



OHIO AUDITOR OF STATE  
**KEITH FABER**





**CITY OF FAIRLAWN  
SUMMIT COUNTY  
DECEMBER 31, 2019**

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SUMMIT COUNTY  
DECEMBER 31, 2019**

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## INDEPENDENT AUDITOR'S REPORT

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

To the City Council:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Fairlawn, Summit County, Ohio (the City), as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

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**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Fairlawn, Summit County, Ohio as of December 31, 2019, and the respective changes in its financial position and where applicable, its cash flows thereof and the respective budgetary comparisons for the General Fund, thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 3.B to the financial statements, during, 2019, the City adopted new accounting guidance in Governmental Accounting Standard Board (GASB) Statement No. 84, *Fiduciary Activities*. In addition, as discussed in Note 19, the financial impact of COVID-19 and the continuing emergency measures may impact subsequent periods of the City. We did not modify our opinion regarding this matter.

**Other Matters**

*Required Supplementary Information*

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2020, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Keith Faber  
Auditor of State

Columbus, Ohio

October 20, 2020

## CITY OF FAIRLAWN, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2019 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, 2019. 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 2019 are as follows:

- The total net position of the City increased \$5,547,862. The net position of governmental activities increased \$5,151,794 or 12.17% from 2018, to a total of \$47,470,444 in 2019, while the net position of business-type activities increased by \$200,063 to \$10,637,639 in 2019.
- The City had \$23,105,344 in total revenues in 2019, of which \$21,072,907 related to governmental activities and \$2,032,437 related to business-type activities. General revenues accounted for \$18,448,435 or 79.84% of total revenues, while program specific revenues accounted for \$4,656,909 or 20.16% of total revenues.
- The City had \$17,557,482 in total expenses in 2019. Governmental activities accounted for \$14,718,629 of total expenses; \$2,624,472 of these expenses were offset by program specific charges for services, grants, or contributions. The remaining governmental activities expenses of \$12,094,157 were offset by general revenues, primarily consisting of property taxes, income taxes, unrestricted grants and entitlements, and Joint Economic Development District (JEDD) revenues. Business-type activities accounted for \$2,838,853 of total expenses; \$2,032,437 of these expenses were offset by program specific charges for services, grants, or contributions.
- The City has two major governmental funds, the general fund and capital improvement fund, and one major proprietary fund, the broadband fund. The general fund, the largest major governmental fund, had revenues and other financing sources of \$16,781,683 in 2019. This represents an increase of \$1,088,741 over 2018's revenues and other financing sources. The expenditures and other financing uses of the general fund, which totaled \$17,793,959 in 2019, increased \$2,779,829 from 2018. The net decrease in fund balance for the general fund was \$994,895 or 6.16%.
- The capital improvement fund had revenues and other financing sources of \$5,776,742 in 2019. The expenditures of the capital improvement fund totaled \$5,608,895 in 2019. The net increase in fund balance for the capital improvement fund was \$167,847 or 4.47%.
- The broadband fund had operating revenues of \$2,032,437 and operating expenses of \$2,838,853, resulting in an operating loss of \$806,416 in 2019. The net increase in net position for the broadband fund was \$200,063 or 1.92%.

#### Using these Basic Financial Statements

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

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

## CITY OF FAIRLAWN, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2019 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 2019?" The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Position and the Statement of Activities, the operation of the City is divided into two distinct types of activities as follows:

- *Governmental Activities* - Most of the City's programs and services are considered to be governmental activities, including police, fire and rescue, street maintenance, capital improvements, and general administration. These services are funded primarily by property and income taxes and intergovernmental revenues including federal and state grants and other shared revenues.
- *Business-Type Activities* - These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided.

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

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

##### *Fund Financial Statements*

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

Fund financial reports provide detailed information about the City's major funds. The City uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the City's most significant funds. The City's major governmental funds are: the general fund and the capital improvement fund. The City's major proprietary fund is the broadband fund. The analysis of the City's major funds begins on page 11.

##### *Governmental Funds*

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



## CITY OF FAIRLAWN, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2019 Unaudited

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

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

The City maintains a multitude of individual governmental funds. The City has segregated these funds into major funds and nonmajor funds. The City's major governmental funds are the general fund and capital improvement fund. Information for major funds is presented separately in the governmental funds Balance Sheet and in the governmental Statement of Revenues, Expenditures, and Changes in fund balances. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 19-23 of this report.

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

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

#### ***Fiduciary Funds***

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The City's only fiduciary fund is a custodial fund. The basic fiduciary fund financial statements can be found on pages 27-28 of this report.

#### ***Notes to the Basic Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These Notes to the Basic Financial Statements can be found on pages 29-82 of this report.

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

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's net pension liability, net pension asset, pension contributions, net OPEB liability, and OPEB contributions. The required supplementary information can be found on pages 83-95 of this report.

**CITY OF FAIRLAWN, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2019  
Unaudited

**Government-Wide Financial Analysis**

The Statement of Net Position provides the perspective of the City as a whole. The table below provides a summary of the City's net position for 2019 compared to 2018. The net position at December 31, 2018 has been restated as described in Note 3.B. in the Notes to the Basic Financial Statements.

	<b>Net Position</b>					
	Governmental Activities 2019	Restated Governmental Activities 2018	Business-Type Activities 2019	Business-Type Activities 2018	Total 2019	Restated Total 2018
<b>Assets</b>						
Current and other assets	\$ 24,445,891	\$ 25,235,766	\$ 1,016,686	\$ 972,175	\$ 25,462,577	\$ 26,207,941
Capital assets, net	55,100,641	54,098,978	10,192,845	9,793,213	65,293,486	63,892,191
Total assets	<u>79,546,532</u>	<u>79,334,744</u>	<u>11,209,531</u>	<u>10,765,388</u>	<u>90,756,063</u>	<u>90,100,132</u>
<b>Deferred outflows of resources</b>						
Pension	5,433,974	2,871,437	117,824	84,816	5,551,798	2,956,253
OPEB	1,472,350	1,608,164	36,573	34,917	1,508,923	1,643,081
Total deferred outflows of resources	<u>6,906,324</u>	<u>4,479,601</u>	<u>154,397</u>	<u>119,733</u>	<u>7,060,721</u>	<u>4,599,334</u>
<b>Liabilities</b>						
Current and other liabilities	1,338,286	1,297,135	340,425	203,944	1,678,711	1,501,079
Long-term liabilities:						
Due within one year	1,166,338	1,149,841	9,241	10,538	1,175,579	1,160,379
Net pension liability	18,290,037	12,938,225	243,909	110,422	18,533,946	13,048,647
Net OPEB liability	4,187,424	10,878,267	108,762	71,697	4,296,186	10,949,964
Other amounts	12,119,508	12,732,502	20,454	19,720	12,139,962	12,752,222
Total liabilities	<u>37,101,593</u>	<u>38,995,970</u>	<u>722,791</u>	<u>416,321</u>	<u>37,824,384</u>	<u>39,412,291</u>
<b>Deferred inflows of resources</b>						
Property taxes	814,718	804,844	-	-	814,718	804,844
PILOTS	24,415	23,986	-	-	24,415	23,986
Pension	445,211	1,385,563	3,203	25,883	448,414	1,411,446
OPEB	596,475	285,332	295	5,341	596,770	290,673
Total deferred inflows of resources	<u>1,880,819</u>	<u>2,499,725</u>	<u>3,498</u>	<u>31,224</u>	<u>1,884,317</u>	<u>2,530,949</u>
<b>Net Position</b>						
Net investment in capital assets	53,429,509	52,005,938	10,192,845	9,793,213	63,622,354	61,799,151
Restricted	1,580,741	1,333,937	-	-	1,580,741	1,333,937
Unrestricted	(7,539,806)	(11,021,225)	444,794	644,363	(7,095,012)	(10,376,862)
Total net position	<u>\$ 47,470,444</u>	<u>\$ 42,318,650</u>	<u>\$ 10,637,639</u>	<u>\$ 10,437,576</u>	<u>\$ 58,108,083</u>	<u>\$ 52,756,226</u>

**CITY OF FAIRLAWN, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2019  
Unaudited

Over time, net position can serve as a useful indicator of a government's financial position. At December 31, 2019, the City's total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by \$58,304,088. The net positions of the City's governmental and business-type activities were \$47,470,444 and \$10,637,639, respectively.

