



Dave Yost • Auditor of State

**CITY OF FAIRLAWN
SUMMIT COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor's Report	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position.....	15
Statement of Activities.....	16
Fund Financial Statements:	
Balance Sheet	
Governmental Funds	17
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities	18
Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds	19
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	20
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) General Fund.....	21
Statement of Fiduciary Net Position Fiduciary Funds	22
Notes to the Basic Financial Statements	23
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	53

This page intentionally left blank.



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

City of Fairlawn
Summit County
3487 South Smith Road
Fairlawn, Ohio 44333-3007

To the Honorable Mayor and Members of City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, the discretely presented component unit and remaining fund information of the City of Fairlawn, Summit County, Ohio (the City), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, the discretely presented component unit and remaining fund information of the City of Fairlawn, Summit County, Ohio, as of December 31, 2012, and the respective changes in financial position and the budgetary comparison for the General fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* 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 July 26, 2013, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Dave Yost
Auditor of State

Columbus, Ohio

July 26, 2013

CITY OF FAIRLAWN, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2012 Unaudited

The management's discussion and analysis of the City of Fairlawn's (the "City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2012. 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 2012 are as follows:

- The total net position of the City increased \$1,209,550. The net position of governmental activities increased \$1,209,550 or 1.65% from 2011, to a total of \$74,663,154 in 2012.
- General revenues accounted for \$15,492,364 of total governmental activities revenue. Program specific revenues accounted for \$2,086,011 or 11.87% of total governmental activities revenue.
- The City had \$16,368,825 in expenses related to governmental activities; \$2,086,011 of these expenses were offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$14,282,814 were offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements, including Joint Economic Development District (JEDD) revenues).
- The City has three major funds, the general fund, bond retirement fund and capital improvement fund. The general fund, the largest major fund, had revenues and other financing sources of \$13,333,328 in 2012. This represents an increase of \$124,590 from 2011 revenues and other financing sources. The expenditures and other financing uses of the general fund, which totaled \$11,279,730 in 2012, increased \$90,386 from 2011. The net increase in fund balance for the general fund was \$2,008,497 or 16.87%.
- The bond retirement fund had revenues and other financing sources of \$146,709 in 2012. The expenditures and other financing uses of the bond retirement fund totaled \$140,835 in 2012. The net increase in fund balance for the bond retirement fund was \$5,874 or 69.80%.
- The capital improvement fund had revenues and other financing sources of \$7,245,462 in 2012. The expenditures of the capital improvement fund totaled \$7,230,344 in 2012. The net increase in fund balance for the capital improvement fund was \$15,118 or 0.52%.

Using this Annual Financial Report

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

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

CITY OF FAIRLAWN, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2012 Unaudited

Reporting the City as a Whole

Statement of Net Position and the Statement of Activities

While this document contains a large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2012?" The statement of net position and the statement of activities answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

The City's statement of net position and statement of activities can be found on pages 15-16 of this report.

Reporting the City's Most Significant Funds

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and fiduciary funds.

Fund financial reports provide detailed information about the City's major funds. The City uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the City's most significant funds. The analysis of the City's major governmental funds begins on page 9.

Governmental Funds

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

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

CITY OF FAIRLAWN, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2012 Unaudited

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

The City maintains a multitude of individual governmental funds. The City has segregated these funds into major funds and nonmajor funds. The City's major governmental funds are the general fund, bond retirement fund and capital improvement fund. Information for major funds is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 17-21 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The City's only fiduciary funds are agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations. The basic fiduciary fund financial statement can be found on page 22 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 23-51 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 2012 compared to 2011:

CITY OF FAIRLAWN, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
Unaudited

	Net Position	
	Governmental Activities 2012	Governmental Activities 2011
	<u>2012</u>	<u>2011</u>
<u>Assets</u>		
Current and other assets	\$ 21,750,038	\$ 19,356,210
Capital assets, net	61,153,632	62,759,792
Total assets	<u>82,903,670</u>	<u>82,116,002</u>
<u>Liabilities</u>		
Current and other liabilities	1,047,139	1,720,208
Long-term liabilities	6,431,535	6,942,190
Total liabilities	<u>7,478,674</u>	<u>8,662,398</u>
Total deferred inflows of resources	761,842	-
Total liabilities and deferred inflows of resources	<u>8,240,516</u>	<u>8,662,398</u>
<u>Net Position</u>		
Net investment in capital assets	56,075,250	57,009,118
Restricted	4,730,986	4,842,587
Unrestricted	<u>13,856,918</u>	<u>11,601,899</u>
Total net position	<u>\$ 74,663,154</u>	<u>\$ 73,453,604</u>

Over time, net position can serve as a useful indicator of a government's financial position. At December 31, 2012, the City's assets exceeded liabilities by \$74,663,154.

Capital assets reported on the government-wide statements represent the largest portion of the City's assets. At year-end, capital assets represented 73.76% of total assets. Capital assets include land, land improvements, buildings and improvements, machinery and equipment, licensed vehicles, infrastructure and construction in progress. Capital assets, net of related debt to acquire the assets at December 31, 2012, were \$56,075,250. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the City's net position, \$4,730,986, represents resources that are subject to external restriction on how they may be used. In the governmental activities, the remaining balance of unrestricted net position of \$13,856,918 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 2012 and 2011.

CITY OF FAIRLAWN, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
Unaudited

	Change in Net Position	
	Governmental Activities 2012	Governmental Activities 2011
	<u>2012</u>	<u>2011</u>
Revenues		
Program revenues:		
Charges for services	\$ 1,033,478	\$ 940,055
Operating grants and contributions	331,545	408,162
Capital grants and contributions	720,988	84,370
Total program revenues	<u>2,086,011</u>	<u>1,432,587</u>
General revenues:		
Property and other taxes	998,924	1,089,410
Income taxes	10,227,345	9,272,072
JEDD revenues	2,823,033	2,846,855
Unrestricted grants and entitlements	1,028,872	1,363,207
Investment earnings	29,044	25,129
Miscellaneous	385,146	86,260
Total general revenues	<u>15,492,364</u>	<u>14,682,933</u>
Total revenues	<u>\$ 17,578,375</u>	<u>\$ 16,115,520</u>
Expenses		
General government	\$ 3,744,352	\$ 2,669,058
Security of persons and property	6,370,474	6,369,280
Public health and welfare	118,910	117,996
Transportation	4,115,746	4,381,927
Community environment	361,857	58,394
Leisure time activity	455,823	423,062
Economic development	10,000	-
Utility services	948,396	885,373
Interest and fiscal charges	243,267	300,316
Total expenses	<u>16,368,825</u>	<u>15,205,406</u>
Change in net position	1,209,550	910,114
Net position at beginning of year	<u>73,453,604</u>	<u>72,543,490</u>
Net position at end of year	<u>\$ 74,663,154</u>	<u>\$ 73,453,604</u>

Governmental Activities

Governmental activities net position increased \$1,209,550 in 2012. The increase is largely due an increase in income tax receipts.

Security of persons and property, which primarily supports the operations of the police and fire departments accounted for \$6,370,474 of the total expenses of the City. These expenses were partially funded by \$375,397 in direct charges to users of the services and \$21,329 in operating grants and contributions. Transportation expenses totaled \$4,115,746. Transportation expenses were partially funded by \$925 in direct charges to users of the services, \$305,216 in operating grants and contributions, and \$688,373 in capital grants and contributions.

