Weighted Average Long-Term Expected Real Rate of Return (Arithmetic) |
|---|---|---|
| Fixed Income | 34.00 % | 1.88 % |
| Domestic Equities | 21.00 | 6.37 |
| Real Estate Investment Trust | 6.00 | 5.91 |
| International Equities | 22.00 | 7.88 |
| Other investments | 17.00 | 5.39 |
| Total | 100.00 % | 4.98 % |

***Discount Rate*** A single discount rate of 3.85 percent was used to measure the OPEB liability on the measurement date of December 31, 2017. A single discount rate of 4.23 percent was used to measure the OPEB liability on the measurement date of December 31, 2016. Projected benefit payments are required to be discounted to their actuarial present value using a single discount rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the health care fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate are not met). This single discount rate was based on an expected rate of return on the health care investment portfolio of 6.50 percent and a municipal bond rate of 3.31 percent. The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rate. Based on these assumptions, the health care fiduciary net position and future contributions were sufficient to finance health care costs through 2034. As a result, the long-term expected rate of return on health care investments was applied to projected costs through the year 2034, and the municipal bond rate was applied to all health care costs after that date.

**NOTE 14 - DEFINED BENEFIT OPEB PLANS - (Continued)**

***Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate*** The following table presents the City's proportionate share of the net OPEB liability calculated using the single discount rate of 3.85 percent, as well as what the City's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (2.85 percent) or one-percentage-point higher (4.85 percent) than the current rate:

| | 1% Decrease (2.85%) | Current Discount Rate (3.85%) | 1% Increase (4.85%) |
|---|---|---|---|
| City's proportionate share of the net OPEB liability | $ 3,452,381 | $ 2,598,622 | $ 1,907,939 |

***Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate*** Changes in the health care cost trend rate may also have a significant impact on the net OPEB liability. The following table presents the net OPEB liability calculated using the assumed trend rates, and the expected net OPEB liability if it were calculated using a health care cost trend rate that is 1.0 percent lower or 1.0 percent higher than the current rate.

Retiree health care valuations use a health care cost-trend assumption that changes over several years built into the assumption. The near-term rates reflect increases in the current cost of health care; the trend starting in 2018 is 7.50 percent. If this trend continues for future years, the projection indicates that years from now virtually all expenditures will be for health care. A more reasonable alternative is that in the not-too-distant future, the health plan cost trend will decrease to a level at, or near, wage inflation. On this basis, the actuaries project premium rate increases will continue to exceed wage inflation for approximately the next decade, but by less each year, until leveling off at an ultimate rate, assumed to be 3.25 percent in the most recent valuation.

| | 1% Decrease | Current Health Care Trend Rate Assumption | 1% Increase |
|---|---|---|---|
| City's proportionate share of the net OPEB liability | $ 2,486,327 | $ 2,598,622 | $ 2,714,619 |

***Actuarial Assumptions – OP&F***

OP&F's total OPEB liability as of December 31, 2017, is based on the results of an actuarial valuation date of January 1, 2017, and rolled-forward using generally accepted actuarial procedures. The total OPEB liability is determined by OP&F's actuaries in accordance with GASB Statement No. 74, 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.

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 and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

**NOTE 14 - DEFINED BENEFIT OPEB PLANS - (Continued)**

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases, actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, are presented below.

| | |
|---|---|
| Valuation Date | January 1, 2017, with actuarial liabilities rolled forward to December 31, 2017 |
| Actuarial Cost Method | Entry Age Normal |
| Investment Rate of Return | 8.0 percent |
| Projected Salary Increases | 3.75 percent to 10.5 percent |
| Payroll Growth | Inflation rate of 2.75 percent plus productivity increase rate of 0.5 percent |
| Single discount rate: | |
| Currrent measurement date | 3.24 percent |
| Prior measurement date | 3.79 percent |
| Cost of Living Adjustments | 3.00 percent simple; 2.2 percent simple for increased based on the lesser of the increase in CPI and 3 percent |

Mortality for non-disabled participants is based on the RP-2014 Total Employee and Healthy Annuitant Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale. Rates for surviving beneficiaries are adjusted by 120 percent.

| Age | Police | Fire |
|---|---|---|
| 67 or less | 77 % | 68 % |
| 68-77 | 105 | 87 |
| 78 and up | 115 | 120 |

Mortality for disabled retirees is based on the RP-2014 Disabled Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale.

| Age | Police | Fire |
|---|---|---|
| 59 or less | 35 % | 35 % |
| 60-69 | 60 | 45 |
| 70-79 | 75 | 70 |
| 80 and up | 100 | 90 |

The most recent experience study was completed for the five-year period ended December 31, 2016, the prior experience study was completed December 31, 2011.