Capital assets, reported on the government-wide statements, represent the largest portion of the City's assets. At year-end, capital assets represented 72.00% of total assets. Capital assets include land, construction in progress, buildings and improvements, land improvements, licensed vehicles, machinery and equipment, and infrastructure.

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

A portion of the City's total net position, \$1,580,741, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position may be used to meet the government's ongoing obligations to citizens and creditors.

The table below shows the change in net position for fiscal years 2019 and 2018.

	<b>Change in Net Position</b>					
		Restated				Restated
	Governmental Activities 2019	Governmental Activities 2018	Business-Type Activities 2019	Business-Type Activities 2018	Total 2019	Total 2018
<u>Revenues</u>						
Program revenues:						
Charges for services	\$ 1,119,769	\$ 1,021,152	\$ 2,029,353	\$ 1,498,985	\$ 3,149,122	\$ 2,520,137
Operating grants and contributions	551,832	334,883	3,084	-	554,916	334,883
Capital grants and contributions	952,871	1,792,456	-	-	952,871	1,792,456
Total program revenues	2,624,472	3,148,491	2,032,437	1,498,985	4,656,909	4,647,476

(Continued)

**CITY OF FAIRLAWN, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2019  
Unaudited**

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

	Governmental Activities 2019	Restated Governmental Activities 2018	Business-Type Activities 2019	Business-Type Activities 2018	Total 2019	Restated Total 2018
General revenues:						
Property and other taxes	1,103,030	1,135,282	-	-	1,103,030	1,135,282
Income taxes	11,852,835	11,872,189	-	-	11,852,835	11,872,189
Payments in lieu of taxes	23,985	24,594	-	-	23,985	24,594
Unrestricted grants and entitlements	487,440	580,716	-	-	487,440	580,716
JEDD revenues	3,777,184	3,674,914	-	-	3,777,184	3,674,914
Investment earnings	390,696	232,323	-	-	390,696	232,323
Gain on sale of capital assets	5,700	-	-	-	5,700	-
Miscellaneous	807,565	95,904	-	1,453	807,565	97,357
<b>Total general revenues</b>	<b>18,448,435</b>	<b>17,615,922</b>	<b>-</b>	<b>1,453</b>	<b>18,448,435</b>	<b>17,617,375</b>
<b>Total revenues</b>	<b>21,072,907</b>	<b>20,764,413</b>	<b>2,032,437</b>	<b>1,500,438</b>	<b>23,105,344</b>	<b>22,264,851</b>
<u>Expenses</u>						
General government	3,351,650	4,555,839	-	-	3,351,650	4,555,839
Security of persons and property	2,685,465	9,448,832	-	-	2,685,465	9,448,832
Public health and welfare	115,717	116,189	-	-	115,717	116,189
Transportation	5,515,723	5,440,697	-	-	5,515,723	5,440,697
Community environment	860,891	628,111	-	-	860,891	628,111
Leisure time activity	563,194	531,970	-	-	563,194	531,970
Utility services	1,426,442	1,193,920	-	-	1,426,442	1,193,920
Interest and fiscal charges	395,552	416,717	-	-	395,552	416,717
Broadband	-	-	2,838,853	2,369,267	2,838,853	2,369,267
<b>Total expenses</b>	<b>14,914,634</b>	<b>22,332,275</b>	<b>2,838,853</b>	<b>2,369,267</b>	<b>17,753,487</b>	<b>24,701,542</b>
Change in net position before transfers	6,158,273	(1,567,862)	(806,416)	(868,829)	5,351,857	(2,436,691)
Transfers	(1,006,479)	(1,932,477)	1,006,479	1,932,477	-	-
<b>Change in net position</b>	<b>5,151,794</b>	<b>(3,500,339)</b>	<b>200,063</b>	<b>1,063,648</b>	<b>5,351,857</b>	<b>(2,436,691)</b>
Net position at beginning of year (restated)	42,318,650	45,818,989	10,437,576	9,373,928	52,756,226	55,192,917
<b>Net position at end of year</b>	<b>\$ 47,470,444</b>	<b>\$ 42,318,650</b>	<b>\$ 10,637,639</b>	<b>\$ 10,437,576</b>	<b>\$ 58,108,083</b>	<b>\$ 52,756,226</b>

**CITY OF FAIRLAWN, OHIO**

**MANAGEMENT’S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2019  
Unaudited**

***Governmental Activities***

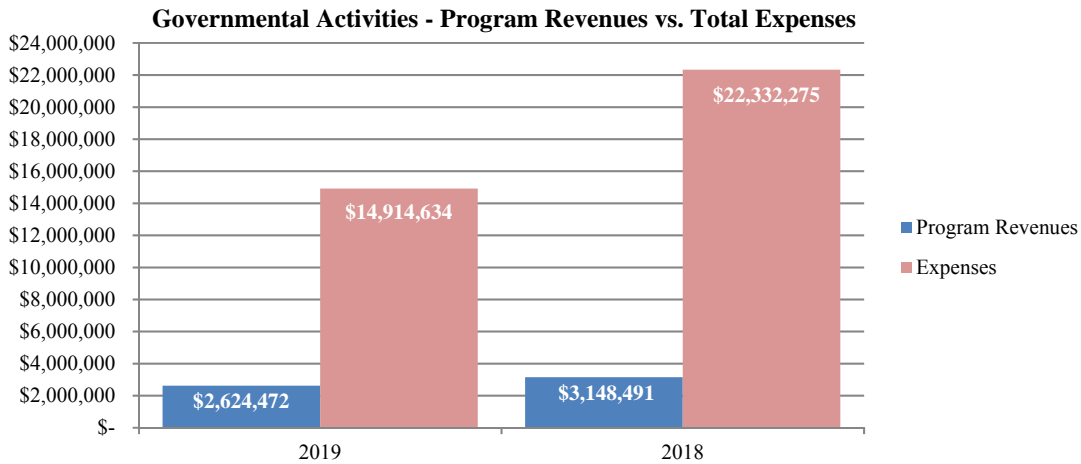
Governmental activities net position increased \$5,151,794 in 2019.

Security of persons and property, which primarily supports the operations of the police, fire, and dispatch departments accounted for \$2,685,465 of the total expenses of the City. These expenses were partially funded by \$384,234 in direct charges to users of the services and \$2,691 in operating grants and contributions. Transportation expenses totaled \$5,515,723. Transportation expenses were partially funded by \$22,359 in direct charges to users of the services, \$542,282 in operating grants and contributions, and \$859,367 in capital grants and contributions.

The county, state, and federal governments contributed to the City a total of \$551,832 in operating grants and contributions. These revenues are restricted to a particular program or purpose. Of the total operating grants and contributions, \$2,691 subsidized security of persons and property, \$542,282 subsidized transportation programs, \$6,859 subsidized utility services.

General revenues totaled \$18,448,435, and amounted to 87.55% of total governmental revenues. These revenues primarily consist of property tax revenues of \$1,103,030, income tax revenues of \$11,852,835, and JEDD revenues of \$3,777,184.

