



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

CITY OF FAIRLAWN

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REPORT OF INDEPENDENT ACCOUNTANTS

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

To the Members of City Council:

We have audited the accompanying general purpose financial statements of the City of Fairlawn, Summit County, Ohio, (the City) as of and for the year ended December 31, 1999, as listed in the Table of Contents. These general purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Fairlawn as of December 31, 1999 and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 14, 2000 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 grants.

A handwritten signature in black ink, appearing to read "Jim Petro".

Jim Petro
Auditor of State

July 14, 2000

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City of Fairlawn, Ohio
 Combined Balance Sheet
 All Fund Types and Account Groups
 December 31, 1999

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<u>Assets and Other Debits:</u>				
<u>Assets:</u>				
Equity in Pooled Cash and Cash				
Equivalents	\$5,458,808	\$1,387,544	\$180,262	\$7,813,034
Cash and Cash Equivalents				
In Segregated Accounts	0	0	0	0
With Fiscal Agent	0	0	0	340,000
Receivables:				
Taxes	1,018,952	186,968	0	207,324
Accounts	6,827	5,140	0	17,905
Special Assessments	0	0	4,084,154	0
Intergovernmental	715,605	26,532	0	191,561
Notes	0	30,000	0	0
Due from Other Funds	6,156	2,921	0	0
Materials and Supplies Inventory	122,238	4,996	0	0
Fixed Assets	0	0	0	0
<u>Other Debits:</u>				
Amount Available in Debt Service Fund	0	0	0	0
Amount to be Provided for Retirement of General Long-Term Obligations	0	0	0	0
Total Assets and Other Debits	\$7,328,586	\$1,644,101	\$4,264,416	\$8,569,824

Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
	General Fixed Assets	General Long-Term Obligations	
Agency			
\$149,049	\$0	\$0	\$14,988,697
14,276	0	0	14,276
0	0	0	340,000
0	0	0	1,413,244
0	0	0	29,872
0	0	0	4,084,154
0	0	0	933,698
0	0	0	30,000
0	0	0	9,077
0	0	0	127,234
0	12,249,185	0	12,249,185
0	0	180,262	180,262
0	0	9,571,042	9,571,042
<u>\$163,325</u>	<u>\$12,249,185</u>	<u>\$9,751,304</u>	<u>\$43,970,741</u>

(Continued)

City of Fairlawn, Ohio
 Combined Balance Sheet
 All Fund Types and Account Groups (Continued)
 December 31, 1999

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<u>Liabilities, Fund Balances and Other Credits:</u>				
<u>Liabilities:</u>				
Accounts Payable	\$210,228	\$12,483	\$0	\$188,703
Contracts Payable	7,427	35,849	0	368,238
Accrued Wages	68,516	2,892	0	0
Compensated Absences Payable	58,272	0	0	0
Due to Other Funds	0	0	0	0
Intergovernmental Payable	41,396	745	0	0
Deferred Revenue	607,106	173,428	4,084,154	0
Retainage Payable	91,903	0	0	80,946
Undistributed Monies	0	0	0	0
Loans Payable	0	0	0	0
OPWC Loans Payable	0	0	0	0
General Obligation Bonds Payable	0	0	0	0
Special Assessment Bonds Payable with Governmental Commitment	0	0	0	0
Total Liabilities	<u>1,084,848</u>	<u>225,397</u>	<u>4,084,154</u>	<u>637,887</u>
<u>Fund Balances and Other Credits:</u>				
Investment in General Fixed Assets	0	0	0	0
<u>Fund Balances:</u>				
Reserved for Encumbrances	259,195	65,892	0	2,129,681
Reserved for Inventory	122,238	4,996	0	0
Reserved for Notes Receivable	0	30,000	0	0
Designated for Sewer Line Repair	195,990	0	0	0
Undesignated	5,666,315	1,317,816	180,262	5,802,256
Total Fund Balances and Other Credits	<u>6,243,738</u>	<u>1,418,704</u>	<u>180,262</u>	<u>7,931,937</u>
Total Liabilities, Fund Balances and Other Credits	<u>\$7,328,586</u>	<u>\$1,644,101</u>	<u>\$4,264,416</u>	<u>\$8,569,824</u>

See Accompanying Notes to the General Purpose Financial Statements

Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
	General Fixed Assets	General Long-Term Obligations	
Agency			
\$0	\$0	\$0	\$411,414
0	0	0	411,514
0	0	0	71,408
0	0	703,621	761,893
9,077	0	0	9,077
0	0	159,337	201,478
0	0	0	4,864,688
0	0	0	172,849
154,248	0	0	154,248
0	0	204,448	204,448
0	0	888,898	888,898
0	0	6,215,000	6,215,000
0	0	1,580,000	1,580,000
<u>163,325</u>	<u>0</u>	<u>9,751,304</u>	<u>15,946,915</u>
0	12,249,185	0	12,249,185
0	0	0	2,454,768
0	0	0	127,234
0	0	0	30,000
0	0	0	195,990
0	0	0	12,966,649
<u>0</u>	<u>12,249,185</u>	<u>0</u>	<u>28,023,826</u>
<u>\$163,325</u>	<u>\$12,249,185</u>	<u>\$9,751,304</u>	<u>\$43,970,741</u>