**NOTE 14 - DEFINED BENEFIT OPEB PLANS - (Continued)**

The long-term expected rate of return on OPEB 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. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F's target asset allocation as of December 31, 2017, are summarized below:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| Cash and Cash Equivalents | - % | 0.00 % |
| Domestic Equity | 16.00 | 5.21 |
| Non-US Equity | 16.00 | 5.40 |
| Core Fixed Income* | 20.00 | 2.37 |
| Global Inflation Protected Securities* | 20.00 | 2.33 |
| High Yield | 15.00 | 4.48 |
| Real Estate | 12.00 | 5.65 |
| Private Markets | 8.00 | 7.99 |
| Timber | 5.00 | 6.87 |
| Master Limited Partnerships | 8.00 | 7.36 |
| Total | 120.00 % | |

Note: Assumptions are geometric.
*levered 2x

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

***Discount Rate*** The total OPEB liability was calculated using the discount rate of 3.24 percent. The projection of cash flows used to determine the discount rate assumed the contribution from employers and from members would be computed based on contribution requirements as stipulated by state statute. Projected inflows from investment earnings were calculated using the longer-term assumed investment rate of return 8 percent. Based on those assumptions, OP&F's fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, a municipal bond rate of 3.16 percent at December 31, 2017 and 3.71 percent at December 31, 2016, was blended with the long-term rate of 8 percent, which resulted in a blended discount rate of 3.24 percent. The municipal bond rate was determined using the S&P Municipal Bond 20 Year High Grade Rate Index. The OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments until 2025. The long-term expected rate of return on health care investments was applied to projected costs through 2025, and the municipal bond rate was applied to all health care costs after that date.

**NOTE 14 - DEFINED BENEFIT OPEB PLANS - (Continued)**

***Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate*** Net OPEB liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net OPEB liability calculated using the discount rate of 3.24 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.24 percent), or one percentage point higher (4.24 percent) than the current rate.

| | 1% Decrease (2.24%) | Current Discount Rate (3.24%) | 1% Increase (4.24%) |
|---|---|---|---|
| City's proportionate share of the net OPEB liability | $ 10,439,306 | $ 8,351,342 | $ 6,744,785 |

***Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate*** Net OPEB liability is sensitive to changes in the health care cost trend rate. The trend rate is the annual rate at which the cost of covered medical services is assumed to increase from the current year to the next year. Beginning in 2017, the per-capita costs are assumed to change by the following percentages each year:

| Year | Non-Medicare | Non-AARP | AARP | Rx Drug | Medicare Part B |
|---|---|---|---|---|---|
| 2017 | -0.47% | -2.50% | 4.50% | -0.47% | 5.20% |
| 2018 | 7.00% | 7.00% | 4.50% | 7.00% | 5.10% |
| 2019 | 6.50% | 6.50% | 4.50% | 6.50% | 5.00% |
| 2020 | 6.00% | 6.00% | 4.50% | 6.00% | 5.00% |
| 2021 | 5.50% | 5.50% | 4.50% | 5.50% | 5.00% |
| 2022 | 5.00% | 5.00% | 4.50% | 5.00% | 5.00% |
| 2023 and Later | 4.50% | 4.50% | 4.50% | 4.50% | 5.00% |

To illustrate the potential impact, the following table presents the net OPEB liability calculated using the current healthcare cost trend current rates as outlined in the table above, a one percent decrease in the trend rates and a one percent increase in the trend rates.

| | 1% Decrease | Current Health Care Trend Rate Assumption | 1% Increase |
|---|---|---|---|
| City's proportionate share of the net OPEB liability | $ 6,487,490 | $ 8,351,342 | $ 10,863,236 |

***Changes between Measurement Date and Report Date*** In October of 2018, the OPERS Board adopted a change in the investment return assumption, reducing it from 6.5 percent to 6.0 percent. This change will be effective for the 2018 valuation. The exact amount of the impact to the City's net OPEB liability is not known.

## NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

**Net Change in Fund Balance**

| | General |
|---|---|
| Budget basis | $ (482,026) |
| Net adjustment for revenue accruals | 312,379 |
| Net adjustment for expenditure accruals | (268,329) |
| Adjustment for encumbrances | 1,116,788 |
| GAAP basis | $ 678,812 |

## 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 are presented as follows:

| Fund Balance | General | Capital Improvement | Other Governmental | Total Governmental Funds |
|---|---|---|---|---|
| Nonspendable: | | | | |
| Materials & supplies inventory | $ 570,771 | $ - | $ - | $ 570,771 |
| Prepayments | 205,483 | - | - | 205,483 |
| Unclaimed monies | 14,211 | - | - | 14,211 |
| Total nonspendable | 790,465 | - | - | 790,465 |
| Restricted: | | | | |
| Capital improvements | - | 3,751,772 | - | 3,751,772 |
| Law enforcement | - | - | 76,180 | 76,180 |
| Police and fire pensions | - | - | 221,586 | 221,586 |
| Sewer maintenance | - | - | 568,850 | 568,850 |
| Streets and highways | - | - | 473,550 | 473,550 |
| Tax increment financing | - | - | 24,307 | 24,307 |
| Total restricted | - | 3,751,772 | 1,364,473 | 5,116,245 |
| Committed: | | | | |
| Law enforcement | 5,000 | - | - | 5,000 |
| Assigned: | | | | |
| Encumbrances | 820,152 | - | - | 820,152 |
| Subsequent year operations | 2,975,992 | - | - | 2,975,992 |
| Total assigned | 3,796,144 | - | - | 3,796,144 |
| Unassigned | 11,559,319 | - | - | 11,559,319 |
| Total fund balances | $ 16,150,928 | $ 3,751,772 | $ 1,364,473 | $ 21,267,173 |

## 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, 2018.

## NOTE 17 - CONTINGENCIES - (Continued)

### B. Litigation

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

## NOTE 18 - CONTRACTUAL AND OTHER COMMITMENTS

### A. Contractual Commitments

As of December 31, 2018, the City had the following significant contractual commitments:

| Project | Contracts Awarded | Paid | Remaining |
|---|---|---|---|
| Cornus Hill mansion demolition | $ 186,320 | $ - | $ 186,320 |
| FairlawnGig construction | 7,590,283 | 6,666,472 | 923,811 |
| Total | $ 7,776,603 | $ 6,666,472 | $ 1,110,131 |

### 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:

| Fund | Year-End Encumbrances |
|---|---|
| General | $ 820,152 |
| Capital improvement | 805,989 |
| Other governmental | 267,151 |
| Total | $ 1,893,292 |

## NOTE 19 - RELATED PARTY TRANSACTIONS

During 2018, the City contributed $250,000 and five parcels of real property, with a carrying value of $1,298,550, to the CIC, a discretely presented component unit of the City. In addition, the CIC donated 10 parcels of real property to the City, with a carrying value of $1,637,489.

## NOTE 20 - COMMUNITY IMPROVEMENT CORPORATION OF FAIRLAWN, OHIO

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

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. 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 2018.

### 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.

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

**E. Assets Held for Sale**

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

Assets Held for Sale activity for the year ended December 31, 2018 was as follows:

| | Balance 12/31/17 | Additions | Disposals | Balance 12/31/18 |
|---|---|---|---|---|
| Assets Held for Sale | $ 1,637,489 | $ 522,000 | $ (1,637,489) | $ 522,000 |

**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, 2018, the carrying amount of the CIC's deposits was $273,119 and the bank balance of the CIC's deposits was $273,305. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", $250,000 of the CIC's bank balance of $273,305 was covered by the Federal Deposit Insurance Corporation, while $23,305 was uninsured and uncollateralized.