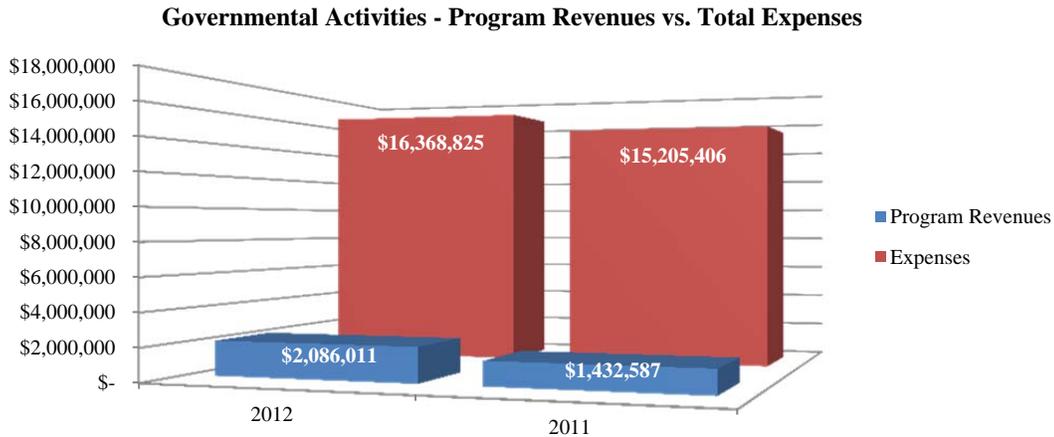
CITY OF FAIRLAWN, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
Unaudited

The county, state, and federal governments contributed to the City a total of \$331,545 in operating grants and contributions. These revenues are restricted to a particular program or purpose. Of the total operating grants and contributions, \$21,329 subsidized security of persons and property, \$305,216 subsidized transportation programs, and \$5,000 subsidized utility services.

General revenues totaled \$15,492,364, and amounted to 88.13% of total governmental revenues. These revenues primarily consist of property and income tax revenues of \$11,226,269 and JEDD revenues of \$2,823,033.

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



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

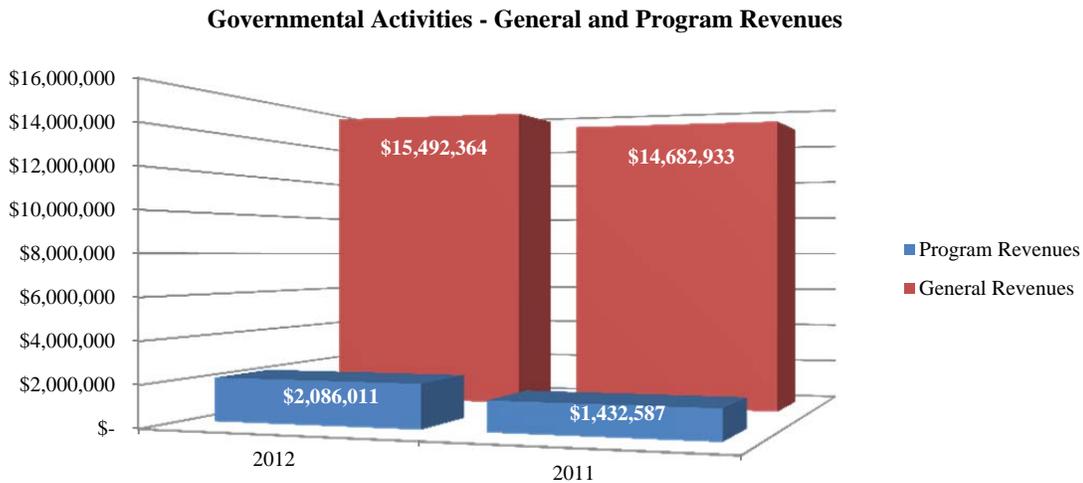
	Governmental Activities			
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2012	2012	2011	2011
Program Expenses:				
General government	\$ 3,744,352	\$ 3,362,012	\$ 2,669,058	\$ 2,179,538
Security of persons and property	6,370,474	5,973,748	6,369,280	6,028,306
Public health and welfare	118,910	118,910	117,996	117,996
Transportation	4,115,746	3,121,232	4,381,927	3,936,161
Community environment	361,857	310,371	58,394	58,394
Leisure time activity	455,823	440,735	423,062	408,193
Economic development	10,000	10,000	-	-
Utility services	948,396	702,539	885,373	743,915
Interest and fiscal charges	243,267	243,267	300,316	300,316
Total	\$ 16,368,825	\$ 14,282,814	\$ 15,205,406	\$ 13,772,819

CITY OF FAIRLAWN, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
Unaudited

The dependence upon general revenues for governmental activities is apparent, with 87.26% of expenses supported through taxes and other general revenues.

The chart below illustrates the City's program revenues versus general revenues for 2012 and 2011:



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 17) reported a combined fund balance of \$17,806,071 which is \$1,989,722 more than last year's total of \$15,816,349. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2012 and 2011 for all major and nonmajor governmental funds.

	Fund Balances 12/31/12	Fund Balances 12/31/11	Increase (Decrease)	Percentage Change
Major funds:				
General	\$ 13,914,129	\$ 11,905,632	\$ 2,008,497	16.87 %
Bond retirement	14,290	8,416	5,874	69.80 %
Capital improvement	2,903,428	2,888,310	15,118	0.52 %
Other nonmajor governmental funds	974,224	1,013,991	(39,767)	(3.92) %
Total	\$ 17,806,071	\$ 15,816,349	\$ 1,989,722	12.58 %

CITY OF FAIRLAWN, OHIO

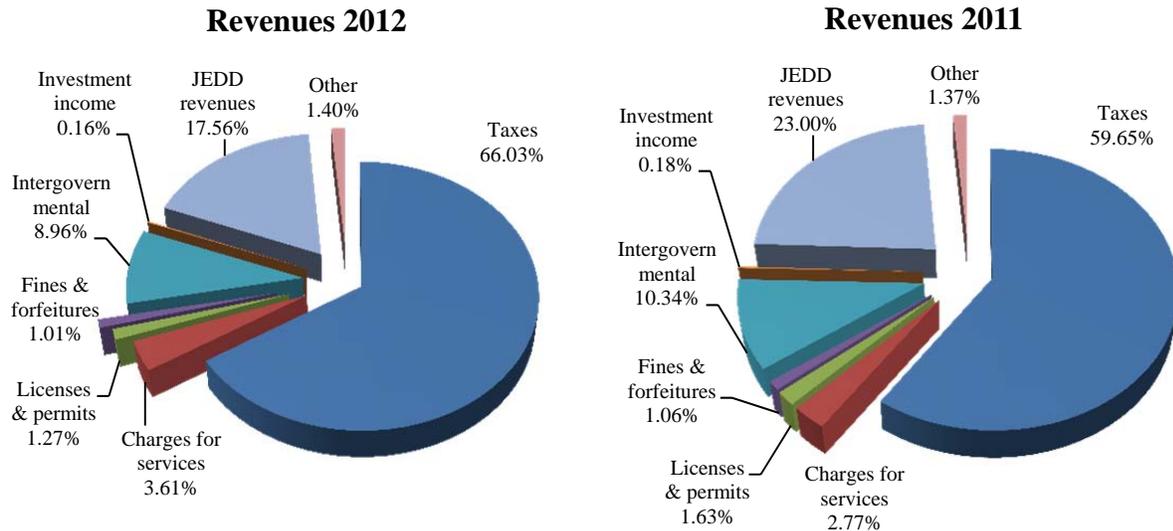
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
Unaudited**

General Fund

The City's general fund balance increased by \$2,008,497. The table that follows assists in illustrating the revenues of the general fund.

<u>Revenues</u>	2012 Amount	2011 Amount	Percentage Change
Taxes	\$ 8,770,352	\$ 7,878,863	11.31 %
Charges for services	479,868	366,067	31.09 %
Licenses and permits	168,593	215,213	(21.66) %
Fines and forfeitures	134,159	139,783	(4.02) %
Intergovernmental	1,190,081	1,365,859	(12.87) %
Investment income	21,565	23,202	(7.06) %
JEDD revenues	2,332,631	3,038,493	(23.23) %
Other	186,079	180,608	3.03 %
Total	\$ 13,283,328	\$ 13,208,088	0.57 %

Tax revenue represents 66.03% of all general fund revenue. Overall, tax revenue increased by 11.31% as compared to the prior year. The decrease in JEDD revenue reflects a 'catch-up' payment received in 2011.