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



**CITY OF FAIRLAWN, OHIO**

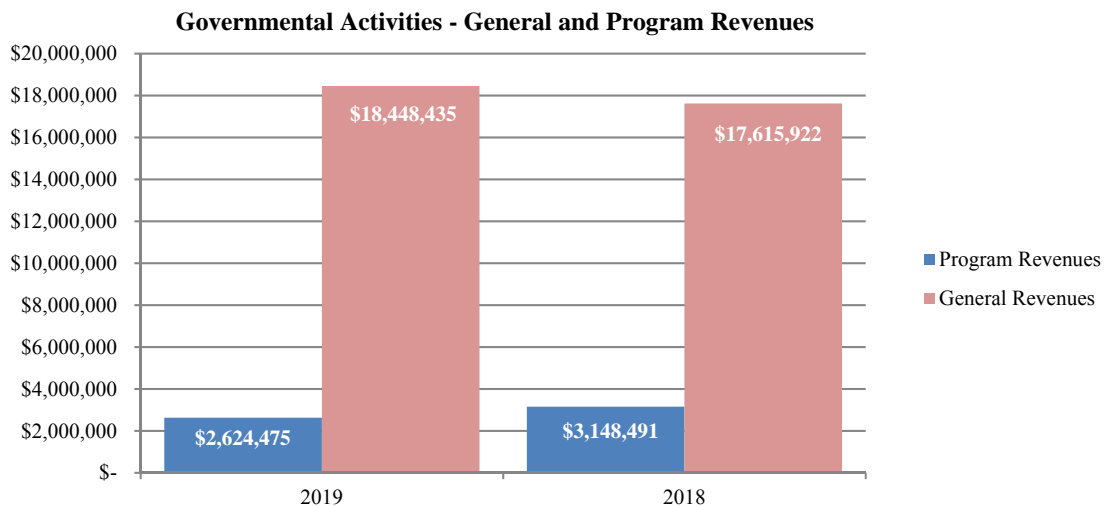
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2019  
Unaudited

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

	<b>Governmental Activities</b>			
	Total Cost of Services 2019	Net Cost of Services 2019	Total Cost of Services 2018	Net Cost of Services 2018
	Program Expenses:			
General government	\$ 3,351,650	\$ 3,018,370	\$ 4,555,839	\$ 2,607,530
Security of persons and property	2,685,465	2,298,540	9,448,832	8,988,667
Public health and welfare	115,717	115,717	116,189	116,189
Transportation	5,515,723	4,091,715	5,440,697	5,014,748
Community environment	860,891	547,051	628,111	485,653
Leisure time activity	563,194	546,998	531,970	516,322
Utility services	1,426,442	1,276,219	1,193,920	1,037,958
Interest and fiscal charges	395,552	395,552	416,717	416,717
<b>Total</b>	<b>\$ 14,914,634</b>	<b>\$ 12,290,162</b>	<b>\$ 22,332,275</b>	<b>\$ 19,183,784</b>

The dependence upon general revenues for governmental activities is apparent, with 82.40% of expenses supported through taxes and other general revenues.

The chart below illustrates the City's program revenues versus general revenues for 2019 and 2018:



***Business-Type Activities***

Business-type activities net position increased \$200,063 in 2019.

Broadband expenses were \$2,838,853 for the year. Broadband expenses were partially offset by \$2,029,353 in direct charges to users of the City's broadband utility and \$3,084 in operating grants and contributions.

**CITY OF FAIRLAWN, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2019  
Unaudited

During 2019, business-type activities received capital contributions of \$826,479 and interfund transfers of \$180,000 from the City's governmental activities.

**Financial Analysis of the Government's Funds**

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

**Governmental Funds**

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

The City's governmental funds (as presented on the balance sheet on page 19) reported a combined fund balance of \$20,629,820 which is \$699,117 less than last year's total of \$21,328,937. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2019 and 2018 for all major and nonmajor governmental funds.

	Fund Balances 12/31/19	Restated Fund Balances 12/31/18	Increase/ (Decrease)	Percentage Change
Major funds:				
General	\$ 15,156,033	\$ 16,150,928	\$ (994,895)	(6.16) %
Capital improvement	3,919,619	3,751,772	167,847	4.47 %
Other nonmajor governmental funds	1,554,168	1,426,237	127,931	8.97 %
Total	<u>\$ 20,629,820</u>	<u>\$ 21,328,937</u>	<u>\$ (699,117)</u>	(3.28) %

**General Fund**

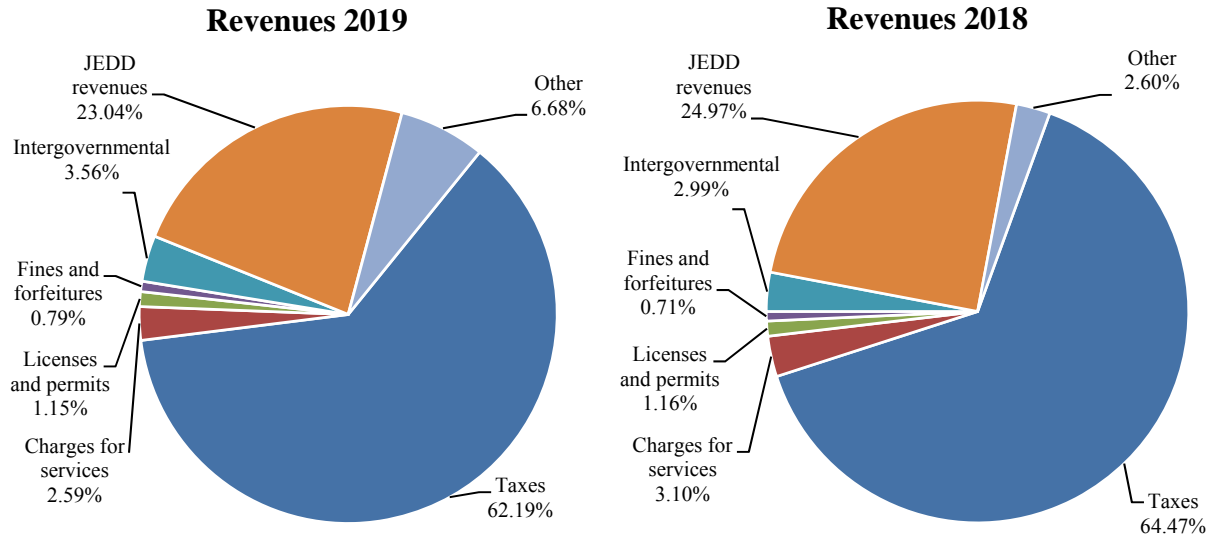
The City's general fund balance decreased by \$994,895. The table that follows assists in illustrating the revenues of the general fund.

	2019	2018	Percentage Change
<u>Revenues</u>			
Taxes	\$ 10,080,423	\$ 10,114,716	(0.34) %
Charges for services	419,514	487,099	(13.88) %
Licenses and permits	187,048	181,619	2.99 %
Fines and forfeitures	128,446	112,182	14.50 %
Intergovernmental	577,430	469,825	22.90 %
JEDD revenues	3,734,681	3,917,989	(4.68) %
Other	1,082,491	406,501	166.29 %
Total	<u>\$ 16,210,033</u>	<u>\$ 15,689,931</u>	3.31 %

**CITY OF FAIRLAWN, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2019  
Unaudited

Tax revenue represents 62.19% of all general fund revenue, while income tax-based JEDD revenues accounted for another 23.04%. Intergovernmental revenues increased by \$107,605, due to late settling estate taxes that were deferred in the prior year. Other revenues increased by 166.29%, due, in part, to the Community Improvement Corporation of Fairlawn (CIC) remitting the excess proceeds from the sale of five parcels of real estate on Riviera Drive to the City, as required by Ohio Revised Code Section 1724.10. All other revenues remained comparable to 2018.