**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.

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

The future minimum lease payments as of December 31, 2018, were as follows:

| Year Ending December 31 | Future Minimum Lease Payments |
|---|---|
| 2018 * | $ 13,000 |
| 2019 | 13,000 |
| 2020 | 13,000 |
| 2021 | 13,000 |
| 2022 | 13,000 |
| 2023-2027 | 65,000 |
| 2028-2030 | 221,000 |
| Total | $ 351,000 |

* Outstanding as of December 31, 2018.

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

***Cash***

The CIC received $250,000 in contributions from the City during the year.

***Property***

Donations of property are recorded as contributions at their estimated fair market value at the date of donation. Such donations are reported as increases to assets held for sale. The CIC received five parcels of real property from the City during the year, with an estimated fair market value of $417,000.

Donations of property to the City are reported as decreases to assets held for sale at the date of donation. The CIC donated 10 parcels of real property, with a carrying value of $1,637,489, 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 2018, the CIC had general liability insurance through Auto-Owners Insurance Company and directors and officers insurance through Allied World Specialty Insurance 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.

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

**M. Litigation**

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

**CITY OF FAIRLAWN, OHIO**

SCHEDULES OF THE 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 FIVE YEARS

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| *Traditional Plan:* | | | | | |
| City's proportion of the net pension liability | 0.025511% | 0.024803% | 0.024912% | 0.023637% | 0.023637% |
| City's proportionate share of the net pension liability | $ 4,002,181 | $ 5,632,340 | $ 4,315,072 | $ 2,850,886 | $ 2,786,494 |
| City's covered payroll | $ 3,239,638 | $ 3,229,808 | $ 3,105,650 | $ 2,906,808 | $ 2,887,162 |
| City's proportionate share of the net pension liability as a percentage of its covered payroll | 123.54% | 174.39% | 138.94% | 98.08% | 96.51% |
| Plan fiduciary net position as a percentage of the total pension liability | 84.66% | 77.25% | 81.08% | 86.45% | 86.36% |
| *Combined Plan:* | | | | | |
| City's proportion of the net pension asset | 0.000000% | 0.000000% | 0.014030% | 0.016754% | 0.016754% |
| City's proportionate share of the net pension asset | $ - | $ - | $ 6,827 | $ 6,451 | $ 1,758 |
| City's covered payroll | $ - | $ - | $ 59,025 | $ 61,242 | $ 51,038 |
| City's proportionate share of the net pension asset as a percentage of its covered payroll | 0.00% | 0.00% | 11.57% | 10.53% | 3.44% |
| Plan fiduciary net position as a percentage of the total pension asset | 137.28% | 116.55% | 116.90% | 114.83% | 104.56% |
| *Member Directed Plan:* | | | | | |
| City's proportion of the net pension asset | 0.003422% | 0.003573% | 0.003709% | n/a | n/a |
| City's proportionate share of the net pension asset | $ 119 | $ 15 | $ 14 | n/a | n/a |
| City's covered payroll | $ 18,760 | $ 14,683 | $ 20,658 | n/a | n/a |
| City's proportionate share of the net pension asset as a percentage of its covered payroll | 0.63% | 0.10% | 0.07% | n/a | n/a |
| Plan fiduciary net position as a percentage of the total pension asset | 124.46% | 103.40% | 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 fiscal 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 THE REQUIRED SUPPLEMENTARY INFORMATION

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

LAST FIVE YEARS

| | **2018** | **2017** | **2016** | **2015** | **2014** |
|---|---|---|---|---|---|
| City's proportion of the net pension liability | 0.14739800% | 0.13322700% | 0.13672800% | 0.13517390% | 0.13517390% |
| City's proportionate share of the net pension liability | $ 9,046,466 | $ 8,438,464 | $ 8,795,761 | $ 7,002,572 | $ 6,583,393 |
| City's covered payroll | $ 3,139,305 | $ 2,913,374 | $ 2,827,364 | $ 2,735,974 | $ 2,649,515 |
| City's proportionate share of the net pension liability as a percentage of its covered payroll | 288.17% | 289.65% | 311.09% | 255.94% | 248.48% |
| Plan fiduciary net position as a percentage of the total pension liability | 70.91% | 68.36% | 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 fiscal 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 THE REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN YEARS

| | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|
| *Traditional Plan:* | | | | |
| Contractually required contribution | $ 460,173 | $ 421,153 | $ 387,577 | $ 372,678 |
| Contributions in relation to the contractually required contribution | (460,173) | (421,153) | (387,577) | (372,678) |
| Contribution deficiency (excess) | $ - | $ - | $ - | $ - |
| City's covered payroll | $ 3,286,950 | $ 3,239,638 | $ 3,229,808 | $ 3,105,650 |
| Contributions as a percentage of covered payroll | 14.00% | 13.00% | 12.00% | 12.00% |
| *Combined Plan:* | | | | |
| Contractually required contribution | $ - | $ - | $ - | $ 7,083 |
| Contributions in relation to the contractually required contribution | - | - | - | (7,083) |
| Contribution deficiency (excess) | $ - | $ - | $ - | $ - |
| City's covered payroll | $ - | $ - | $ - | $ 59,025 |
| Contributions as a percentage of covered payroll | 14.00% | 13.00% | 12.00% | 12.00% |
| *Member Directed Plan:* | | | | |
| Contractually required contribution | $ 1,956 | $ 1,876 | $ 1,762 | $ 2,479 |
| Contributions in relation to the contractually required contribution | (1,956) | (1,876) | (1,762) | (2,479) |
| Contribution deficiency (excess) | $ - | $ - | $ - | $ - |
| City's covered payroll | $ 19,560 | $ 18,760 | $ 14,683 | $ 20,658 |
| Contributions as a percentage of covered payroll | 10.00% | 10.00% | 12.00% | 12.00% |

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

| 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| $ 348,817 | $ 375,331 | $ 271,543 | $ 272,035 | $ 253,143 | $ 246,865 |
| (348,817) | (375,331) | (271,543) | (272,035) | (253,143) | (246,865) |
| $ - | $ - | $ - | $ - | $ - | $ - |
| $ 2,906,808 | $ 2,887,162 | $ 2,715,430 | $ 2,720,350 | $ 2,838,987 | $ 3,038,338 |
| 12.00% | 13.00% | 10.00% | 10.00% | 8.92% | 8.13% |
| $ 7,349 | $ 6,635 | $ 4,881 | $ 6,314 | $ - | $ - |
| (7,349) | (6,635) | (4,881) | (6,314) | - | - |
| $ - | $ - | $ - | $ - | $ - | $ - |
| $ 61,242 | $ 51,038 | $ 61,396 | $ 79,421 | $ - | $ - |
| 12.00% | 13.00% | 7.95% | 7.95% | 9.69% | 8.13% |
| n/a | n/a | n/a | n/a | n/a | n/a |
| n/a | n/a | n/a | n/a | n/a | n/a |
| n/a | n/a | n/a | n/a | n/a | n/a |
| n/a | n/a | n/a | n/a | n/a | n/a |
| n/a | n/a | n/a | n/a | n/a | n/a |

# CITY OF FAIRLAWN, OHIO

SCHEDULES OF THE REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN YEARS

| | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|
| *Police:* | | | | |
| Contractually required contribution | $ 372,853 | $ 345,693 | $ 327,066 | $ 317,509 |
| Contributions in relation to the contractually required contribution | (372,853) | (345,693) | (327,066) | (317,509) |
| Contribution deficiency (excess) | $ - | $ - | $ - | $ - |
| City's covered payroll | $ 1,962,384 | $ 1,819,437 | $ 1,721,400 | $ 1,671,100 |
| Contributions as a percentage of covered payroll | 19.00% | 19.00% | 19.00% | 19.00% |
| *Fire:* | | | | |
| Contractually required contribution | $ 322,852 | $ 310,169 | $ 280,114 | $ 271,722 |
| Contributions in relation to the contractually required contribution | (322,852) | (310,169) | (280,114) | (271,722) |
| Contribution deficiency (excess) | $ - | $ - | $ - | $ - |
| City's covered payroll | $ 1,373,838 | $ 1,319,868 | $ 1,191,974 | $ 1,156,264 |
| Contributions as a percentage of covered payroll | 23.50% | 23.50% | 23.50% | 23.50% |