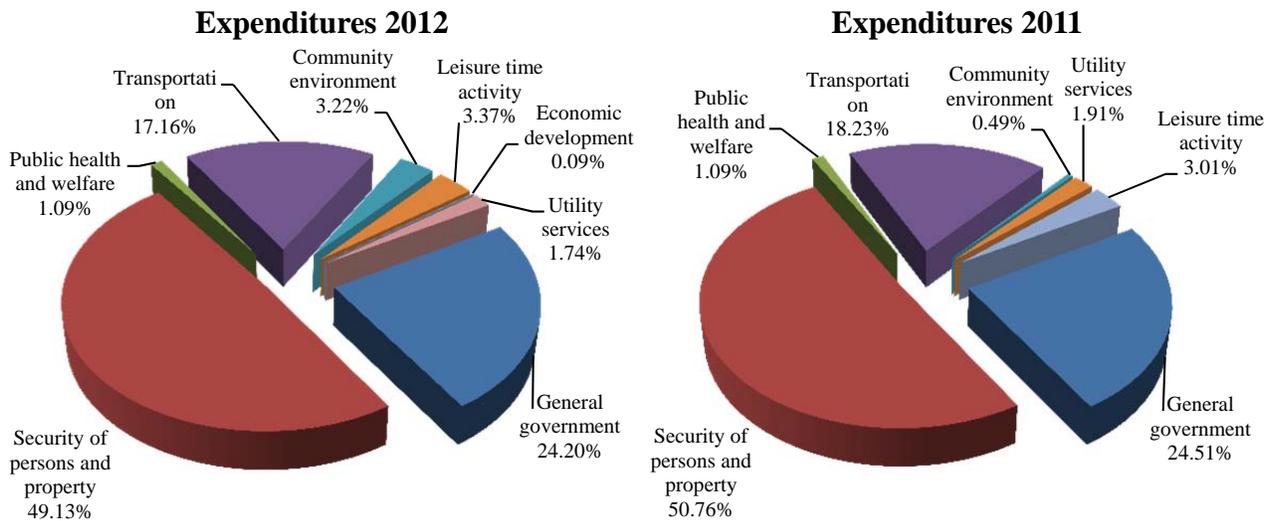
The table that follows assists in illustrating the expenditures of the general fund.

CITY OF FAIRLAWN, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
Unaudited**

	2012 Amount	2011 Amount	Percentage Change
<u>Expenditures</u>			
General government	\$ 2,639,186	\$ 2,660,926	(0.82) %
Security of persons and property	5,358,420	5,511,267	(2.77) %
Public health and welfare	118,910	117,996	0.77 %
Transportation	1,871,835	1,979,052	(5.42) %
Community environment	351,400	53,598	555.62 %
Leisure time activity	367,426	326,847	12.42 %
Economic development	10,000	-	- %
Utility services	190,053	207,572	(8.44) %
Total	\$ 10,907,230	\$ 10,857,258	0.46 %

Expenditures for general government remained comparable to 2011. Building and Zoning expenditure, however, was reclassified from general government to community environment in 2012, which accounts for the increase in community environment expenditure. All other expenditures remained comparable to 2011.



Bond Retirement Fund

The bond retirement fund had revenues and other financing sources of \$146,709 in 2012. The expenditures and other financing uses of the bond retirement fund totaled \$140,835 in 2012. The net increase in fund balance for the bond retirement fund was \$5,874 or 69.80%. Proceeds from special assessments are collected in the bond retirement fund and used to pay the debt service for special assessed projects. Delinquent collection of assessments has caused fluctuation in the fund balance.

CITY OF FAIRLAWN, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
Unaudited

Capital Improvement Fund

The capital improvement fund had revenues and other financing sources of \$7,245,462 in 2012. The expenditures of the capital improvement fund totaled \$7,230,344 in 2012. The net increase in fund balance for the capital improvement fund was \$15,118 or 0.52%.

Budgeting Highlights

The City's budgeting process is prescribed by the Ohio Revised Code (ORC). Essentially the budget is the City's appropriations which are restricted by the amounts of anticipated revenues certified by the County Budget Commission in accordance with the ORC. Therefore, the City's plans or desires cannot be totally reflected in the original budget. If budgeted revenues are adjusted due to actual activity then the appropriations can be adjusted accordingly.

Budgetary information is presented for the general fund. Budgeted intergovernmental revenue was decreased to reflect the decrease in local government funding provided by the state. Actual income taxes, sewer tap-in fees, and estate taxes were greater than anticipated. The budget for transportation expenditures was increased to cover a portion of the cost of the 2012 street repair program. The budget for economic development expenditures was increased to subsidize the operations of the Community Improvement Corporation of Fairlawn, a discretely presented component unit of the City; however, the actual expenditures were significantly less than anticipated. Security of persons and property expenditures were less than budgeted as several departments were understaffed during 2012.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2012, the City had \$61,153,632 (net of accumulated depreciation) invested in land, construction in progress, buildings and improvements, land improvements, machinery and equipment, licensed vehicles and infrastructure. The following table shows fiscal 2012 balances compared to 2011:

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

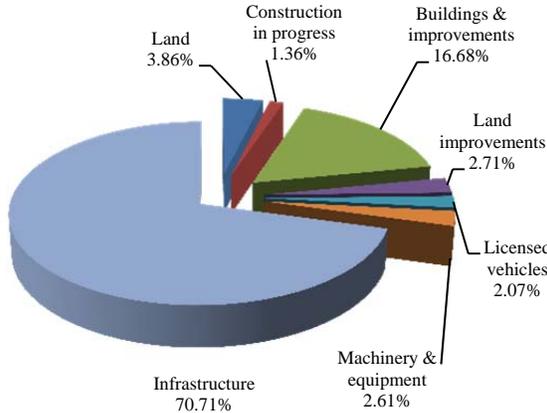
	Governmental Activities	
	2012	2011
Land	\$ 2,357,497	\$ 3,229,638
Construction in progress	829,507	10,927
Buildings and improvements	10,201,529	10,474,426
Land improvements	1,657,574	1,740,401
Licensed vehicles	1,266,336	1,356,528
Machinery and equipment	1,597,761	1,738,969
Infrastructure	43,243,428	44,208,903
Totals	<u>\$ 61,153,632</u>	<u>\$ 62,759,792</u>

The following graphs show the breakdown of governmental capital assets by category for 2012 and 2011.

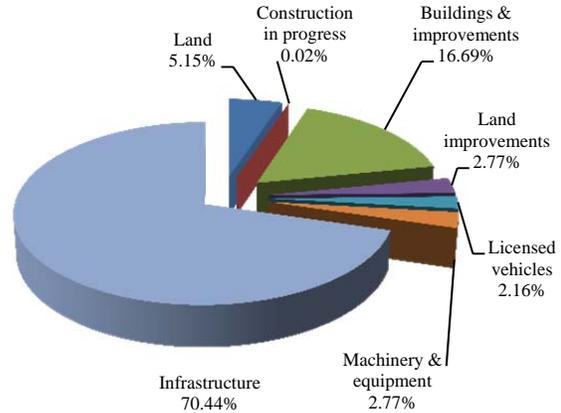
CITY OF FAIRLAWN, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
Unaudited

**Capital Assets - Governmental
Activities 2012**



**Capital Assets - Governmental
Activities 2011**



The City's largest capital asset category is infrastructure which includes roads, bridges, culverts, sidewalks and curbs. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 70.71% of the City's total governmental capital assets at December 31, 2012.

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

Debt Administration

The City had the following long-term obligations outstanding at December 31, 2012 and 2011:

	Governmental Activities	
	2012	2011
General obligation bonds	\$ 4,725,000	\$ 5,505,000
OPWC loans	168,574	245,674
Compensated absences	1,353,153	1,191,516
Total long-term obligations	\$ 6,246,727	\$ 6,942,190

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

Economic Conditions and Next Year's General Fund Budget Outlook

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

CITY OF FAIRLAWN, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2012 Unaudited

The City's Land Use Plan designated 200+ acres of former farmland as an office park in the City's southwest corner. Fairlawn Corporate Park continues to develop as planned, work will begin on the A. Schulman building soon. The City has formed a Community Improvement Corporation (CIC) to expand its economic development capabilities and to attract and retain businesses. The CIC recently hired a commercial real estate firm to market the Fairlawn Corporate Park.

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

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

The City's primary revenue source is the 2% local income tax withheld on the estimated 40,000 people working in the City. Income tax receipts increased 2.9% in 2012 as compared to the previous year.