City of Fairlawn, Ohio
 Combined Statement of Revenues, Expenditures and Changes in Fund Balances
 All Governmental Fund Types
 For the Year Ended December 31, 1999

	Governmental	
	General	Special Revenue
Revenues:		
Municipal Income Taxes	\$4,652,080	\$0
Property and Other Taxes	493,641	231,976
Charges for Services	102,961	193,191
Licenses, Permits and Fees	232,431	0
Fines and Forfeitures	97,754	43,323
Intergovernmental	3,331,037	218,327
Special Assessments	0	0
Interest	771,516	19,474
Rentals	0	20,505
Contributions/Donations	0	19,615
Other	16,346	0
Total Revenues	9,697,766	746,411
Expenditures:		
Current:		
General Government	1,230,280	0
Security of Persons and Property	3,560,525	413,405
Public Health Services	93,017	0
Transportation	979,623	352,956
Community Environment	21,212	0
Basic Utility Services	247,489	109,528
Leisure Time Activities	26,813	185,880
Intergovernmental	305,159	0
Capital Outlay	0	0
Debt Service:		
Principal Retirement	0	8,598
Interest and Fiscal Charges	0	1,402
Total Expenditures	6,464,118	1,071,769
Excess of Revenues Over/(Under) Expenditures	3,233,648	(325,358)
Other Financing Sources/(Uses):		
Operating Transfers In	0	143,000
Operating Transfers Out	(6,194,727)	0
Total Other Financing Sources/(Uses)	(6,194,727)	143,000
Excess of Revenues and Other Financing Sources Over/(Under)		
Expenditures and Other Financing Uses	(2,961,079)	(182,358)
Fund Balances Beginning of Year	9,200,842	1,601,640
Decrease/(Increase) in Reserve for Inventory	3,975	(578)
Fund Balances End of Year	\$6,243,738	\$1,418,704

See Accompanying Notes to the General Purpose Financial Statements

Fund Types		Totals
Debt Service	Capital Projects	(Memorandum Only)
\$0	\$2,020,470	\$6,672,550
0	71,958	797,575
0	17,700	313,852
0	230,662	463,093
0	0	141,077
0	1,261,916	4,811,280
321,128	0	321,128
0	0	790,990
0	0	20,505
0	0	19,615
0	12,300	28,646
<u>321,128</u>	<u>3,615,006</u>	<u>14,380,311</u>
12,289	0	1,242,569
0	0	3,973,930
0	0	93,017
0	0	1,332,579
0	0	21,212
0	0	357,017
0	0	212,693
0	0	305,159
0	7,114,080	7,114,080
120,751	411,098	540,447
169,951	321,774	493,127
<u>302,991</u>	<u>7,846,952</u>	<u>15,685,830</u>
<u>18,137</u>	<u>(4,231,946)</u>	<u>(1,305,519)</u>
0	6,051,727	6,194,727
0	0	(6,194,727)
<u>0</u>	<u>6,051,727</u>	<u>0</u>
18,137	1,819,781	(1,305,519)
162,125	6,112,156	17,076,763
0	0	3,397
<u>\$180,262</u>	<u>\$7,931,937</u>	<u>\$15,774,641</u>

City of Fairlawn, Ohio
 Combined Statement of Revenues, Expenditures and Changes in Fund Balances
 Budget (Non-GAAP) and Actual
 All Governmental Fund Types
 For the Year Ended December 31, 1999

	General Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
<u>Revenues:</u>			
Municipal Income Taxes	\$4,130,308	\$4,702,388	\$572,080
Property and Other Taxes	465,125	493,641	28,516
Charges for Services	15,383	99,634	84,251
Licenses, Permits and Fees	192,028	232,567	40,539
Fines and Forfeitures	112,282	99,598	(12,684)
Intergovernmental	601,601	2,878,936	2,277,335
Special Assessments	0	0	0
Interest	249,063	775,803	526,740
Rentals	0	0	0
Contributions/Donations	0	0	0
Other	14,564	15,732	1,168
Total Revenues	<u>5,780,354</u>	<u>9,298,299</u>	<u>3,517,945</u>
<u>Expenditures:</u>			
Current:			
General Government	1,455,208	1,342,993	112,215
Security of Persons and Property	3,696,726	3,625,067	71,659
Public Health Services	93,228	93,017	211
Transportation	1,042,637	1,019,985	22,652
Community Environment	23,865	21,212	2,653
Basic Utility Services	270,300	248,799	21,501
Leisure Time Activities	28,852	28,324	528
Intergovernmental	305,159	305,159	0
Capital Outlay	0	0	0
Debt Service:			
Principal Retirement	0	0	0
Interest and Fiscal Charges	0	0	0
Total Expenditures	<u>6,915,975</u>	<u>6,684,556</u>	<u>231,419</u>
Excess of Revenues Over/(Under) Expenditures	<u>(1,135,621)</u>	<u>2,613,743</u>	<u>3,749,364</u>
<u>Other Financing Sources/(Uses):</u>			
Sale of Fixed Assets	0	0	0
Operating Transfers In	0	0	0
Operating Transfers Out	(6,194,727)	(6,194,727)	0
Total Other Financing Sources/(Uses)	<u>(6,194,727)</u>	<u>(6,194,727)</u>	<u>0</u>
Excess of Revenues and Other Financing Sources Over (Under)/Expenditures and Other Financing Uses	(7,330,348)	(3,580,984)	3,749,364
Fund Balances Beginning of Year	7,733,396	7,733,396	0
Unexpended Prior Year Encumbrances	752,334	752,334	0
Fund Balances End of Year	<u>\$1,155,382</u>	<u>\$4,904,746</u>	<u>\$3,749,364</u>