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

| 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| $ 314,593 | $ 258,005 | $ 204,674 | $ 197,448 | $ 197,359 | $ 205,137 |
| (314,593) | (258,005) | (204,674) | (197,448) | (197,359) | (205,137) |
| $ - | $ - | $ - | $ - | $ - | $ - |
| $ 1,655,753 | $ 1,624,376 | $ 1,605,286 | $ 1,548,612 | $ 1,547,914 | $ 1,608,918 |
| 19.00% | 15.88% | 12.75% | 12.75% | 12.75% | 12.75% |
| $ 253,852 | $ 208,854 | $ 164,450 | $ 178,967 | $ 183,840 | $ 180,975 |
| (253,852) | (208,854) | (164,450) | (178,967) | (183,840) | (180,975) |
| $ - | $ - | $ - | $ - | $ - | $ - |
| $ 1,080,221 | $ 1,024,631 | $ 953,333 | $ 1,037,490 | $ 1,065,739 | $ 1,049,130 |
| 23.50% | 20.38% | 17.25% | 17.25% | 17.25% | 17.25% |

**CITY OF FAIRLAWN, OHIO**

SCHEDULES OF THE REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TWO YEARS

| | 2018 | 2017 |
|---|---|---|
| City's proportion of the net OPEB liability | 0.023930% | 0.023253% |
| City's proportionate share of the net OPEB liability | $ 2,598,622 | $ 2,348,618 |
| City's covered payroll | $ 3,239,638 | $ 3,244,491 |
| City's proportionate share of the net OPEB liability as a percentage of its covered payroll | 80.21% | 72.39% |
| Plan fiduciary net position as a percentage of the total OPEB liability | 54.14% | 54.05% |

Note: Information prior to 2017 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal 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 THE REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TWO YEARS

| | **2018** | **2017** |
|---|---|---|
| City's proportion of the net OPEB liability | 0.14739800% | 0.13322700% |
| City's proportionate share of the net OPEB liability | $ 8,351,342 | $ 6,323,986 |
| City's covered payroll | $ 3,139,305 | $ 2,913,374 |
| City's proportionate share of the net OPEB liability as a percentage of its covered payroll | 266.03% | 217.07% |
| Plan fiduciary net position as a percentage of the total OPEB liability | 14.13% | 15.96% |

Note: Information prior to 2017 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal 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 THE REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN YEARS

| | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|
| Contractually required contribution | $ 783 | $ 33,146 | $ 65,430 | $ 63,294 |
| Contributions in relation to the contractually required contribution | (783) | (33,146) | (65,430) | (63,294) |
| Contribution deficiency (excess) | $ - | $ - | $ - | $ - |
| City's covered payroll | $ 3,306,510 | $ 3,258,398 | $ 3,244,491 | $ 3,185,333 |
| Contributions as a percentage of covered payroll | 0.02% | 1.02% | 2.02% | 1.99% |

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

| 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| $ 59,156 | $ 29,369 | $ 112,331 | $ 113,619 | $ 147,430 | $ 176,702 |
| (59,156) | (29,369) | (112,331) | (113,619) | (147,430) | (176,702) |
| $ - | $ - | $ - | $ - | $ - | $ - |
| n/a | n/a | n/a | n/a | n/a | n/a |
| n/a | n/a | n/a | n/a | n/a | n/a |

**CITY OF FAIRLAWN, OHIO**

SCHEDULES OF THE REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN YEARS

| | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|
| *Police:* | | | | |
| Contractually required contribution | $ 9,812 | $ 9,097 | $ 8,607 | $ 8,581 |
| Contributions in relation to the contractually required contribution | (9,812) | (9,097) | (8,607) | (8,581) |
| Contribution deficiency (excess) | $ - | $ - | $ - | $ - |
| City's covered payroll | $ 1,962,384 | $ 1,819,437 | $ 1,721,400 | $ 1,671,100 |
| Contributions as a percentage of covered payroll | 0.50% | 0.50% | 0.50% | 0.50% |
| *Fire:* | | | | |
| Contractually required contribution | $ 6,869 | $ 6,599 | $ 5,960 | $ 5,781 |
| Contributions in relation to the contractually required contribution | (6,869) | (6,599) | (5,960) | (5,781) |
| Contribution deficiency (excess) | $ - | $ - | $ - | $ - |
| City's covered payroll | $ 1,373,838 | $ 1,319,868 | $ 1,191,974 | $ 1,156,264 |
| Contributions as a percentage of covered payroll | 0.50% | 0.50% | 0.50% | 0.50% |