The City is projecting a slight increase in general fund revenue, net of interfund transfers and advances, in 2013. Expenditures for 2013, net of interfund transfers and advances, are budgeted at 1.9% greater than 2012 due to wage increases and general inflation. Programs supported by the general fund are budgeted at the same level of service as last year.

Contacting the City's Financial Management

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

CITY OF FAIRLAWN, OHIO

STATEMENT OF NET POSITION
DECEMBER 31, 2012

	<u>Primary Government</u>	<u>Component Unit</u>
	<u>Governmental</u>	<u>Community</u>
	<u>Activities</u>	<u>Improvement</u>
		<u>Corporation</u>
		<u>of Fairlawn</u>
Assets:		
Equity in pooled cash and cash equivalents	\$ 16,910,697	\$ 99,094
Cash and cash equivalents in segregated accounts	11,665	-
Receivables:		
Income taxes	2,063,060	-
Real and other taxes	829,976	-
Accounts	53,173	-
Special assessments	507,252	-
Accrued interest	13,289	-
Due from other governments	874,929	-
Materials and supplies inventory	408,692	-
Prepayments	77,305	725
Assets held for sale	-	296,000
Capital assets:		
Land and construction in progress	3,187,004	-
Depreciable capital assets, net	57,966,628	-
Total capital assets, net	<u>61,153,632</u>	<u>-</u>
Total assets	<u>82,903,670</u>	<u>395,819</u>
Liabilities:		
Accounts payable	229,578	66
Contracts payable	176,776	221,484
Accrued wages and benefits payable	105,569	-
Compensated absences payable	70,746	-
Due to other governments	449,713	-
Accrued interest payable	14,757	-
Long-term liabilities:		
Due within one year	908,857	-
Due in more than one year	5,522,678	-
Total liabilities	<u>7,478,674</u>	<u>221,550</u>
Deferred inflows of resources:		
Property taxes levied for the next fiscal year	761,842	-
Total deferred inflows of resources	<u>761,842</u>	<u>-</u>
Total liabilities and deferred inflows of resources	<u>8,240,516</u>	<u>221,550</u>
Net position:		
Net investment in capital assets	56,075,250	-
Restricted for:		
Debt service	182,023	-
Capital projects	3,473,869	-
Other purposes	1,075,094	-
Unrestricted (deficit)	13,856,918	174,269
Total net position	<u>\$ 74,663,154</u>	<u>\$ 174,269</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FAIRLAWN, OHIO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Program Revenues</u>				<u>Net (Expense) Revenues and Changes in Net Position</u>	
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Governmental Activities</u>	<u>Component Unit Community Improvement Corporation of Fairlawn</u>
Governmental activities:						
Current:						
General government	\$ 3,744,352	\$ 349,725	\$ -	\$ 32,615	\$ (3,362,012)	\$ -
Security of persons and property	6,370,474	375,397	21,329	-	(5,973,748)	-
Public health and welfare	118,910	-	-	-	(118,910)	-
Transportation	4,115,746	925	305,216	688,373	(3,121,232)	-
Community environment	361,857	51,486	-	-	(310,371)	-
Leisure time activity	455,823	15,088	-	-	(440,735)	-
Economic development	10,000	-	-	-	(10,000)	-
Utility services	948,396	240,857	5,000	-	(702,539)	-
Interest and fiscal charges	243,267	-	-	-	(243,267)	-
Total governmental activities	<u>\$ 16,368,825</u>	<u>\$ 1,033,478</u>	<u>\$ 331,545</u>	<u>\$ 720,988</u>	<u>(14,282,814)</u>	<u>-</u>
Component Unit:						
Community Improvement Corporation of Fairlawn	<u>\$ 691,731</u>	<u>\$ -</u>	<u>\$ 10,000</u>	<u>\$ 856,000</u>	<u>-</u>	<u>174,269</u>
General revenues:						
Property taxes levied for:						
General purposes					833,887	-
Police and fire pension					165,037	-
Income taxes levied for:						
General purposes					7,973,374	-
Capital outlay					2,253,971	-
Grants and entitlements not restricted						
to specific programs					1,028,872	-
JEDD revenues					2,823,033	-
Investment earnings					29,044	-
Miscellaneous					385,146	-
Total general revenues					<u>15,492,364</u>	<u>-</u>
Change in net position					1,209,550	174,269
Net position at beginning of year					<u>73,453,604</u>	<u>-</u>
Net position at end of year					<u>\$ 74,663,154</u>	<u>\$ 174,269</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FAIRLAWN, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012

	<u>General</u>	<u>Bond Retirement</u>	<u>Capital Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:					
Equity in pooled cash and cash equivalents	\$ 13,030,040	\$ 14,290	\$ 2,756,887	\$ 1,109,480	\$ 16,910,697
Cash and cash equivalents in segregated accounts	11,665	-	-	-	11,665
Receivables:					
Income taxes	1,547,295	-	515,765	-	2,063,060
Real and other taxes	649,245	-	-	180,731	829,976
Accounts	52,641	-	-	532	53,173
Special assessments	-	172,790	334,462	-	507,252
Accrued interest	12,843	-	-	446	13,289
Due from other funds	-	-	-	27	27
Due from other governments	708,985	-	10,677	155,267	874,929
Materials and supplies inventory	408,692	-	-	-	408,692
Prepayments	77,305	-	-	-	77,305
Total assets	<u>\$ 16,498,711</u>	<u>\$ 187,080</u>	<u>\$ 3,617,791</u>	<u>\$ 1,446,483</u>	<u>\$ 21,750,065</u>
Liabilities:					
Accounts payable	\$ 193,962	\$ -	\$ 11,795	\$ 23,821	\$ 229,578
Contracts payable	13,047	-	163,729	-	176,776
Accrued wages and benefits payable	105,569	-	-	-	105,569
Compensated absences payable	70,746	-	-	-	70,746
Due to other funds	27	-	-	-	27
Due to other governments	312,746	-	-	136,967	449,713
Total liabilities	<u>696,097</u>	<u>-</u>	<u>175,524</u>	<u>160,788</u>	<u>1,032,409</u>
Deferred inflows of resources:					
Property taxes levied for the next fiscal year	592,543	-	-	169,299	761,842
Delinquent property tax revenue not available	39,981	-	-	11,432	51,413
Accrued interest not available	10,501	-	-	365	10,866
Special assessments revenue not available	-	172,790	334,462	-	507,252
Miscellaneous revenue not available	32,513	-	-	-	32,513
Income tax revenue not available	581,100	-	193,700	-	774,800
Intergovernmental revenue not available	141,445	-	10,677	130,375	282,497
JEDD revenues not available	490,402	-	-	-	490,402
Total deferred inflows of resources	<u>1,888,485</u>	<u>172,790</u>	<u>538,839</u>	<u>311,471</u>	<u>2,911,585</u>
Total liabilities and deferred inflows of resources	<u>2,584,582</u>	<u>172,790</u>	<u>714,363</u>	<u>472,259</u>	<u>3,943,994</u>
Fund balances:					
Nonspendable	512,738	-	-	-	512,738
Restricted	-	14,290	2,903,428	932,922	3,850,640
Committed	5,000	-	-	41,302	46,302
Assigned	437,294	-	-	-	437,294
Unassigned (deficit)	12,959,097	-	-	-	12,959,097
Total fund balances	<u>13,914,129</u>	<u>14,290</u>	<u>2,903,428</u>	<u>974,224</u>	<u>17,806,071</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 16,498,711</u>	<u>\$ 187,080</u>	<u>\$ 3,617,791</u>	<u>\$ 1,446,483</u>	<u>\$ 21,750,065</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FAIRLAWN, OHIO