See Accompanying Notes to the General Purpose Financial Statements

Special Revenue Funds			Debt Service Fund		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$0	\$0	\$0	\$0	\$0	\$0
211,198	232,042	20,844	0	0	0
195,200	194,551	(649)	0	0	0
0	0	0	0	0	0
44,670	45,037	367	0	0	0
202,680	217,378	14,698	0	0	0
0	0	0	300,000	321,128	21,128
10,000	17,946	7,946	0	0	0
24,300	20,505	(3,795)	0	0	0
25,000	19,615	(5,385)	0	0	0
0	0	0	0	0	0
<u>713,048</u>	<u>747,074</u>	<u>34,026</u>	<u>300,000</u>	<u>321,128</u>	<u>21,128</u>
24,455	24,072	383	15,500	12,289	3,211
483,089	422,584	60,505	0	0	0
0	0	0	0	0	0
447,511	374,673	72,838	0	0	0
0	0	0	0	0	0
151,000	146,912	4,088	0	0	0
212,726	187,677	25,049	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
8,598	8,598	0	120,751	120,751	0
1,402	1,402	0	169,951	169,951	0
<u>1,328,781</u>	<u>1,165,918</u>	<u>162,863</u>	<u>306,202</u>	<u>302,991</u>	<u>3,211</u>
<u>(615,733)</u>	<u>(418,844)</u>	<u>196,889</u>	<u>(6,202)</u>	<u>18,137</u>	<u>24,339</u>
30,000	30,000	0	0	0	0
130,748	143,000	12,252	0	0	0
0	0	0	0	0	0
<u>160,748</u>	<u>173,000</u>	<u>12,252</u>	<u>0</u>	<u>0</u>	<u>0</u>
(454,985)	(245,844)	209,141	(6,202)	18,137	24,339
1,482,525	1,482,525	0	162,125	162,125	0
40,747	40,747	0	0	0	0
<u>\$1,068,287</u>	<u>\$1,277,428</u>	<u>\$209,141</u>	<u>\$155,923</u>	<u>\$180,262</u>	<u>\$24,339</u>

(Continued)

City of Fairlawn, Ohio
 Combined Statement of Revenues, Expenditures and Changes in Fund Balances
 Budget (Non-GAAP) and Actual (Continued)
 All Governmental Fund Types
 For the Year Ended December 31, 1999

	Capital Projects Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Municipal Income Taxes	\$2,044,692	\$2,044,692	\$0
Property and Other Taxes	60,000	72,000	12,000
Charges for Services	19,000	17,700	(1,300)
Licenses, Permits and Fees	70,000	229,729	159,729
Fines and Forfeitures	0	0	0
Intergovernmental	2,136,156	1,070,355	(1,065,801)
Special Assessments	0	0	0
Interest	0	0	0
Rentals	0	0	0
Contributions/Donations	0	0	0
Other	0	12,300	12,300
Total Revenues	<u>4,329,848</u>	<u>3,446,776</u>	<u>(883,072)</u>
Expenditures:			
Current:			
General Government	0	0	0
Security of Persons and Property	0	0	0
Public Health Services	0	0	0
Transportation	0	0	0
Community Environment	0	0	0
Basic Utility Services	0	0	0
Leisure Time Activities	0	0	0
Intergovernmental	0	0	0
Capital Outlay	9,981,879	9,169,343	812,536
Debt Service:			
Principal Retirement	4,411,098	4,411,098	0
Interest and Fiscal Charges	378,107	378,107	0
Total Expenditures	<u>14,771,084</u>	<u>13,958,548</u>	<u>812,536</u>
Excess of Revenues Over/(Under) Expenditures	<u>(10,441,236)</u>	<u>(10,511,772)</u>	<u>(70,536)</u>
Other Financing Sources/(Uses):			
Sale of Fixed Assets	0	0	0
Operating Transfers In	3,500,200	6,051,727	2,551,527
Operating Transfers Out	0	0	0
Total Other Financing Sources/(Uses)	<u>3,500,200</u>	<u>6,051,727</u>	<u>2,551,527</u>
Excess of Revenues and Other Financing Sources Over (Under)/Expenditures and Other Financing Uses	(6,941,036)	(4,460,045)	2,480,991
Fund Balances Beginning of Year	6,234,048	6,234,048	0
Unexpended Prior Year Encumbrances	3,883,969	3,883,969	0
Fund Balances End of Year	<u>\$3,176,981</u>	<u>\$5,657,972</u>	<u>\$2,480,991</u>

See Accompanying Notes to the General Purpose Financial Statements

Totals (Memorandum Only)