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

| 2014 | | 2013 | | 2012 | | 2011 | | 2010 | | 2009 | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| $ | 8,217 | $ | 59,291 | $ | 108,357 | $ | 104,531 | $ | 104,472 | $ | 108,602 |
| | (8,217) | | (59,291) | | (108,357) | | (104,531) | | (104,472) | | (108,602) |
| $ | - | $ | - | $ | - | $ | - | $ | - | $ | - |
| $ | 1,655,753 | $ | 1,624,376 | $ | 1,605,286 | $ | 1,548,612 | $ | 1,547,914 | $ | 1,608,918 |
| | 0.50% | | 3.62% | | 6.75% | | 6.75% | | 6.75% | | 6.75% |
| $ | 5,388 | $ | 36,979 | $ | 64,350 | $ | 70,031 | $ | 71,937 | $ | 70,816 |
| | (5,388) | | (36,979) | | (64,350) | | (70,031) | | (71,937) | | (70,816) |
| $ | - | $ | - | $ | - | $ | - | $ | - | $ | - |
| $ | 1,080,221 | $ | 1,024,631 | $ | 953,333 | $ | 1,037,490 | $ | 1,065,739 | $ | 1,049,130 |
| | 0.50% | | 3.62% | | 6.75% | | 6.75% | | 6.75% | | 6.75% |

## PENSION

### *OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)*

*Changes in benefit terms* : There were no changes in benefit terms from the amounts reported for 2014-2018.

*Changes in assumptions* : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2014-2016. For 2017, the following were the most significant changes of assumptions that affected the total pension liability since the prior measurement date: (a) reduction in the actuarially assumed rate of return from 8.00% down to 7.50%, (b) for defined benefit investments, decreasing the wage inflation from 3.75% to 3.25% and (c) changing the future salary increases from a range of 4.25%-10.05% to 3.25%-10.75%. There were no changes in assumptions for 2018.

### OHIO POLICE AND FIRE (OP&F) PENSION FUND

*Changes in benefit terms* : There were no changes in benefit terms from the amounts reported for 2014-2018.

*Changes in assumptions* : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2014-2017. For 2018, the following were the most significant changes of assumptions that affected the total pension since the prior measurement date: (a) reduction in the actuarially assumed rate of return from 8.50% down to 8.00%, (b) changing the future salary increases from a range of 4.25%-11.00% to 3.75%-10.50%, (c) reduction in payroll increases from 3.75% down to 3.25%, (d) reduction in inflation assumtions from 3.25% down to 2.75% and (e) Cost of Living Adjustments (COLA) were reduced from 2.60% and 3.00% simple to 2.20% and 3.00% simple.

## OTHER POSTEMPLOYMENT BENEFITS (OPEB)

### *OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)*

*Changes in benefit terms* : There were no changes in benefit terms from the amounts reported for 2017-2018.

*Changes in assumptions* : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2017. For 2018, the following were the most significant changes of assumptions that affected the total OPEB liability since the prior measurement date: (a) reduction in the actuarially assumed rate of return from 4.23% down to 3.85%.

### OHIO POLICE AND FIRE (OP&F) PENSION FUND

*Changes in benefit terms* : There were no changes in benefit terms from the amounts reported for 2017-2018.

*Changes in assumptions* : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2017. For 2018, the following were the most significant changes of assumptions that affected the total OPEB liability since the prior measurement date: (a) DROP interest rate was reduced from 4.50% to 4.00%, (b) CPI-based COLA was reduced from 2.60% to 2.20%, (c) investment rate of return was reduced from 8.25% to 8.00%, (d) salary increases were reducted from 3.75% to 3.25% and (e) payroll growth was reduced from 3.75% to 3.25%.

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**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 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, discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Fairlawn, Summit, (the City) as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 30, 2019 wherein we noted the City adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

***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 opinion 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 report is not suitable for any other purpose.

Keith Faber
Auditor of State

Columbus, Ohio

September 16, 2019

OHIO AUDITOR OF STATE
KEITH FABER

**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**
**SEPTEMBER 26, 2019**

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