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2012

Total governmental fund balances		\$ 17,806,071
 <i>Amounts reported for governmental activities on the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		61,153,632
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds.		
Income taxes receivable	\$ 774,800	
Real and other taxes receivable	51,413	
Accounts receivable	32,513	
Special assessments receivable	507,252	
Accrued interest receivable	10,866	
Due from other governments	<u>772,899</u>	
Total		2,149,743
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.		(14,757)
Unamortized premiums (discounts) on bond issuances are not recognized in the funds.		(184,808)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	(1,353,153)	
General obligation bonds payable	(4,725,000)	
Loans payable	<u>(168,574)</u>	
Total		<u>(6,246,727)</u>
Net position of governmental activities		<u><u>\$ 74,663,154</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FAIRLAWN, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>General</u>	<u>Bond Retirement</u>	<u>Capital Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
Income taxes	\$ 7,907,081	\$ -	\$ 2,231,873	\$ -	\$ 10,138,954
Real and other taxes	863,271	-	-	169,128	1,032,399
Charges for services	479,868	-	-	137,802	617,670
Licenses and permits	168,593	-	-	-	168,593
Fines and forfeitures	134,159	-	-	2,130	136,289
Intergovernmental	1,190,081	-	-	329,696	1,519,777
Special assessments	-	96,709	53,145	-	149,854
Investment income	21,565	-	-	720	22,285
Rental income	78,643	-	-	-	78,643
Contributions and donations	26,384	-	250,000	-	276,384
JEDD revenues	2,332,631	-	-	-	2,332,631
Other	81,052	-	22,556	17,548	121,156
Total revenues	<u>13,283,328</u>	<u>96,709</u>	<u>2,557,574</u>	<u>657,024</u>	<u>16,594,635</u>
Expenditures:					
Current:					
General government	2,639,186	133	-	-	2,639,319
Security of persons and property	5,358,420	-	-	562,184	5,920,604
Public health and welfare	118,910	-	-	-	118,910
Transportation	1,871,835	-	-	334,409	2,206,244
Community environment	351,400	-	-	-	351,400
Leisure time activity	367,426	-	-	-	367,426
Economic development	10,000	-	-	-	10,000
Utility services	190,053	-	-	88,130	278,183
Capital outlay	-	-	1,616,611	16,193	1,632,804
Debt service:					
Principal retirement	-	77,100	5,280,000	-	5,357,100
Interest and fiscal charges	-	13,602	245,845	-	259,447
Bond issuance costs	-	-	87,888	-	87,888
Total expenditures	<u>10,907,230</u>	<u>90,835</u>	<u>7,230,344</u>	<u>1,000,916</u>	<u>19,229,325</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,376,098</u>	<u>5,874</u>	<u>(4,672,770)</u>	<u>(343,892)</u>	<u>(2,634,690)</u>
Other financing sources (uses):					
Bond issuance	-	-	4,500,000	-	4,500,000
Advances in	50,000	50,000	-	-	100,000
Advances (out)	(50,000)	(50,000)	-	-	(100,000)
Transfers in	-	-	-	322,500	322,500
Transfers (out)	(322,500)	-	-	-	(322,500)
Premium on bond issuance	-	-	187,888	-	187,888
Total other financing sources (uses)	<u>(322,500)</u>	<u>-</u>	<u>4,687,888</u>	<u>322,500</u>	<u>4,687,888</u>
Net change in fund balances	2,053,598	5,874	15,118	(21,392)	2,053,198
Fund balances at beginning of year	11,905,632	8,416	2,888,310	1,013,991	15,816,349
Decrease in reserve for inventory	(45,101)	-	-	(18,375)	(63,476)
Fund balances at end of year	<u>\$ 13,914,129</u>	<u>\$ 14,290</u>	<u>\$ 2,903,428</u>	<u>\$ 974,224</u>	<u>\$ 17,806,071</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FAIRLAWN, OHIO

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012

Net change in fund balances - total governmental funds		\$ 2,053,198
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
<p>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.</p>		
Capital asset additions	\$ 832,473	
Current year depreciation	<u>(2,229,445)</u>	
Total		(1,396,972)
<p>The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.</p>		
		(209,188)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Income taxes	88,391	
Real and other taxes	(33,475)	
Licenses and permits	32,283	
Intergovernmental revenues	(163,723)	
Special assessments	(117,239)	
Investment income	6,759	
JEDD revenues	490,402	
Other	<u>(1,165)</u>	
Total		302,233
<p>Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed.</p>		
		(63,476)
<p>Proceeds of bonds, loans and capital leases are reported as an other financing source in the governmental funds, however, in the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net position.</p>		
		(4,500,000)
<p>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.</p>		
		5,357,100
<p>Premiums on general obligation bonds are recognized as other financing sources in the governmental funds, however, they are amortized over the life of the issuance in the statement of activities.</p>		
		(187,888)
<p>In the statement of activities, interest is accrued on outstanding bonds and loans, whereas in governmental funds, an interest expenditure is reported when due.</p>		
		16,180
<p>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.</p>		
		<u>(161,637)</u>
Change in net position of governmental activities		<u>\$ 1,209,550</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FAIRLAWN, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>(Negative)</u>
Revenues:				
Income taxes	\$ 6,153,385	\$ 6,153,385	\$ 7,797,796	\$ 1,644,411
Real and other taxes	810,474	791,674	846,550	54,876
Charges for services	363,750	357,250	480,950	123,700
Licenses and permits	178,700	159,800	194,990	35,190
Fines and forfeitures	131,000	128,000	136,524	8,524
Intergovernmental	893,720	733,720	1,516,824	783,104
Investment income	20,000	20,000	24,056	4,056
Rental income	71,500	71,500	78,958	7,458
Contributions and donations	-	-	26,384	26,384
JEDD revenues	2,601,500	2,601,500	2,795,401	193,901
Other	67,000	55,200	82,490	27,290
Total revenues	<u>11,291,029</u>	<u>11,072,029</u>	<u>13,980,923</u>	<u>2,908,894</u>
Expenditures:				
Current:				
General government	3,306,041	3,576,366	3,207,162	369,204
Security of persons and property	6,110,614	6,089,914	5,442,337	647,577
Public health and welfare	123,300	123,300	118,910	4,390
Transportation	1,983,804	2,220,877	1,995,039	225,838
Community environment	353,864	359,864	331,893	27,971
Leisure time activity	378,931	384,131	373,284	10,847
Economic development	-	250,000	10,000	240,000
Utility services	245,058	250,462	206,352	44,110
Total expenditures	<u>12,501,612</u>	<u>13,254,914</u>	<u>11,684,977</u>	<u>1,569,937</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,210,583)</u>	<u>(2,182,885)</u>	<u>2,295,946</u>	<u>4,478,831</u>
Other financing sources (uses):				
Advances in	-	-	50,000	50,000
Advances (out)	(50,000)	(50,000)	(50,000)	-
Transfers (out)	(350,000)	(350,000)	(322,500)	27,500
Total other financing sources (uses)	<u>(400,000)</u>	<u>(400,000)</u>	<u>(322,500)</u>	<u>77,500</u>
Net change in fund balances	(1,610,583)	(2,582,885)	1,973,446	4,556,331
Fund balances at beginning of year	9,840,912	9,840,912	9,840,912	-
Prior year encumbrances appropriated	494,962	494,962	494,962	-
Fund balance at end of year	<u>\$ 8,725,291</u>	<u>\$ 7,752,989</u>	<u>\$ 12,309,320</u>	<u>\$ 4,556,331</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FAIRLAWN, OHIO

**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2012**

	<u>Agency</u>
Assets:	
Current assets:	
Equity in pooled cash and cash equivalents	\$ 81,800
Total assets	<u>\$ 81,800</u>
Liabilities:	
Accounts payable	\$ 5,000
Undistributed monies	76,800
Total liabilities	<u>\$ 81,800</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FAIRLAWN, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

NOTE 1 - DESCRIPTION OF THE CITY

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

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

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

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

Each participant's degree of control is limited to its representation on the board. All 2012 JEDD revenues were the result of the income tax levied by the JEDD effective January 1, 1999.

B. Basis of Presentation - Fund Accounting

The City's BFS consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

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

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

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

C. Fund Accounting

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

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

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

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

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

Bond Retirement - The bond retirement fund accounts for the accumulation of resources for, and payment of, long-term debt principal, interest and related costs.