Revised Budget	Actual	Variance Favorable (Unfavorable)
\$6,175,000	\$6,747,080	\$572,080
736,323	797,683	61,360
229,583	311,885	82,302
262,028	462,296	200,268
156,952	144,635	(12,317)
2,940,437	4,166,669	1,226,232
300,000	321,128	21,128
259,063	793,749	534,686
24,300	20,505	(3,795)
25,000	19,615	(5,385)
14,564	28,032	13,468
<u>11,123,250</u>	<u>13,813,277</u>	<u>2,690,027</u>
1,495,163	1,379,354	115,809
4,179,815	4,047,651	132,164
93,228	93,017	211
1,490,148	1,394,658	95,490
23,865	21,212	2,653
421,300	395,711	25,589
241,578	216,001	25,577
305,159	305,159	0
9,981,879	9,169,343	812,536
4,540,447	4,540,447	0
549,460	549,460	0
<u>23,322,042</u>	<u>22,112,013</u>	<u>1,210,029</u>
<u>(12,198,792)</u>	<u>(8,298,736)</u>	<u>3,900,056</u>
30,000	30,000	0
3,630,948	6,194,727	2,563,779
<u>(6,194,727)</u>	<u>(6,194,727)</u>	<u>0</u>
<u>(2,533,779)</u>	<u>30,000</u>	<u>2,563,779</u>
(14,732,571)	(8,268,736)	6,463,835
15,612,094	15,612,094	0
4,677,050	4,677,050	0
<u>\$5,556,573</u>	<u>\$12,020,408</u>	<u>\$6,463,835</u>

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City of Fairlawn
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1999

NOTE 1 - REPORTING ENTITY AND BASIS OF PRESENTATION

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.

A. Reporting Entity

In evaluating how to define the City for financial reporting purposes, management has considered all agencies, departments, and organizations making up the City (the primary government) and its potential component units consistent with Governmental Accounting Standards Board (GASB) Statement No. 14 “The Financial Reporting Entity.”

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

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization’s governing board and, (1) the City is able to significantly influence the programs of services performed or provided by the organization or (2) the City is legally entitled to or can otherwise access the organization’s resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to the organization; or the City is obligated for the debt of the organization. Component units may also include organizations for which the City issues debt, levies taxes or determines the budget. Based on this criteria, the City has no component units.

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

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

City of Fairlawn
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1999

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 1999 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 uses funds and account groups to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain City functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect the net expendable available financial resources.

Governmental Fund Types

Governmental funds are those through which most governmental functions of the City are financed. The acquisition, use and balances of the City's expendable financial resources and the related current liabilities are accounted for through governmental funds. The following are the City's governmental fund types:

- *General Fund* - this fund is the operating fund of the City and is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the City for any purpose provided it is expended or transferred according to the general laws of Ohio.
- *Special Revenue Funds* - these funds are established to account for the proceeds of specific revenue sources (other than amounts relating to major capital projects) that are legally restricted to expenditure for specified purposes.
- *Debt Service Fund* - this fund is used to account for the accumulation of resources for, and the payment of, general and special assessment long-term debt principal, interest, and related costs.

City of Fairlawn
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1999

- *Capital Projects Funds* - these funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Fiduciary Fund Types

Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. There are two types of fiduciary funds, trust and agency. The City has no trust funds. The City's agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations.

Account Groups

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

- *General Fixed Asset Account Group* - this account group accounts for all general fixed assets of the City.
- *General Long-Term Obligations Account Group* - this account group accounts for all unmatured long-term indebtedness of the City, including special assessment debt for which the City is obligated in some manner.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed in the preparation of these financial statements are summarized below. These policies conform to generally accepted accounting principles (GAAP) for local governmental units as prescribed in the statements issued by the GASB and other recognized authoritative sources.

A. Measurement Focus and Basis of Accounting

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the combined balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

City of Fairlawn
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For the Year Ended December 31, 1999

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made.

All governmental fund types and the agency funds are accounted for using the modified accrual basis of accounting. Under this basis, revenues are recognized in the accounting period when they become measurable and available. Measurable means the amount of the transaction can be determined and available means collectable within the current year or soon enough thereafter to be used to pay liabilities of the current year. The available period for the City is thirty-one days after year-end.

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available:

- Interest
- State levied locally shared taxes (including gasoline tax)
- Fines and forfeitures
- Income tax withheld by employers

The City reports deferred revenues on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. In the subsequent period, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. Current and delinquent property taxes measurable as of December 31, 1999, whose availability is indeterminate and which are not intended to finance current period obligations, have been recorded as a receivable and deferred revenue. Levied special assessments are measurable, and have been recorded as a receivable. Since all assessments are due outside of the available period, the entire amount has been deferred.

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

B. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the Tax Budget, the Certificate of Estimated Resources, and the Appropriation Ordinance, all of which are prepared on the budgetary basis of accounting. The Certificate of Estimated Resources and the Appropriation Ordinance are subject to amendment throughout the year with the legal restriction that

City of Fairlawn
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1999

appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds and any activity or balance, are legally required to be budgeted and appropriated. The legal level of budgetary control has been established by City Council at the object level within each department. Any budgetary modifications at this level may only be made by resolution of the City Council.

Tax Budget

At the first City Council meeting in July, the Mayor presents the annual operating budget for the following fiscal year to City Council for consideration and passage. The adopted budget is submitted to the County Auditor, 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.