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

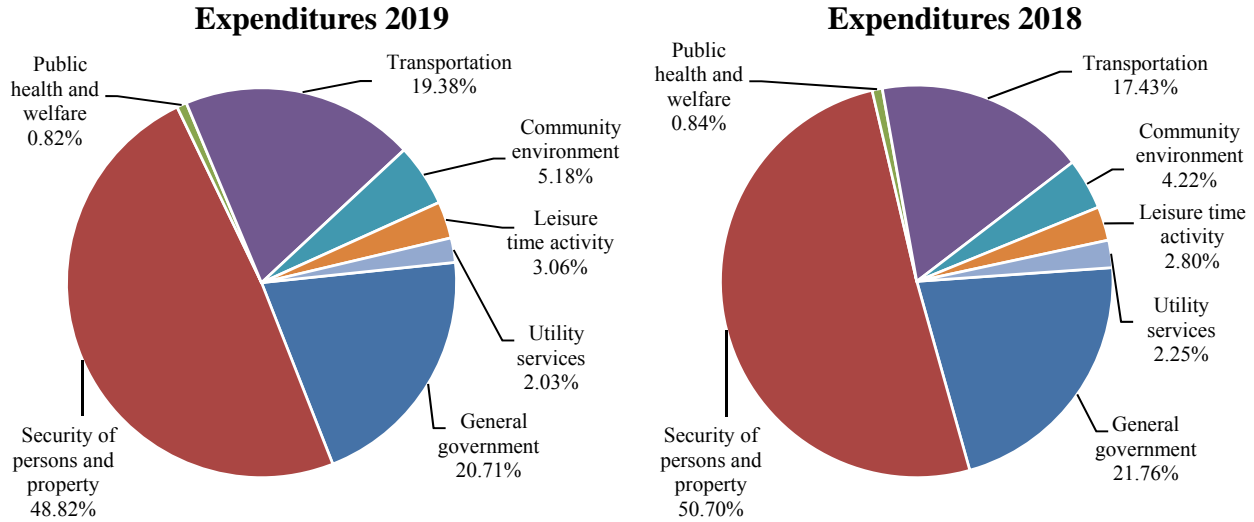
<u>Expenditures</u>	<u>2019</u>	<u>2018</u>	<u>Percentage Change</u>
General government	\$ 2,912,263	\$ 3,000,869	(2.95) %
Security of persons and property	6,865,934	6,992,922	(1.82) %
Public health and welfare	115,717	116,189	(0.41) %
Transportation	2,724,694	2,404,340	13.32 %
Community environment	728,118	581,793	25.15 %
Leisure time activity	430,056	385,561	11.54 %
Utility services	285,614	312,156	(8.50) %
<b>Total</b>	<b>\$ 14,062,396</b>	<b>\$ 13,793,830</b>	<b>1.95 %</b>

The general fund's resources were primarily used for general government, security of persons and property, and transportation purposes, which accounted for 88.91% of all general fund expenditures in 2019. Transportation expenditures increased by 13.32%, primarily due to various on-going development projects and the purchase of new software to operate the traffic signals on West Market Street. Community environment expenditures increased by \$146,325, as a result of the City's Real Property Maintenance Board issuing orders that the Cornus Hill Mansion be demolished following a fire that damaged the structure. In the property owner's absence, the City contracted for the demolition of the structure and assessed the property to recoup the costs incurred. All other expenditures remained comparable to 2018.



**CITY OF FAIRLAWN, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2019  
Unaudited



**Capital Improvement Fund**

The capital improvement fund had revenues and other financing sources of \$5,776,742 in 2019. The expenditures of the capital improvement fund totaled \$5,608,895 in 2019. The net increase in fund balance for the capital improvement fund was \$167,847 or 4.47%, primarily due to transfers-in from the general fund to replenish the funds used to for the prior year purchase of five parcels of real estate on Riviera Drive.

**Proprietary Funds**

The City's proprietary funds provide the same type of information found in the government-wide financial statements for business-type activities, but in more detail. Net position for the City's broadband fund at the end of the year increased 1.92% to \$10,637,639, while total assets increased to \$11,209,531. These increases resulted from capital contributions and interfund transfers into the fund from the City's governmental funds.

**Budgeting Highlights**

Budgetary information is presented for the general fund on page 23. The final budget reflects revenues that were \$354,880, or 2.38%, higher than the original budget. Actual revenues were \$768,132 or 5.14% higher than the original budget and \$413,252 or 2.70% more than the final budget. The revenue category with the largest positive variance was income taxes, with actual revenues exceeding the final budget by 2.63%. The \$226,911 revenue surplus in this category resulted from the City's utilization of conservative revenue estimates.

During 2019, actual expenditures (including current year encumbrances) were \$1,255,493 or 7.75% under the original budget and \$1,565,955 or 9.49% less than the final budget. Actual general government expenditures were \$198,632 or 5.73% less than the original budget and \$324,758 or 9.05% less than the final budget. The security of persons and property original and final budgets exceeded actual expenditures by 8.91% and 9.09%, respectively, while actual transportation expenditures were 4.81% and 9.72% under the respective original and final budgets.

The original budget, as adopted by Council, called for a structural deficit (i.e. expenditures in excess of revenues) of approximately \$3,035,540 with the final adopted budget calling for a \$4,376,335 deficit. However, the combination of controlled discretionary spending, when possible, and favorable income tax collections resulted in the general fund ending the year with a net decrease in fund balance of \$2,715,888, or approximately \$1,660,447 less than that called for in the final budget.

**CITY OF FAIRLAWN, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2019  
Unaudited

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal 2019, the City had \$65,489,491 (net of accumulated depreciation) invested in governmental and business-type capital assets, consisting of land, construction in progress, buildings and improvements, land improvements, licensed vehicles, machinery and equipment, and infrastructure. In total, capital assets (net of accumulated depreciation) increased by \$1,597,300 or 2.50%. The following table presents the City's capital assets, net of depreciation at December 31, 2019 and 2018.

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land	\$ 3,580,282	\$ 3,580,282	\$ -	\$ -	\$ 3,580,282	\$ 3,580,282
Construction in progress	732,001	-	-	-	732,001	-
Buildings and improvements	8,318,587	8,594,766	-	-	8,318,587	8,594,766
Land improvements	1,752,014	1,752,419	-	-	1,752,014	1,752,419
Licensed vehicles	1,208,337	1,276,487	-	-	1,208,337	1,276,487
Machinery and equipment	1,626,032	1,463,500	2,927,283	2,696,655	4,553,315	4,160,155
Infrastructure	37,883,388	37,431,524	7,265,562	7,096,558	45,148,950	44,528,082
<b>Total</b>	<b>\$ 55,100,641</b>	<b>\$ 54,098,978</b>	<b>\$ 10,192,845</b>	<b>\$ 9,793,213</b>	<b>\$ 65,293,486</b>	<b>\$ 63,892,191</b>

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

- Acquisition of various right-of-way parcels for the widening of Cleveland-Massillon Road (\$650,415)
- Replacement of a dump truck and snow plow equipment (\$226,064)
- Replacement of an ambulance cab and chassis (\$81,589)
- Replacement of a dispatch radio console (\$110,000)
- Emergency replacement of a storm sewer line near Sand Run Parkway and Ghent Road (\$1,795,532)
- Installation of sanitary and storm sewer lines at Fairlawn Corporate Park (\$158,110)
- On-going construction of the FairlawnGig municipal broadband utility system (\$459,020).

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

**Debt Administration**

The City had the following long-term debt outstanding at December 31, 2019 and 2018:

	Governmental Activities	
	2019	2018
General obligation bonds	\$ 1,080,000	\$ 1,430,000
Notes payable	535,690	589,117
Capital lease	9,525,000	9,745,000
<b>Total</b>	<b>\$ 11,140,690</b>	<b>\$ 11,764,117</b>

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

## CITY OF FAIRLAWN, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2019 Unaudited

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

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

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

The City has established a strong corporate office presence. It is currently home to several corporate headquarters, as well as accounting, legal and construction development offices. The City formed a Community Improvement Corporation (CIC) in 2010 to expand its economic development capabilities and to attract and retain businesses. The CIC utilizes a commercial real estate firm to market vacant land available for development in the Fairlawn Corporate Park.

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

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

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

The City's primary revenue source is the 2% local income tax withheld on the estimated 40,000 people working in the City. Income tax collections, net of shared revenue due to the City of Akron, increased 1.9% in 2019 as compared to the previous year. Withholding taxes decreased by 2.7% during 2019, as a result of several significant, non-recurring transactions that occurred in 2018. However, that decline was partially offset by increases in net profit taxes (24.0%) and individual income taxes (12.0%), with the latter being impacted by a House Bill 49 mandate pushing the fourth quarter due date for 2018 estimated tax payments back to January 15, 2019.