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

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

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

D. Measurement Focus and Basis of Accounting

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

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

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

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

E. Basis of Accounting

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

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

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

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

Deferred Inflows – Deferred inflows arise when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of December 31, 2012, but which were levied to finance year 2013 operations, and other revenues received in advance of the fiscal year for which they were intended to finance, have been recorded as deferred inflows. Income taxes and special assessments not received within the available period, grants and entitlements received before the eligibility requirements are met, and delinquent property taxes due at December 31, 2012, are recorded as deferred inflows in the governmental funds.

On governmental fund financial statements, receivables that will not be collected within the available period have been reported as deferred inflows.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred.

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

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

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

F. Budgetary Data

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations ordinance are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. For all funds, Council appropriations are made at the object level within each department. This is known as the legal level of budgetary control. Budgetary modifications may only be made by resolution of the City Council at the legal level of control. All funds, other than agency funds, are legally required to be budgeted and appropriated.

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

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 2012.

Appropriations - A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 to December 31. The appropriation ordinance fixes spending authority at the fund, department and object level. The appropriation ordinance may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. The appropriations for a fund may only be modified during the year by an ordinance of Council. The amounts on the budgetary statement reflect the original and final appropriation amounts, including all amendments and modifications legally enacted by Council.

CITY OF FAIRLAWN, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

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 reappropriated as part of the subsequent year appropriations.

G. Cash and Cash Equivalents

Cash balances of the City's funds are pooled and invested in investments maturing within five years in order to provide improved cash management. Individual fund integrity is maintained through City records. Each fund's interest in the pooled bank account is presented on the balance sheet as "Equity in Pooled Cash and Cash Equivalents" on the financial statements.

During fiscal year 2012, investments were limited to certificates of deposit.

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

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. During fiscal 2012, interest revenue credited to the general fund amounted to \$21,565, which includes \$4,454 assigned from other City funds.

The City has segregated bank accounts for monies held separate from the City's central bank account. These interest bearing depository accounts are presented in the financial statements as "Cash and Cash Equivalents in Segregated Accounts" since they are not required to be deposited into the City treasury.

For purpose of presentation on the financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the City are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the City's investment account at year-end is provided in Note 4.

H. Inventories of Materials and Supplies

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method.

On the fund financial statements, reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

Inventory consists of expendable supplies held for consumption.

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

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

I. Capital Assets

These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the governmental fund financial statements.

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

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

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

J. Compensated Absences

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

Sick leave benefits are accrued as a liability using the vesting method. The liability includes employees currently eligible to receive termination benefits and those the City has identified as probable of receiving benefits in the future. The amount is based on accumulated sick leave and the employees' wage rates at fiscal year-end, taking into consideration any limits specified in the City's termination policy. The City records a liability for accumulated unused sick leave for all employees hired before December 31, 1997.

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 \$70,746 in 2012.

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

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

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Interfund Balances

On fund financial statements, receivables and payables resulting from goods and services provided between funds are classified as “due to/from other funds.” These amounts are eliminated in the governmental column of the statement of net position.

M. Interfund Activity

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

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.

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

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

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

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

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

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

O. Estimates

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

P. Net Position

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

Q. Prepaid Items

Prepayments made to vendors for services that will benefit future periods beyond December 31, 2012 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.

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

For 2012, the City has implemented GASB Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements", GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA pronouncements", GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position", and GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities".

GASB Statement No. 60 addresses issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. An SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The implementation of GASB Statement No. 60 did not have an effect on the financial statements of the City.

GASB Statement No. 62 codifies accounting and financial reporting guidance contained in pre-November 30, 1989 FASB and AICPA pronouncements in an effort to codify all sources of GAAP for State and local governments so that they derive from a single source. The implementation of GASB Statement No. 62 did not have an effect on the financial statements of the City.

GASB Statement No. 63 provides financial and reporting guidance for *deferred outflows of resources* and *deferred inflows of resources* which are financial statement elements that are distinct from assets and liabilities. GASB Statement No. 63 standardizes the presentation of deferred outflows or resources and deferred inflows of resources and their effects on a government's *net position*. The implementation of GASB Statement No. 63 has changed the presentation of the City's financial statements to incorporate the concepts of net position, deferred outflows of resources and deferred inflows of resources.

GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as *deferred outflows of resources* or *deferred inflows of resources*, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB Statement No. 65 also provides other financial reporting guidance related to the impact of the financial statement elements *deferred outflows of resources* and *deferred inflows of resources*, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. The implementation of GASB Statement No. 65 had no effect on the financial statements of the City.

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

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

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

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

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

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

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

Interim monies may be deposited or invested in the following:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio investment pool (STAR Ohio);
7. High grade commercial paper for a period not to exceed 180 days in an amount not to exceed twenty-five percent of the City's interim monies available for investment; and
8. Bankers acceptances for a period not to exceed 180 days and in an amount not to exceed twenty-five percent of the City's interim monies available for investment.

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

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

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

CITY OF FAIRLAWN, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the finance director or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash on Hand

At year-end, the City had \$1,300 in un-deposited cash on hand which is included on the financial statements of the City as part of "equity in pooled cash and cash equivalents".

B. Cash in Segregated Accounts

At December 31, 2012, the City had \$11,665 in bank accounts outside of the City Treasury related to Mayor's Court operations. These amounts are included on the financial statements as "cash and cash equivalents in segregated accounts" and are included in deposits with financial institutions below.

C. Deposits with Financial Institutions

At December 31, 2012, the carrying amount of the City's deposits was \$17,002,862. As of December 31, 2012, \$12,508,954 of the City's bank balance of \$17,249,913 was exposed to custodial risk as discussed below, while \$4,740,959 was covered by Federal Deposit Insurance Corporation.

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

D. Investments

The City had no investments at December 31, 2012.

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

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

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

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net position as of December 31, 2012:

<u>Cash and Investments per Footnote</u>	
Carrying amount of deposits	\$ 17,002,862
Cash on hand	1,300
Total	<u>\$ 17,004,162</u>
 <u>Cash and Investments per Statement of Net Position</u>	
Governmental activities	\$ 16,922,362
Agency funds	81,800
Total	<u>\$ 17,004,162</u>

NOTE 5 - INTERFUND TRANSACTIONS

A. Interfund transfers for the year ended December 31, 2012 consisted of the following, as reported in the fund financial statements:

	<u>Transfers to</u>	<u>Transfers from</u>
	Nonmajor	<u>General</u>
Governmental funds		\$ 322,500

B. Interfund advances for the year ended December 31, 2012 consisted of the following, as reported in the fund financial statements:

	<u>Advances from</u>		
<u>Advances to</u>	<u>General</u>	<u>Bond Retirement</u>	<u>Total</u>
Major			
General	\$ -	\$ 50,000	\$ 50,000
Bond Retirement	<u>50,000</u>	<u>-</u>	<u>50,000</u>
Total	<u>\$ 50,000</u>	<u>\$ 50,000</u>	<u>\$ 100,000</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Transfers between governmental funds made in compliance with ORC Sections 5705.14-16, are eliminated for reporting on the government-wide statement of activities.

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

- C. Due from/to other funds consisted of the following at December 31, 2012, as reported in the governmental fund financial statements:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Nonmajor governmental funds	General fund	\$ 27

Amounts due from/to other funds represent Mayor's Court fines collected by the court and due to the DUI Enforcement and Education fund.

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

NOTE 6 - PROPERTY TAXES

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

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Public utility tangible personal property is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2012 public utility property taxes became a lien December 31, 2011, are levied after October 1, 2012, and are collected in 2013 with real property taxes. Public utility property taxes are payable on the same dates as real property taxes described previously.

The Fiscal Officer collects property taxes on behalf of all taxing districts in the County, including the City of Fairlawn. The Fiscal Officer periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real property taxes, public utility taxes, delinquent tangible personal property taxes and other outstanding delinquencies which are measurable as of December 31, 2012 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 2012 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.