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 Appropriation Ordinance. On or about January 1, the Certificate of Estimated Resources is amended to include unencumbered fund balances at December 31 of the preceding year. The certificate may be further amended during the year if the Finance Director determines, and the Budget Commission agrees that an estimate needs to be either increased or decreased. The amounts reported on the budgetary statements reflect the amounts in the final amended official Certificate of Estimated Resources issued during 1999.

Appropriations

A temporary ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual Appropriation Ordinance must be passed by April 1 of each year for the period January 1 to December 31. The appropriation ordinance fixes spending authority at the fund, department, and object level. The Appropriation Ordinance may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. The allocation of appropriations among the departments and objects within a fund may be modified during the year by an ordinance of Council. During the year, several supplemental appropriation measures were

City of Fairlawn
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1999

passed. None of these supplemental appropriations had any significant affect on the original appropriations. The budget figures which appear in the statement of budgetary comparisons represent the final appropriation amounts, including all amendments and modifications.

Encumbrances

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of moneys 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 fund, department and object level. On the GAAP basis, encumbrances outstanding at year-end are reported as reservations of fund balances for subsequent year expenditures.

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. The encumbered appropriation balance is carried forward to the succeeding year and is not reappropriated.

C. Cash and Cash Equivalents

To improve cash management, cash received by the City is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the City's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the combined balance sheet.

During 1999, investments were limited to overnight repurchase agreements and interest in STAR Ohio, the State Treasurer's Investment Pool.

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

The City had invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during 1999. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of

City of Fairlawn
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1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investments could be sold for on December 31, 1999.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 1999 amounted to \$771,516, which includes \$532,577 assigned from other City funds.

The City has segregated bank accounts for monies held separate from the City's central bank account. These interest bearing depository accounts are presented in the combined balance sheet as "cash and cash equivalents in segregated accounts" since they are not required to be deposited into the City treasury.

For presentation on the combined balance sheet, 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.

The City has monies on deposit with Ohio Department of Transportation (ODOT) to be used for road improvement projects. This amount is presented as "cash and cash equivalents with fiscal agent" on the combined balance sheet.

D. Inventory

Inventories of governmental funds are stated at cost. For all funds, cost is determined on a first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental fund types when purchased. Reported materials and supplies inventory is equally offset by a fund balance reserve in the governmental fund which indicates that it does not constitute available expendable resources even though it is a component of net current assets.

E. Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed asset account group.

All purchased fixed assets are valued at cost when historical records are available and at an estimated historical cost when no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received.

City of Fairlawn
Notes to the General Purpose Financial Statements
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The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized.

Public domain (infrastructure) general fixed assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems are not capitalized, as these assets are immovable and of value only to the City. Assets in the general fixed assets account group are not depreciated.

F. Compensated Absences

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

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the City has identified as probable of receiving benefits in the future. The amount is based on accumulated sick leave and the employees' wage rates at fiscal year end, taking into consideration any limits specified in the City's termination policy. The City records a liability for accumulated unused sick leave for all employees hired before December 31, 1989.

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group.

G. Interfund Assets/Liabilities

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds."

H. Fund Equity

Reserves represent those portions of fund equity not available for appropriation or expenditure and are legally segregated for a specific future use. Fund balances are reserved for encumbrances, inventory, and notes receivable. A designated fund balance has been established for sewer line repairs.

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I. Interfund Transactions

Quasi-external transactions are accounted for as revenue and expenditures. Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed.

Nonrecurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

J. Accrued and Long-Term Liabilities

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, claims and judgments, compensated absences and contractually required pension contributions are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current expendable available financial resources. Payments made more than thirty-one days after year-end are generally considered not to have been paid with current available financial resources. Bonds and long-term loans are recognized as a liability of the general long-term obligations account group until due.

K. Estimates

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

L. Total Columns on General Purpose Financial Statements

Total columns on General Purpose Financial Statements are captioned Memorandum Only to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations, in conformity with GAAP. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 3 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in funds balance on the GAAP basis, the budgetary basis as provided by law is based upon accounting for transactions on a basis of cash receipts, disbursements, and encumbrances.

City of Fairlawn
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The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP) and Actual - All Governmental Fund Types is presented on the budgetary basis to provide a relevant comparison of actual results with the budget and to demonstrate compliance with state statute. The major difference between the budget basis and the GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Outstanding year-end encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance for governmental fund types (GAAP).
4. Proceeds from and principal payments on short-term note obligations are reported on the operating statement (budget) rather than on the combined balance sheet (GAAP).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements on a fund type basis:

Excess of Revenues and Other Financing Sources Over/(Under) Expenditures and Other Financing Uses				
	General	Special Revenue	Debt Service	Capital Projects
GAAP Basis	\$(2,961,079)	\$(182,358)	\$18,137	\$1,819,781
Revenue Accruals	(402,166)	605	0	(168,230)
Unreported Cash	2,699	58	0	0
Expenditure Accruals	261,373	14,435	0	383,466
Note Activity	0	30,000	0	(4,000,000)
Encumbrances	(481,811)	(108,584)	0	(2,495,062)
Budget Basis	\$(3,580,984)	\$(245,844)	\$18,137	\$(4,460,045)

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.