**CITY OF FAIRLAWN, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2019  
Unaudited**

The City is projecting a 8.1% decrease in general fund revenues in 2020, net of interfund transfers and advances. While general fund expenditures for 2020, net of interfund transfers and advances, are budgeted at 1.0% greater than 2019 final budget due to increased personnel costs. Programs supported by the general fund are budgeted at the same level of service as last year.

**Contacting the City's Financial Management**

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

CITY OF FAIRLAWN, OHIO

STATEMENT OF NET POSITION  
DECEMBER 31, 2019

	<u>Primary Government</u>			<u>Component Unit</u>
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Community Improvement Corporation of Fairlawn</u>
<b>Assets:</b>				
Equity in pooled cash, cash equivalents, and investments	\$ 18,692,118	\$ 682,479	\$ 19,374,597	\$ 26,344
Cash and cash equivalents in segregated accounts	6,965	-	6,965	-
Cash and cash equivalents with fiscal agent	240,220	-	240,220	-
Receivables:				
Income taxes	2,219,997	-	2,219,997	-
Real and other taxes	846,241	-	846,241	-
Payments in lieu of taxes	24,415	-	24,415	-
Accounts	408,761	85,712	494,473	-
Special assessments	138,880	-	138,880	-
Accrued interest	73	-	73	-
Due from other governments	1,074,882	175	1,075,057	-
Loans receivable	-	-	-	300,000
Rent receivable	-	-	-	338,000
Materials and supplies inventory	588,152	246,199	834,351	-
Prepayments	205,112	2,118	207,230	1,198
Assets held for sale	-	-	-	105,000
Net pension asset	75	3	78	-
Capital assets:				
Land and construction in progress	4,312,283	-	4,312,283	-
Depreciable capital assets, net	50,788,358	10,192,845	60,981,203	-
Total capital assets, net	55,100,641	10,192,845	65,293,486	-
Total assets	79,546,532	11,209,531	90,756,063	770,542
<b>Deferred outflows of resources:</b>				
Pension	5,433,974	117,824	5,551,798	-
OPEB	1,472,350	36,573	1,508,923	-
Total deferred outflows of resources	6,906,324	154,397	7,060,721	-
Total assets and deferred outflows of resources	86,452,856	11,363,928	97,816,784	770,542
<b>Liabilities:</b>				
Accounts payable	490,441	313,213	803,654	-
Accrued wages and benefits payable	371,456	7,058	378,514	-
Compensated absences payable	123,802	250	124,052	-
Due to other governments	305,042	19,904	324,946	-
Accrued interest payable	47,545	-	47,545	-
Long-term liabilities:				
Due within one year	1,166,338	9,241	1,175,579	-
Due in more than one year:				
Net pension liability	18,290,037	243,909	18,533,946	-
Net OPEB liability	4,187,424	108,762	4,296,186	-
Other amounts	12,119,508	20,454	12,139,962	-
Total liabilities	37,101,593	722,791	37,824,384	-
<b>Deferred inflows of resources:</b>				
Property taxes levied for the next fiscal year	814,718	-	814,718	-
PILOTS levied for the next fiscal year	24,415	-	24,415	-
Pension	445,211	3,203	448,414	-
OPEB	596,475	295	596,770	-
Total deferred inflows of resources	1,880,819	3,498	1,884,317	-
Total liabilities and deferred inflows of resources	38,982,412	726,289	39,708,701	-
<b>Net position:</b>				
Net investment in capital assets	53,429,509	10,192,845	63,622,354	-
Restricted for:				
Other purposes	1,580,741	-	1,580,741	-
Unrestricted	(7,539,806)	444,794	(7,095,012)	770,542
Total net position	\$ 47,470,444	\$ 10,637,639	\$ 58,108,083	\$ 770,542

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FAIRLAWN, OHIO

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2019

	Program Revenues				Net (Expense) Revenues and Changes in Net Position			Component Unit Community Improvement Corporation of Fairlawn
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	
					Governmental Activities	Business-type Activities		
<b>Governmental activities:</b>								
Current:								
General government	\$ 3,351,650	\$ 289,492	\$ -	\$ 43,788	\$ (3,018,370)	\$ -	\$ (3,018,370)	\$ -
Security of persons and property	2,685,465	384,234	2,691	-	(2,298,540)	-	(2,298,540)	-
Public health and welfare	115,717	-	-	-	(115,717)	-	(115,717)	-
Transportation	5,515,723	22,359	542,282	859,367	(4,091,715)	-	(4,091,715)	-
Community environment	860,891	264,124	-	49,716	(547,051)	-	(547,051)	-
Leisure time activity	563,194	16,196	-	-	(546,998)	-	(546,998)	-
Utility services	1,426,442	143,364	6,859	-	(1,276,219)	-	(1,276,219)	-
Interest and fiscal charges	395,552	-	-	-	(395,552)	-	(395,552)	-
Total governmental activities	<u>\$ 14,914,634</u>	<u>\$ 1,119,769</u>	<u>\$ 551,832</u>	<u>\$ 952,871</u>	<u>(12,290,162)</u>	<u>-</u>	<u>(12,290,162)</u>	<u>-</u>
<b>Business-type activities:</b>								
Broadband	2,838,853	2,029,353	3,084	-	-	(806,416)	(806,416)	-
Total primary government	<u>\$ 17,753,487</u>	<u>\$ 3,149,122</u>	<u>\$ 554,916</u>	<u>\$ 952,871</u>	<u>(12,290,162)</u>	<u>(806,416)</u>	<u>(13,096,578)</u>	<u>-</u>
<b>Component Unit:</b>								
Community Improvement Corporation of Fairlawn	<u>\$ 432,986</u>	<u>\$ -</u>	<u>\$ 199,000</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(233,986)</u>
<b>General revenues:</b>								
Property taxes levied for:								
General purposes					922,310	-	922,310	-
Police and fire pension					180,720	-	180,720	-
Income taxes levied for:								
General purposes					9,002,980	-	9,002,980	-
Capital outlay					2,849,855	-	2,849,855	-
Payments in lieu of taxes					23,985	-	23,985	-
Grants and entitlements not restricted to specific programs					487,440	-	487,440	-
JEDD revenues					3,777,184	-	3,777,184	-
Investment earnings					390,696	-	390,696	-
Gain on sale of capital assets					5,700	-	5,700	-
Miscellaneous					807,565	-	807,565	-
Total general revenues					<u>18,448,435</u>	<u>-</u>	<u>18,448,435</u>	<u>-</u>
Transfers					(1,006,479)	1,006,479	-	-
Total general revenues and transfers					<u>17,441,956</u>	<u>1,006,479</u>	<u>18,448,435</u>	<u>-</u>
Change in net position					5,151,794	200,063	5,351,857	(233,986)
<b>Net position at beginning of year (restated)</b>					<u>42,318,650</u>	<u>10,437,576</u>	<u>52,756,226</u>	<u>1,004,528</u>
<b>Net position at end of year</b>					<u>\$ 47,470,444</u>	<u>\$ 10,637,639</u>	<u>\$ 58,108,083</u>	<u>\$ 770,542</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FAIRLAWN, OHIO

BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2019

	<u>General</u>	<u>Capital Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>				
Equity in pooled cash, cash equivalents, and investments	\$ 13,320,128	\$ 3,432,443	\$ 1,939,547	\$ 18,692,118
Cash and cash equivalents in segregated accounts	6,965	-	-	6,965
Cash and cash equivalents with fiscal agent	-	240,220	-	240,220
Receivables:				
Income taxes	1,664,998	554,999	-	2,219,997
Real and other taxes	662,172	-	184,069	846,241
Payments in lieu of taxes	-	-	24,415	24,415
Accounts	250,343	158,110	308	408,761
Special assessments	-	83,688	55,192	138,880
Accrued interest	-	73	-	73
Due from other funds	315,750	-	-	315,750
Due from other governments	829,467	-	245,415	1,074,882
Materials and supplies inventory	588,152	-	-	588,152
Prepayments	205,112	-	-	205,112
Total assets	<u>\$ 17,843,087</u>	<u>\$ 4,469,533</u>	<u>\$ 2,448,946</u>	<u>\$ 24,761,566</u>
<b>Liabilities:</b>				
Accounts payable	\$ 163,507	\$ 310,040	\$ 16,894	\$ 490,441
Accrued wages and benefits payable	371,456	-	-	371,456
Compensated absences payable	123,802	-	-	123,802
Due to other funds	-	-	315,750	315,750
Due to other governments	214,623	-	90,419	305,042
Total liabilities	<u>873,388</u>	<u>310,040</u>	<u>423,063</u>	<u>1,606,491</u>
<b>Deferred inflows of resources:</b>				
Property taxes levied for the next fiscal year	633,670	-	181,048	814,718
Delinquent property tax revenue not available	10,227	-	3,021	13,248
PILOTS levied for the next fiscal year	-	-	24,415	24,415
Special assessments revenue not available	-	83,688	55,192	138,880
Miscellaneous revenue not available	215,932	-	154	216,086
Income tax revenue not available	468,557	156,186	-	624,743
Intergovernmental revenue not available	128,875	-	207,885	336,760
JEDD revenues not available	356,405	-	-	356,405
Total deferred inflows of resources	<u>1,813,666</u>	<u>239,874</u>	<u>471,715</u>	<u>2,525,255</u>
Total liabilities and deferred inflows of resources	<u>2,687,054</u>	<u>549,914</u>	<u>894,778</u>	<u>4,131,746</u>
<b>Fund balances:</b>				
Nonspendable	806,999	-	-	806,999
Restricted	-	3,919,619	1,614,811	5,534,430
Committed	5,000	-	-	5,000
Assigned	2,657,421	-	-	2,657,421
Unassigned	11,686,613	-	(60,643)	11,625,970
Total fund balances	<u>15,156,033</u>	<u>3,919,619</u>	<u>1,554,168</u>	<u>20,629,820</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 17,843,087</u>	<u>\$ 4,469,533</u>	<u>\$ 2,448,946</u>	<u>\$ 24,761,566</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, 2019

<b>Total governmental fund balances</b>		\$ 20,629,820
<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.		55,100,641
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds.		
Income taxes receivable	\$ 624,743	
Real and other taxes receivable	13,248	
Accounts receivable	216,086	
Special assessments receivable	138,880	
Due from other governments	<u>693,165</u>	
Total		1,686,122
The net pension asset is not available to pay for current period expenditures; therefore, the asset is not reported in the governmental funds.		75
The net pension/OPEB liability is not due and payable in the current period; therefore, liability and related deferred inflows and outflows are not reported in governmental funds.		
Deferred outflows - pension	5,433,974	
Deferred outflows - OPEB	1,472,350	
Deferred inflows - pension	(445,211)	
Deferred inflows - OPEB	(596,475)	
Net pension liability	(18,290,037)	
Net OPEB liability	<u>(4,187,424)</u>	
Total		(16,612,823)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Accrued interest payable	(47,545)	
General obligation bonds payable	(1,080,000)	
Unamortized premium on bond issuance	(55,442)	
Notes payable	(535,690)	
Capital lease payable	(9,525,000)	
Unamortized premium on capital lease issuance	(569,337)	
Compensated absences	<u>(1,520,377)</u>	
Total		<u>(13,333,391)</u>
<b>Net position of governmental activities</b>		<u><u>\$ 47,470,444</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, 2019

	<u>General</u>	<u>Capital Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
Income taxes	\$ 9,151,227	\$ 2,899,270	\$ -	\$ 12,050,497
Real and other taxes	929,196	-	182,618	1,111,814
Charges for services	419,514	-	130,069	549,583
Licenses and permits	187,048	-	-	187,048
Fines and forfeitures	128,446	-	2,677	131,123
Intergovernmental	577,430	230,662	1,082,821	1,890,913
Special assessments	-	58,376	57,395	115,771
Investment income	381,742	1,767	7,187	390,696
Rental income	68,437	-	-	68,437
Contributions and donations	37,094	-	-	37,094
JEDD revenues	3,734,681	-	-	3,734,681
Payments in lieu of taxes	-	-	23,985	23,985
Other	595,218	175,254	105,985	876,457
Total revenues	<u>16,210,033</u>	<u>3,365,329</u>	<u>1,592,737</u>	<u>21,168,099</u>
<b>Expenditures:</b>				
Current:				
General government	2,912,263	-	-	2,912,263
Security of persons and property	6,865,934	-	717,163	7,583,097
Public health and welfare	115,717	-	-	115,717
Transportation	2,724,694	-	314,073	3,038,767
Community environment	728,118	-	57,674	785,792
Leisure time activity	430,056	-	-	430,056
Utility services	285,614	-	202,310	487,924
Capital outlay	-	4,547,839	748,286	5,296,125
Debt service:				
Principal retirement	-	623,427	-	623,427
Interest and fiscal charges	-	437,629	-	437,629
Total expenditures	<u>14,062,396</u>	<u>5,608,895</u>	<u>2,039,506</u>	<u>21,710,797</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,147,637</u>	<u>(2,243,566)</u>	<u>(446,769)</u>	<u>(542,698)</u>
<b>Other financing sources (uses):</b>				
Sale of capital assets	-	6,200	-	6,200
Advances in	571,650	-	571,650	1,143,300
Advances (out)	(571,650)	-	(571,650)	(1,143,300)
Transfers in	-	2,405,213	574,700	2,979,913
Transfers (out)	<u>(3,159,913)</u>	<u>-</u>	<u>-</u>	<u>(3,159,913)</u>
Total other financing sources (uses)	<u>(3,159,913)</u>	<u>2,411,413</u>	<u>574,700</u>	<u>(173,800)</u>
Net change in fund balances	(1,012,276)	167,847	127,931	(716,498)
<b>Fund balances at beginning of year (restated)</b>	16,150,928	3,751,772	1,426,237	21,328,937
<b>Decrease in reserve for inventory</b>	<u>17,381</u>	<u>-</u>	<u>-</u>	<u>17,381</u>
<b>Fund balances at end of year</b>	<u>\$ 15,156,033</u>	<u>\$ 3,919,619</u>	<u>\$ 1,554,168</u>	<u>\$ 20,629,820</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, 2019

**Net change in fund balances - total governmental funds** \$ (716,498)

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

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

Capital asset additions	\$ 3,233,385	
Current year depreciation	<u>(2,275,010)</u>	
Total		958,375

The net effect of various transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to increase net position. 43,288

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

Income taxes	(197,662)	
Real and other taxes	(8,784)	
Charges for services	180,473	
Licenses and permits	(139)	
Intergovernmental revenues	(110,187)	
Special assessments	(49,705)	
JEDD revenues	42,503	
Other	<u>(1,179)</u>	
Total		(144,680)

Governmental funds report expenditures for inventory when purchased. However, in the Statement of Activities, they are reported as an expense when consumed. 17,381

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. 623,427

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

Accrued interest payable	2,509	
Amortization of premium on bonds	18,481	
Amortization of premium on capital lease	<u>21,087</u>	
Total		42,077

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

Pension contributions	1,167,353	
OPEB contributions	<u>17,508</u>	
Total		1,184,861

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

Changes in net pension liability	(3,016,317)	
Changes in net OPEB liability	<u>6,226,378</u>	
Total		3,210,061

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. (66,498)