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 6 - PROPERTY TAXES - (Continued)

The full tax rate for all City operations for the year ended December 31, 2012 was \$2.70 per \$1,000 of assessed value. The assessed values of real and public utility property upon which 2012 property tax receipts were based are as follows:

<u>Real property</u>	
Residential/agricultural	\$ 159,966,590
Commercial/industrial/mineral	149,297,520
 <u>Public utility</u>	
Personal	2,866,380
Total assessed value	\$ 312,130,490

NOTE 7 - LOCAL INCOME TAX

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

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

NOTE 8 - RECEIVABLES

Receivables at December 31, 2012, consisted of taxes, accounts (billings for user charged services), accrued interest, special assessments, and intergovernmental receivables arising from grants, entitlements, and shared revenue. All intergovernmental receivables have been classified as “due from other governments” on the financial statements. Receivables have been recorded to the extent that they are measurable at December 31, 2012.

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

<u>Governmental Activities:</u>	
Income taxes	\$ 2,063,060
Real and other taxes	829,976
Accounts	53,173
Special assessments	507,252
Accrued interest	13,289
Due from other governments	874,929
Total	\$ 4,341,679

Receivables have been disaggregated on the face of the BFS. The only receivable not expected to be collected within the subsequent year are the special assessments which are collected over the life of the assessment. Delinquent special assessments due to the City were \$6,613 as of December 31, 2012.

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 9 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2012 was as follows:

<u>Governmental Activities:</u>	Balance 12/31/11	Additions	Disposals	Balance 12/31/12
<i>Capital assets, not being depreciated:</i>				
Land	\$ 3,229,638	\$ -	\$ (872,141)	\$ 2,357,497
Construction in progress	10,927	829,507	(10,927)	829,507
Total capital assets, not being depreciated	<u>3,240,565</u>	<u>829,507</u>	<u>(883,068)</u>	<u>3,187,004</u>
<i>Capital assets, being depreciated:</i>				
Buildings and improvements	14,084,223	-	-	14,084,223
Land improvements	2,604,212	-	-	2,604,212
Licensed vehicles	3,073,756	105,605	-	3,179,361
Machinery and equipment	3,702,578	92,159	(22,584)	3,772,153
Infrastructure	76,249,188	497,636	(32,993)	76,713,831
Total capital assets, being depreciated	<u>99,713,957</u>	<u>695,400</u>	<u>(55,577)</u>	<u>100,353,780</u>
<i>Less: accumulated depreciation:</i>				
Buildings and improvements	(3,609,797)	(272,897)	-	(3,882,694)
Land improvements	(863,811)	(82,827)	-	(946,638)
Licensed vehicles	(1,717,228)	(195,797)	-	(1,913,025)
Machinery and equipment	(1,963,609)	(222,697)	11,914	(2,174,392)
Infrastructure	(32,040,285)	(1,455,227)	25,109	(33,470,403)
Total accumulated depreciation	<u>(40,194,730)</u>	<u>(2,229,445)</u>	<u>37,023</u>	<u>(42,387,152)</u>
Total capital assets, being depreciated, net	<u>59,519,227</u>	<u>(1,534,045)</u>	<u>(18,554)</u>	<u>57,966,628</u>
Governmental activities capital assets, net	<u>\$ 62,759,792</u>	<u>\$ (704,538)</u>	<u>\$ (901,622)</u>	<u>\$ 61,153,632</u>

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

<u>Governmental activities:</u>	
General government	\$ 38,605
Security of persons and property	357,310
Transportation	1,168,173
Community environment	7,574
Leisure time activity	83,382
Utility services	574,401
Total depreciation expense	<u>\$ 2,229,445</u>

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 10 - LONG-TERM OBLIGATIONS

A. Description of Long-Term Obligations

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

	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Original Issue Amount</u>
<u>General obligation bonds</u>			
1993 Sewer System Improvement	2013	2.80 - 5.75%	\$ 2,875,000
1998 Municipal Building Improvement	2018	3.05 - 4.70%	4,085,000
2002 Municipal Service Building Improvement	2022	2.00 - 4.70%	5,105,000
2012 Various Purpose Refunding	2022	1.25 - 2.00%	4,500,000
<u>OPWC loans</u>			
West Market Street Roadway Reconstruction	2014	6.00%	1,048,277

B. Changes in Long-Term Obligations

During 2012, the following changes occurred in governmental activities long-term obligations:

<u>Governmental Activities:</u>	<u>Balance 12/31/11</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/12</u>	<u>Due in One Year</u>
<u>General obligation bonds</u>					
1993 Sewer System Improvement	\$ 440,000	\$ -	\$ (215,000)	\$ 225,000	\$ 225,000
1998 Municipal Building Improvement	1,815,000	-	(1,815,000)	-	-
2002 Municipal Service Building Improvement	3,250,000	-	(3,250,000)	-	-
2012 Various Purpose Refunding	-	4,500,000	-	4,500,000	100,000
Total General Obligation Bonds	5,505,000	4,500,000	(5,280,000)	4,725,000	325,000
<u>OPWC loans</u>					
West Market Street Roadway Reconstruction	245,674	-	(77,100)	168,574	81,796
<u>Other Long-Term Obligations</u>					
Compensated absences	1,191,516	161,637	-	1,353,153	502,061
Total governmental activities long-term obligations	<u>\$ 6,942,190</u>	<u>\$ 4,661,637</u>	<u>\$ (5,357,100)</u>	\$ 6,246,727	<u>\$ 908,857</u>
Add: Unamortized premium on bond issue				184,808	
Total reported on the Statement of Net Position				<u>\$ 6,431,535</u>	

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

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 \$187,888 premium and after payment of \$87,888 in underwriting fees and other issuance costs) 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 obtained an economic gain of (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.

The general obligation bonds will be paid from income taxes receipted into the capital improvement fund. The OPWC loans will be paid from the proceeds of special assessments levied against the benefited property owners. In the event that a property owner fails to pay the assessment, payment will be made by the City. Compensated absences reported in the "long-term liabilities" account will be paid from the fund from which the employees' salaries are paid; the General Fund.

C. Debt Service Requirements

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2012 are as follows:

Year	General Obligation Bonds			OPWC Loan		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 325,000	\$ 107,380	\$ 432,380	\$ 81,796	\$ 8,906	\$ 90,702
2014	465,000	83,425	548,425	86,778	3,924	90,702
2015	610,000	74,125	684,125	-	-	-
2016	620,000	66,500	686,500	-	-	-
2017	635,000	54,100	689,100	-	-	-
2018 - 2022	2,070,000	113,400	2,183,400	-	-	-
Total	\$ 4,725,000	\$ 498,930	\$ 5,223,930	\$ 168,574	\$ 12,830	\$ 181,404

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, 2012, there were two series of Health Care Facilities Revenue Bonds with an aggregate outstanding principal amount payable of \$11,395,000 and an original issue amount of \$12,105,000.

CITY OF FAIRLAWN, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

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 1997 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 1997 are not eligible to receive termination payments for sick leave. As of December 31, 2012 the total liability for unpaid compensated absences was \$1,423,899.

B. Health Care Benefits

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

NOTE 12 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2012, the City contracted with Wichert Insurance Service, Inc. for property and general liability insurance, including boiler and machinery provided by Selective Insurance Company. Police and professional liability policies are provided by Scottsdale Indemnity Company with a \$1,000,000 limit and a \$10,000 deductible. Selective Insurance Company covers Firemen and EMT professional liability with a limit of \$1,000,000 and no deductible. A commercial umbrella policy through Selective Insurance Company provides additional general liability and auto liability insurance up to a \$10,000,000 limit.

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

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

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.

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 13 - PENSION PLANS

A. Ohio Public Employees Retirement System

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

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, Attention: Finance Director, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

Funding Policy - The Ohio Revised Code provides statutory authority for member and employer contributions. For 2012, member and contribution rates were consistent across all three plans. The 2012 member contribution rates were 10.00% for members. The City's contribution rate for 2012 was 14.00% of covered payroll.

The City's contribution rate for pension benefits for members in the Traditional Plan for 2012 was 10.00%. The City's contribution rate for pension benefits for members in the Combined Plan for 2012 was 7.95%. The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2012, 2011, and 2010 were 276,424, \$278,349, and \$260,137, respectively; 91.77% has been contributed for 2012 and 100% for 2011 and 2010. Contributions to the member-directed plan for 2012 were \$3,709 made by the City and \$2,649 made by the plan members.