City of Fairlawn
Notes to the General Purpose Financial Statements
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Inactive deposits are public deposits that Council has identified as not required for use within the current period of designation of depositories. Inactive deposits must either 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 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 pass book accounts.

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

Interim monies may be deposited or invested in the following securities:

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 and 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;

City of Fairlawn
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5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio).

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 treasurer or qualified trustee, or if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Cash with Fiscal Agents

The City has \$340,000 on deposit with the Ohio Department of Transportation (ODOT). Information regarding the classification of ODOT's deposits and investments per GASB Statement No. 3 may be found in the State's Comprehensive Annual Financial Report for the fiscal year ended June 30, 1999.

City Deposits

At year-end, the carrying amount of the City's deposits was (\$621,200) and the bank balance was \$277,020. Of the bank balance, \$141,227 was covered by federal depository insurance and \$135,793 was uninsured and uncollateralized.

City Investments

The City's investments are required to be categorized to give an indication of the level of risk assumed by the City at year-end. Category 1 includes investments that are insured or registered or are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust deposit or agent in the City's name. Category 3 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent but not in the City's name. STAR Ohio is an unclassified investment since it is not evidenced by securities that exist in physical or book form.

City of Fairlawn
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	3	Carrying Value	Fair Value
Repurchase Agreements	\$1,587,718	\$1,587,718	\$1,587,718
STAR Ohio		14,036,455	14,036,455
Total Investments		<u>\$15,624,173</u>	<u>\$15,624,173</u>

The classification of cash and cash equivalents, and investments on the combined financial statements are based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Government Entities That Use Proprietary Fund Accounting".

A reconciliation between the classifications of cash and cash equivalents and investments on the combined financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$15,342,973	\$0
Investments which are part of the cash management pool:		
Repurchase Agreement	(1,587,718)	1,587,718
STAR Ohio	(14,036,455)	14,036,455
ODOT	(340,000)	0
GASB Statement No. 3	<u>\$(621,200)</u>	<u>\$15,624,173</u>

NOTE 5 - PROPERTY TAXES

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 1999 for real and public utility property taxes represents collections of 1998 taxes. Property tax payments received during 1999 for tangible personal property (other than public utility property) are for 1999 taxes.

1999 real property taxes are levied after October 1, 1999, on the assessed value as of January 1, 1999, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 1999 real property taxes are collected in and intended to finance 2000.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 1999 public utility property taxes became a lien December 31, 1998, are levied after October 1, 1999, and are collected in 2000 with real property taxes.

City of Fairlawn
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1999 tangible personal property taxes are levied after October 1, 1998, on the value as of December 31, 1998. Collections are made in 1999. Tangible personal property assessments are 25 percent of true value.

The full tax rate for all City operations for the year ended December 31, 1999 was \$2.70 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 1999 property tax receipts were based are as follows:

	<u>Assessed Value</u>
Real Estate	\$260,394,740
Public Utility Property	5,809,280
Tangible Personal	<u>30,587,456</u>
Total	<u><u>\$296,791,476</u></u>

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.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable September 20.

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City of Fairlawn. The County Auditor periodically remits to the City its portion of taxes. Property taxes receivable represent real and tangible personal property taxes and outstanding delinquencies which are measurable as of December 31, 1999. Although total property tax collections for the next year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31, nor are they intended to finance 1999 operations. The receivable is offset by deferred revenue.

NOTE 6 - RECEIVABLES

Receivables at December 31, 1999, consisted of taxes, accounts (billings for user charged service), special assessments, interest, notes (sale of land to developer) and intergovernmental receivables arising from grants, entitlements, and shared revenues. Accounts, taxes, special assessments, interest, and intergovernmental receivables are deemed collectable in full.

A summary of the principal items of intergovernmental receivables is as follows:

City of Fairlawn
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Intergovernmental Receivable	Amount
General Fund:	
Local Government Tax	\$34,551
Tangible Exempt	4,580
Liquor Permits	6,632
Building Permits	5,742
Estate Tax	330,795
Akron Court Fines	1,714
JEDD Disbursements	331,591
Total General Fund	715,605
Special Revenue Funds:	
Gasoline Tax	10,283
Motor Vehicle	3,715
Motor Vehicle Permissive	1,219
DARE Grant	10,000
Tangible Exempt	1,315
Total Special Revenue Funds	26,532
Capital Improvement Fund:	
OPWC Grant	191,561
Total	\$933,698

NOTE 7 - 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 up to 2 percent for taxes paid to other municipalities.

Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly, as required. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. By City ordinance, income tax proceeds are credited as follows: the general fund receives 90 percent and the capital improvement fund receives 10 percent of the first 1.5 percent of the 2 percent income tax. The capital improvement fund receives the remaining .5 percent of the income tax.

NOTE 8 - FIXED ASSETS

A summary of changes in the general fixed assets account group is as follows:

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	Balance January 1, 1999	Additions	Deletions	Balance December 31, 1999
Land	\$1,060,126	\$12,876	\$0	\$1,073,002
Land Improvements	1,188,988	9,645	0	1,198,633
Buildings	2,628,085	0	0	2,628,085
Machinery and Equipment	1,755,314	1,094,263	328,615	2,520,962
Vehicles	1,612,243	186,786	182,957	1,616,072
Construction in Process	639,907	2,572,524	0	3,212,431
Total	\$8,884,663	\$3,876,094	\$511,572	\$12,249,185

NOTE 9 - 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 1999, the City contracted with Wichert Insurance Service, Inc. for property and general liability insurance, including boiler and machinery. Police and professional liability policies are provided by the National Casualty Company with a \$1,000,000 limit and a \$10,000 deductible. A commercial umbrella policy through International Insurance Company provides additional general liability and auto liability insurance up to an \$11,000,000 limit.