**Change in net position of governmental activities** \$ 5,151,794

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, 2019

	<u>Budgeted Amounts</u>			<b>Variance with</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<b>Final Budget</b> <b>Positive</b> <b>(Negative)</b>
<b>Revenues:</b>				
Income taxes	\$ 8,724,718	\$ 8,614,718	\$ 8,841,629	\$ 226,911
Real and other taxes	901,045	919,979	925,543	5,564
Charges for services	455,480	403,480	429,163	25,683
Licenses and permits	176,460	185,779	187,682	1,903
Fines and forfeitures	111,990	129,888	135,685	5,797
Intergovernmental	333,427	551,402	576,037	24,635
Investment income	200,000	346,156	381,742	35,586
Rental income	71,060	60,060	68,437	8,377
Contributions and donations	-	36,094	37,094	1,000
JEDD revenues	3,858,480	3,525,070	3,525,070	-
Other	102,530	517,444	595,240	77,796
<b>Total revenues</b>	<u>14,935,190</u>	<u>15,290,070</u>	<u>15,703,322</u>	<u>413,252</u>
<b>Expenditures:</b>				
Current:				
General government	3,464,282	3,590,408	3,265,650	324,758
Security of persons and property	7,803,844	7,819,471	7,108,406	711,065
Public health and welfare	123,500	115,871	115,717	154
Transportation	3,089,890	3,257,918	2,941,199	316,719
Community environment	901,245	901,245	760,489	140,756
Leisure time activity	485,220	493,530	440,124	53,406
Utility services	331,059	331,059	311,962	19,097
<b>Total expenditures</b>	<u>16,199,040</u>	<u>16,509,502</u>	<u>14,943,547</u>	<u>1,565,955</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,263,850)</u>	<u>(1,219,432)</u>	<u>759,775</u>	<u>1,979,207</u>
<b>Other financing sources (uses):</b>				
Sale of capital assets	3,010	3,010	-	(3,010)
Advances in	-	887,400	571,650	(315,750)
Advances (out)	-	(887,400)	(887,400)	-
Transfers (out)	<u>(1,774,700)</u>	<u>(3,159,913)</u>	<u>(3,159,913)</u>	<u>-</u>
<b>Total other financing sources (uses)</b>	<u>(1,771,690)</u>	<u>(3,156,903)</u>	<u>(3,475,663)</u>	<u>(318,760)</u>
Net change in fund balances	(3,035,540)	(4,376,335)	(2,715,888)	1,660,447
<b>Fund balances at beginning of year</b>	13,770,788	13,770,788	13,770,788	-
<b>Prior year encumbrances appropriated</b>	<u>1,116,788</u>	<u>1,116,788</u>	<u>1,116,788</u>	<u>-</u>
<b>Fund balance at end of year</b>	<u>\$ 11,852,036</u>	<u>\$ 10,511,241</u>	<u>\$ 12,171,688</u>	<u>\$ 1,660,447</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FAIRLAWN, OHIO

STATEMENT OF NET POSITION  
 PROPRIETARY FUND  
 DECEMBER 31, 2019

	<u>Business-type Activities - Enterprise Fund</u>
	<u>Broadband</u>
<b>Assets:</b>	
Current assets:	
Equity in pooled cash, cash equivalents, and investments	\$ 682,479
Receivables:	
Accounts	85,712
Due from other governments	175
Materials and supplies inventory	246,199
Prepayments	2,118
Total current assets	<u>1,016,683</u>
Noncurrent assets:	
Net pension asset	3
Capital assets:	
Depreciable capital assets, net	<u>10,192,845</u>
Total noncurrent assets	<u>10,192,848</u>
Total assets	<u>11,209,531</u>
<b>Deferred outflows of resources:</b>	
Pension	117,824
OPEB	36,573
Total deferred outflows of resources	<u>154,397</u>
Total assets and deferred outflows of resources	<u>11,363,928</u>
<b>Liabilities:</b>	
Current liabilities:	
Accounts payable	313,213
Accrued wages and benefits payable	7,058
Due to other governments	19,904
Compensated absences payable - current	250
Total current liabilities	<u>340,425</u>
Long-term liabilities:	
Compensated absences payable	29,695
Net pension liability	243,909
Net OPEB liability	108,762
Total long-term liabilities	<u>382,366</u>
Total liabilities	<u>722,791</u>
<b>Deferred inflows of resources:</b>	
Pension	3,203
OPEB	295
Total deferred inflows of resources	<u>3,498</u>
Total liabilities and deferred inflows of resources	<u>726,289</u>
<b>Net position:</b>	
Net investment in capital assets	10,192,845
Unrestricted	444,794
Total net position	<u>\$ 10,637,639</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FAIRLAWN, OHIO**

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION  
PROPRIETARY FUND  
FOR THE YEAR ENDED DECEMBER 31, 2019

	<b>Business-type Activities - Enterprise Fund</b>	
	<u>Broadband</u>	
<b>Operating revenues:</b>		
Charges for services	\$	2,029,353
Other operating revenues		<u>3,084</u>
Total operating revenues		<u>2,032,437</u>
<b>Operating expenses:</b>		
Personal services		144,330
Fringe benefits		176,891
Contract services		2,006,853
Materials and supplies		19,252
Depreciation		480,917
Other		<u>10,610</u>
Total operating expenses		<u>2,838,853</u>
Operating loss		<u>(806,416)</u>
Transfer in		180,000
Capital contributions		<u>826,479</u>
Change in net position		200,063
<b>Net position at beginning of year</b>		<u>10,437,576</u>
<b>Net position at end of year</b>	\$	<u><u>10,637,639</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FAIRLAWN, OHIO**

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUND  
 FOR THE YEAR ENDED DECEMBER 31, 2019

	<b>Business-type Activities -</b>	
	<b>Enterprise Fund</b>	
	<b>Broadband</b>	
<b>Cash flows from operating activities:</b>		
Cash received from sales/charges for services	\$	2,002,510
Cash received from other operations		3,027
Cash payments for contractual services		(1,905,043)
Cash payments for personal services		(144,938)
Cash payments for fringe benefits		(67,503)
Cash payments for materials and supplies		(19,252)
Cash payments for other expenses		(10,610)
Net cash used in operating activities		<u>(141,809)</u>
<b>Cash flows from noncapital financing activities:</b>		
Cash received from transfers in		<u>180,000</u>
Net cash provided by financing activities		<u>180,000</u>
<b>Cash flows from capital and related financing activities:</b>		
Acquisition of capital assets		<u>(54,070)</u>
Net cash used in capital and related financing activities		<u>(54,070)</u>
Net decrease in cash, cash equivalents, and investments		(15,879)
<b>Cash, cash equivalents, and investments at beginning of year</b>		<u>698,358</u>
<b>Cash, cash equivalents, and investments at end of year</b>	\$	<u><u>682,479</u></u>
<b>Reconciliation of operating loss to net cash used in operating activities:</b>		
Operating loss	\$	(806,416)
Adjustments:		
Depreciation		480,917
Changes in assets and liabilities:		
Increase in materials and supplies inventory		(33,084)
Increase in accounts receivable		(26,843)
Increase in intergovernmental receivable		(57)
Increase in prepayments		(406)
Increase in accounts and contracts payable		117,951
Increase in accrued wages and benefits		3,881
Increase in intergovernmental payable		18,575
Decrease in compensated absences payable		(4,489)
Increase in pension obligation payable		77,799
Increase in OPEB obligation payable		<u>30,363</u>
Net cash used in operating activities	\$	<u><u>(141,809)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FAIRLAWN, OHIO**

STATEMENT OF FIUCIARY NET POSITION  
FIDUCIARY FUNDS  
DECEMBER 31, 2019

	<u>Custodial</u>
<b>Assets:</b>	
Receivables:	
Fines and forfeitures for other governments	<u>\$ 19,038</u>
Total assets	<u>19,038</u>
<b>Net position:</b>	
Restricted for other governments	<u>19,038</u>
Total net position	<u><u>\$ 19,038</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FAIRLAWN, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>Custodial</u>
<b>Additions:</b>	
Fines and forfeitures for other governments	\$ 75,217
Total additions	<u>75,217</u>
<b>Deductions:</b>	
Fines and forfeitures distributions to other governments	<u>56,179</u>
Total deductions	<u>56,179</u>
Excess (deficiency) of additions over (under) deductions	<u>19,038</u>
Net change in fiduciary net position	19,038
<b>Net position beginning of year (restated)</b>	<u>-</u>
<b>Net position end of year</b>	<u>\$ 19,038</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, 2019

#### 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 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 basic financial statements 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 21.