B. Ohio Police and Fire Pension Fund

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

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 13 - PENSION PLANS - (Continued)

Funding Policy - Plan members are required to contribute 10.0% of their annual covered salary, while the City is required to contribute 19.50% and 24.00% for police officers and firefighters, respectively. Contribution rates are established by State statute. For 2012, the portion of the City's contributions to fund pension obligations was 12.75% for police officers and 17.25% for firefighters. The City's required contributions for pension obligations to OP&F for police officers and firefighters were \$204,674 and \$164,450 for the year ended December 31, 2012, \$197,448 and \$178,967 for the year ended December 31, 2011, and \$197,356 and \$183,840 for the year ended December 31, 2010. The full amount has been contributed for 2011 and 2010. 74.57% has been contributed for police and 76.66% has been contributed for firefighters for 2012.

NOTE 14 - POSTRETIREMENT BENEFIT PLANS

A. Ohio Public Employees Retirement System

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

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

Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, Attention: Finance Director, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

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

Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2012, local government employers contributed 14.00% of covered payroll. Each year the OPERS' Retirement Board determines the portion of the employer contribution rate that will be set aside for the funding of the postemployment health care benefits. The portion of employer contributions allocated to fund post-employment health care for members in the Traditional Plan for 2012 was 4.00%. The portion of employer contributions allocated to fund post-employment health care for members in the Combined Plan for 2012 was 6.05%.

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

CITY OF FAIRLAWN, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

NOTE 14 - POSTRETIREMENT BENEFIT PLANS - (Continued)

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2012, 2011, and 2010 were \$112,331, \$113,619, and \$147,430, respectively; equal to the required employer contribution which is the amount billed by OPERS.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under State Bill 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4 percent of the employer contributions toward the health care fund after the end of the transition period.

B. Ohio Police and Fire Pension Fund

Plan Description - The City contributes to the OP&F Pension Fund sponsored health care program, a cost-sharing multiple-employer defined postemployment health care plan administered by OP&F. OP&F provides health care benefits including coverage for medical, prescription drugs, dental, vision, Medicare Part B Premium and long term care to retirees, qualifying benefit recipients and their eligible dependents.

OP&F provides access to post-employment health care coverage to any person who receives or is eligible to receive a monthly service, disability or survivor benefit check or is a spouse or eligible dependent child of such person.

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

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

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

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

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 14 - POSTRETIREMENT BENEFIT PLANS - (Continued)

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan into the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2012, the employer contribution allocated to the health care plan was 6.75% of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that the pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

The OP&F Board of Trustees also is authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions to OP&F which were allocated to fund post-employment health care benefits for police officers and firefighters were \$108,357 and \$64,349.89 for the year ended December 31, 2012, \$104,531 and \$70,031 for the year ended December 31, 2011, and \$104,472 and \$71,937 for the year ended December 31, 2010. The full amount has been contributed for 2011 and 2010. 74.57% has been contributed for police and 76.66% has been contributed for firefighters for 2012.

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

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

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

CITY OF FAIRLAWN, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

Net Change in Fund Balance

	<u>General</u>
Budget basis	\$ 1,973,446
Net adjustment for revenue accruals	(697,595)
Net adjustment for expenditure accruals	57,187
Adjustment for encumbrances	<u>720,560</u>
GAAP basis	<u><u>\$ 2,053,598</u></u>

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 16 - FUND BALANCE

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

<u>Fund Balance</u>	<u>General</u>	<u>Bond Retirement</u>	<u>Capital Improvement</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
Nonspendable:					
Materials and supplies					
inventory	\$ 408,692	\$ -	\$ -	\$ -	\$ 408,692
Prepayments	77,305	-	-	-	77,305
Unclaimed monies	26,741	-	-	-	26,741
	<u>512,738</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>512,738</u>
Total nonspendable	<u>512,738</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>512,738</u>
Restricted:					
Capital Improvements	-	-	2,903,428	-	2,903,428
Debt service	-	14,290	-	-	14,290
Law enforcement	-	-	-	145,912	145,912
Police and fire pensions	-	-	-	58,731	58,731
Sewer maintenance	-	-	-	233,809	233,809
Streets and highways	-	-	-	494,470	494,470
	<u>-</u>	<u>14,290</u>	<u>2,903,428</u>	<u>932,922</u>	<u>3,850,640</u>
Total restricted	<u>-</u>	<u>14,290</u>	<u>2,903,428</u>	<u>932,922</u>	<u>3,850,640</u>
Committed:					
Law enforcement	5,000	-	-	-	5,000
Sewer maintenance	-	-	-	41,302	41,302
	<u>5,000</u>	<u>-</u>	<u>-</u>	<u>41,302</u>	<u>46,302</u>
Total committed	<u>5,000</u>	<u>-</u>	<u>-</u>	<u>41,302</u>	<u>46,302</u>
Assigned:					
Encumbrances	437,294	-	-	-	437,294
	<u>437,294</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>437,294</u>
Unassigned (deficit)	12,959,097	-	-	-	12,959,097
	<u>12,959,097</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,959,097</u>
Total fund balances	<u>\$ 13,914,129</u>	<u>\$ 14,290</u>	<u>\$ 2,903,428</u>	<u>\$ 974,224</u>	<u>\$ 17,806,071</u>

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

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, 2012.

B. Litigation

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

NOTE 18 - CONTRACTUAL AND OTHER COMMITMENTS

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

<u>Fund</u>	<u>Year-End Encumbrances</u>
General fund	\$ 437,294
Capital Improvement	138,265
Other governmental	<u>71,869</u>
Total	<u>\$ 647,428</u>

NOTE 19 - COMMUNITY IMPROVEMENT CORPORATION OF FAIRLAWN, OHIO

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

CITY OF FAIRLAWN, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

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

Summary of Significant Accounting Policies

The basic financial statements (BFS) 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 and a statement of activities.

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 proceeds from the sale of assets held for sale and contributions from the City. Operating expenses for the CIC primarily include construction costs for improvements made to City infrastructure and other contract services. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses. The CIC did not have any nonoperating expenses in 2012.

C. Federal Income Tax

The CIC is in the process of obtaining an exemption from federal income tax under Section 501 (c) (3) of the Internal Revenue Code.

D. Cash and Cash Equivalents

All cash in the CIC's checking account is considered to be cash and cash equivalents. All monies received by the CIC are deposited in a demand deposit account.

E. Assets Held for Sale

Assets held for sale represent real property donated to the CIC by the City, which will be sold for development purposes.

During 2012, the CIC received donated property with an estimated fair value of \$856,000 from the City (see Note 19.K). The CIC sold \$560,000 of this property leaving a value in assets held for sale of \$296,000 at December 31, 2012.

CITY OF FAIRLAWN, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

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

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. Accrued Liabilities

The CIC has recognized certain expenses due, but unpaid as of December 31, 2012. These expenses are reported as accrued liabilities in the accompanying financial statements.

H. 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.

I. 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.

J. Deposits

At December 31, 2012, the carrying amount of the CIC's deposits was \$99,094. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2012, the entire bank balance of \$99,094 was covered by the Federal Deposit Insurance Corporation. There are no significant statutory restrictions regarding the deposits and investments of funds held by the not-for-profit corporation.

K. Contributions from the City of Fairlawn

Cash

The CIC received \$10,000 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 in assets held for sale. The CIC received two donated properties with a combined estimated fair market value of \$856,000 from the City during the year.

CITY OF FAIRLAWN, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

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

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 2012, the CIC had general liability insurance through Auto-Owners Insurance and directors and officers insurance through Darwin Selective Insurance.

Settled claims have not exceeded commercial coverage in the past year.

M. Litigation

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

THIS PAGE INTENTIONALLY LEFT BLANK.



Dave Yost • Auditor of State

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

City of Fairlawn
Summit County
3487 South Smith Road
Fairlawn, Ohio 44333-3007

To the Honorable Mayor and Members of City Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Fairlawn, Summit County, (the City) as of and for the year ended December 31, 2012, 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 26, 2013.

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, compliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

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

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

Dave Yost
Auditor of State
Columbus, Ohio

July 26, 2013



Dave Yost • Auditor of State

CITY OF FAIRLAWN

SUMMIT COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 27, 2013**