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

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

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

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

NOTE 10 - DEFINED BENEFIT PENSION PLANS

A. Public Employees Retirement System (PERS)

All City full-time employees, other than police and firemen, participate in the Public Employees Retirement System of Ohio (PERS), a cost-sharing multiple-employer

City of Fairlawn
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public employee retirement system administered by the Public Employees Retirement Board. PERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. PERS issues a stand-alone financial report which may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

Plan members, are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. The City's required contribution rate is 13.55 percent of which 9.35 percent funds pension obligations. Contributions are authorized by State statute. The contribution rates are determined actuarially. The City's required contributions to PERS for the years ended December 31, 1999, 1998, and 1997 were \$155,881, \$142,028, and \$123,569, respectively. The full amount has been contributed for 1998 and 1997. 73 percent has been contributed for 1999 with the remainder being reported as a liability within the general long-term obligations account group.

B. Police and Firemen's Disability and Pension Fund

The City contributes to the Police and Firemen's Disability and Pension Fund of Ohio (PFDPF), a cost-sharing multiple employer public employee retirement system administered by the PFDPF's Board of Trustees. The PFDPF provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and by Chapter 742 of the Ohio Revised Code. PFDPF issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Police and Firemen's Disability and Pension Fund of Ohio, 140 East Town Street, Columbus, Ohio 43215.

Police and firefighters are required to contribute 10 percent of their annual covered salary to fund pension obligations. For 1999, the City was required to contribute 19.5 percent for police and 24 percent for firefighters. Of this amount, the portion to fund pension obligations was 12.5 percent for police and 17 percent for firefighters. For 1998 the portion to fund pension obligations was 13 percent for police and 17.5 percent for firefighters. Contributions are authorized by State statute. The City's contributions to PFDPF for police and firefighters were \$126,806 and \$84,204 for the year ended December 31, 1999, \$121,337 and \$81,264 for the year ended December 31, 1998, and \$117,830 and \$76,160 for the year ended December 31, 1997. The full amount has been contributed for 1998 and 1997. 73 percent has been contributed for 1999 with the remainder being reported as a fund liability within the general long-term obligations account group.

City of Fairlawn
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C. Social Security System

Effective August 3, 1992, all volunteer firefighters, not otherwise covered by another retirement system, are covered by social security. The City's liability is 6.2 percent of wages paid.

NOTE 11 - POST EMPLOYMENT BENEFITS

A. Public Employees Retirement System

The Public Employees Retirement System of Ohio (PERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirees. Health care coverage for disability recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to the PERS is set aside for the funding of postretirement health care based on authority granted by State statute. The 1999 employer contribution rate was 13.55 percent of covered payroll; 4.2 percent was the portion that was used to fund health care.

Benefits are funded on a pay-as-you-go basis. OPEB are financed through employer contributions and investment earnings. The contributions allocated to retiree health care and Medicare, along with investment income on allocated assets and periodic adjustments in health care provisions, are expected to be sufficient to sustain the program indefinitely. During 1999, OPEB expenditures made by PERS were \$523,599,349. As of December 31, 1999, the unaudited estimated net assets available for the future OPEB payments were \$9,870,285,641. At December 31, 1999, the total number of benefit recipients eligible for OPEB through PERS was 118,062. The City's actual contributions for 1999 which were used to fund OPEB through PERS were \$70,021.

During 1997, PERS adopted a new calculation method for determining employer contributions applied to OPEB. Under the new method, effective January 1, 1998, employer contributions, equal to 4.2 percent of member covered payroll, are used to fund health care expenses. Under the prior method, accrued liabilities and normal cost rates were determined for retiree health coverage.

B. Police and Firemen's Disability and Pension Fund

The Police and Firemen's Disability and Pension Fund (PFDPF) provides postretirement health care coverage to any person who receives or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An

City of Fairlawn
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For the Year Ended December 31, 1999

eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22 if attending school full-time or on a 2/3 basis.

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Police and Firemen's Disability and Pension Fund's Board of Trustees to provide health care coverage and states that health care costs paid from the Police and Firemen's Disability and Pension Fund shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7 percent of the covered payroll was applied to the postemployment health care program. For 1998 the percent used to fund healthcare was 6.5 percent. This allocation will be raised to 7.25 percent in 2000. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment.

The City's actual contributions for 1999 that were used to fund postemployment benefits were \$71,011 for police and \$34,672 for firefighters. PFDPF's total health care expenses for the year ended December 31, 1998, (the latest information available) were \$78,596,790, which was net of member contributions of \$5,331,515. The number of PFDPF participants eligible to receive health care benefits as of December 31, 1998, was 11,424 for police and 9,186 for firefighters.

NOTE 12 - 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 limited to one year. 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. Sick leave accumulation is limited to ninety days, provided that any person who was a City employee on July 6, 1984, who has accumulated any number of sick days between 90 and 120, may accumulate in a time bank up to a total of 180 days. Upon retirement such employees will be paid for the total number of days accumulated up to, but not exceeding the amount of time accumulated on July 6, 1984. Generally, employees with a hire date subsequent to 1991 are not eligible to receive termination payments for sick

City of Fairlawn
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1999

leave. As of December 31, 1999, the total liability for unpaid compensated absences was \$761,893.

B. Health Care Benefits

The City provides life insurance and accidental death and dismemberment insurance to most employees. The City has elected to provide employees medical/surgical benefits through Medical Mutual of Northern Ohio. The employees share the cost of the monthly premium. The premium varies with employees depending on the terms of the union contract or employee type. Dental insurance is provided by the City through Delta Dental.

NOTE 13 - LONG-TERM OBLIGATIONS

Long-term obligations of the City as of December 31, 1999, were as follows:

	Balance December 31, 1998	Additions	Deletions	Balance December 31, 1999
General Obligation Bonds (2.80-5.75%)	\$6,465,000	\$0	\$250,000	\$6,215,000
Special Assessment				
Various Purpose Bond (4.80-7.00%)	1,665,000	0	85,000	1,580,000
OPWC Loans (0.00-6.00%)	999,583	0	110,685	888,898
Capital Loan (5.18%)	299,210	0	94,762	204,448
Intergovernmental Payable	143,461	159,337	143,461	159,337
Compensated Absences	654,564	114,843	65,786	703,621
Total General				
Long-Term Debt	<u>\$10,226,818</u>	<u>\$274,180</u>	<u>\$749,694</u>	<u>\$9,751,304</u>

The general obligation bonds will be paid from income taxes receipted into the capital improvement fund. The special assessment bond will be paid from the proceeds of special assessments levied against the benefited property owners. OPWC loans will be paid in part from proceeds of special assessments levied against the benefited property owners and in part from income taxes receipted into the capital improvement fund. In the event that a property owner fails to pay the assessment, payment will be made by the City. Compensated absences reported in the "compensated absences payable" account will be paid from the fund from which the employees' salaries are paid. Intergovernmental payable represents unfunded pension contribution not paid with current available financial resources and will be paid from the general fund and special revenue funds. The capital loan will be paid from the revenues derived from emergency medical transports in the fire equipment fund and the revenues of the capital improvement fund.

Principal and interest requirements to retire long-term obligations outstanding at December 31, 1999 are as follows:

City of Fairlawn
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1999

Year Ending	Special Assessment Bond	General Obligation Bonds	OPWC Loans	Capital Loan	Total
2000	\$197,775	\$550,165	\$90,702	\$110,216	\$948,858
2001	197,150	550,175	90,702	110,216	948,243
2002	201,118	549,255	90,702	0	841,075
2003	199,345	547,582	90,702	0	837,629
2004	197,140	550,213	90,702	0	838,055
2005 - 2009	985,350	2,738,553	453,510	0	4,177,413
2010 - 2014	398,150	2,499,100	453,509	0	3,350,759
2015 - 2019	0	1,241,887	0	0	1,241,887
Total	\$2,376,028	\$9,226,930	\$1,360,529	\$220,432	\$13,183,919

NOTE 14 - NOTE DEBT

The City's note activity, including amount outstanding and interest rate, is as follows:

	Balance December 31, 1998	Additions	Reductions	Balance December 31, 1999
Municipal Building Improvement Bond Anticipation Note 3.90%	\$4,000,000	\$0	\$4,000,000	\$0

The note was issued in anticipation of long-term bond financing. The Municipal Building Improvement Bonds were issued December 1, 1998 and the bond anticipation note was paid on January 20, 1999.

NOTE 15 - CONTRACTUAL COMMITMENTS

As of December 31, 1999, the City had various contractual commitments; for road improvements of \$618,889, sewer cleaning and improvements of \$192,075, capital equipment purchases of \$575,877, furniture and fixtures of \$80,000 and police department/municipal building improvements of \$1,374,402.

NOTE 16 - CONTINGENCIES

A. Grants

The City received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are 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

City of Fairlawn
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1999

opinion of management, any such disallowed claims will not have a material effect on the overall financial position of the City as of December 31, 1999.

B. *Litigation*

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

NOTE 17 - INTERFUND TRANSACTIONS

Interfund balances at December 31, 1999, consist of the following:

	<u>Due From</u>	<u>Due To</u>
General Fund	\$6,156	\$0
Children Adolescent SAEF - Special Revenue Fund	2,921	0
Mayor's Court - Agency Fund	0	9,077
Total	<u>\$9,077</u>	<u>\$9,077</u>



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REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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

To the Members of City Council:

We have audited the general purpose financial statements of the City of Fairlawn, Summit County, Ohio, (the City) as of and for the year ended December 31, 1999, and have issued our report thereon dated July 14, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the City in a separate letter dated July 14, 2000.

City of Fairlawn
Summit County
Report of Independent Accountants on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

This report is intended for the information and use of management and City Council and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is fluid and cursive, with a large loop at the end.

Jim Petro
Auditor of State

July 14, 2000



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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CITY OF FAIRLAWN

SUMMIT COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 22, 2000**