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

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

## CITY OF FAIRLAWN, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019

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

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

Each participant's degree of control is limited to its representation on the board. All 2019 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 basic financial statements consist of government-wide statements, including a Statement of Net Position and a Statement of Activities, and fund financial statements which provide a more detailed level of financial information.

***Government-wide Financial Statements*** - The Statement of Net Position and the Statement of Activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

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

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

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

## CITY OF FAIRLAWN, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019

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

##### C. Fund Accounting

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

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

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

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

Other governmental funds of the City are used to account for (a) specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects and (b) financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

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

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

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

***Fiduciary Funds*** - Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds and custodial funds. Trust funds are distinguished from custodial funds by the existence of a trust agreement or equivalent arrangements that have certain characteristics. Custodial funds are used to report fiduciary activities that are not required to be reported in a trust fund. The City has no trust funds. The City's only fiduciary fund is a custodial fund. The custodial fund is used to account for fines and fees collected and distributed through the Mayor's Court for the benefit of other governments.

##### D. Measurement Focus and Basis of Accounting

***Government-wide Financial Statements*** - The government-wide financial statements are prepared using the economic resources measurement focus. All non-fiduciary assets and deferred outflows and all liabilities and deferred inflows associated with the operation of the City are included on the Statement of Net Position. The Statement of Activities presents increases (e.g. revenues) and decreases (e.g. expenses) in total net position.

## CITY OF FAIRLAWN, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019

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

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

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

#### **E. Basis of Accounting**

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

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

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.

## CITY OF FAIRLAWN, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019

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

*Deferred Outflows of Resources and Deferred Inflows of Resources* - In addition to assets, the government-wide Statement of Net Position will report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the City, deferred outflows of resources have been reported for the following items related to the City's net pension/OPEB liability: (1) the net difference between projected and actual investment earnings on pension/OPEB plan assets; (2) the City's contributions to the pension/OPEB systems subsequent to the measurement date; (3) differences between employer's contributions and the employer's proportional share of contributions; and (4) differences between expected and actual experience.

In addition to liabilities, both the government-wide Statement of Net Position and the governmental fund financial statements report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes, payments in lieu of revenue, and unavailable revenue. Property taxes and payments in lieu of revenue represent amounts for which there is an enforceable legal claim as of December 31, 2019, but which were levied to finance 2020 operations. These amounts have been recorded as a deferred inflow of resources on both the government-wide Statement of Net Position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City unavailable revenue includes, but is not limited to, delinquent property taxes, special assessments, income taxes, intergovernmental grants, and JEDD revenues. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

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

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

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

#### **F. Budgetary Data**

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget (or the alternative tax budget as permitted by law), the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations ordinance are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than the custodial fund, are legally required to be budgeted and appropriated. The legal level of budgetary control established by Council separately identifies the amounts appropriated for personal services, interfund transactions, capital purchases, and other object level items within each fund. Budgetary modifications may only be made by an ordinance of Council at the legal level of control.

## CITY OF FAIRLAWN, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019

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

***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 the custodial fund, 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 2019.

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

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

***Lapsing of Appropriations*** - At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. Encumbrances are carried forward and are not re-appropriated as part of the subsequent year appropriations.

#### **G. Cash, Cash Equivalents, and Investments**

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

## CITY OF FAIRLAWN, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019

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

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

During 2019, the City invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The City measures its investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For 2019, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$100 million, requiring the excess amount to be transacted the following business day(s), but only to the \$100 million limit. All accounts of the participant will be combined for these purposes.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. During fiscal 2019, interest revenue credited to the general fund amounted to \$381,742, which includes \$111,982 assigned from other City funds.

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

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

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

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

#### **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 non-spendable fund balance in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

Inventory consists of expendable supplies held for consumption.

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019

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

**I. Capital Assets**

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

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

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

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

**J. Compensated Absences**

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

Sick leave benefits are accrued as a liability using the vesting method. The liability includes employees currently eligible to receive termination benefits and those the City has identified as probable of receiving benefits in the future. The amount is based on accumulated sick leave and the employees' wage rates at fiscal year-end, taking into consideration any limits specified in the City's termination policy. The City records a liability for accumulated unused sick leave for all employees hired before January 1, 2005.

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 \$123,802 in the general fund in 2019.



## CITY OF FAIRLAWN, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019

#### 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, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

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

##### **L. Interfund Balances**

On fund financial statements, receivables and payables resulting from goods and services provided between funds are classified as “due to/from other funds.” These amounts are eliminated in the governmental and business-type activities columns of the Statement of Net Position, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

##### **M. Interfund Activity**

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

##### **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 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, 2019

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

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

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

#### **O. Estimates**

The preparation of the 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.

#### **P. Net Position**

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

#### **Q. Prepaid Items**

Prepayments made to vendors for services that will benefit future periods beyond December 31, 2019 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, 2019

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

##### R. Pensions/Other Postemployment Benefits (OPEB)

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

##### S. Fair Value Measurements

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

##### T. Contributions of Capital

Voluntary contributions of capital assets from governmental funds to proprietary funds are reported as capital contributions in the proprietary funds and presented after nonoperating revenues/expenses. During 2019, the City's proprietary fund reported \$826,479 in capital contributions from the governmental funds.

#### NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

##### A. Change in Accounting Principles

For 2019, the City has implemented GASB Statement No. 83, "*Certain Asset Retirement Obligations*", GASB Statement No. 84, "*Fiduciary Activities*", GASB Statement No. 88, "*Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*" and GASB Statement No. 90, "*Majority Equity Interests - an amendment to GASB Statements No. 14 and No. 61*".

GASB Statement No. 83 addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability. The implementation of GASB Statement No. 83 did not have an effect on the financial statements of the City.

GASB Statement No. 84 establishes specific criteria for identifying activities that should be reported as fiduciary activities and clarifies whether and how business-type activities should report their fiduciary activities. Due to the implementation of GASB Statement No. 84, the City will no longer be reporting agency funds. The City reviewed its agency funds and certain funds will be reported in the new fiduciary classification of custodial funds, while other funds have been reclassified as governmental funds. These fund reclassifications resulted in the restatement of the City's financial statements.

GASB Statement No. 88 improves the information that is disclosed in notes to the basic financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The implementation of GASB Statement No. 88 did not have an effect on the financial statements of the City.

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019

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

GASB Statement No. 90 improves the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government’s holding of the equity interest meets the definition of an investment. The implementation of GASB Statement No. 90 did not have an effect on the financial statements of the City.

**B. Restatement of Net Position and Fund Balances**

The implementation of GASB 84 had the following effect on fund balance as reported at December 31 2018:

	General	Capital Improvement	Other Governmental Funds	Total Governmental Funds
Fund Balance, as previously reported	\$ 16,150,928	\$ 3,751,772	\$ 1,364,473	\$ 21,267,173
GASB Statement No. 84	-	-	61,764	61,764
Restated Fund Balance, at December 31, 2018	\$ 16,150,928	\$ 3,751,772	\$ 1,426,237	\$ 21,328,937

The implementation of the GASB 84 pronouncement had the following effect on the net position as reported at December 31, 2018:

	Governmental Activities	Business-type Activities
Net Position, as previously reported	\$ 42,256,886	\$ 10,437,576
GASB Statement No. 84	61,764	-
Restated Net Position, at December 31, 2018	\$ 42,318,650	\$ 10,437,576

Due to the implementation of GASB Statement No.84, the new classification of custodial funds is reporting a beginning net position of \$0. Also, related to the implementation of GASB Statement No. 84, the City will no longer be reporting agency funds. At December 31, 2018, agency funds reported assets and liabilities of \$61,764.

**C. Deficit Fund Balances**

Fund balances at December 31, 2019 included the following individual fund deficits:

Nonmajor governmental funds	Deficit
Federal capital grants	\$ 60,643

The general fund is liable for any deficit in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities.

## CITY OF FAIRLAWN, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019

#### NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio investment pool (STAR Ohio);
7. High grade commercial paper for a period not to exceed 270 days in an amount not to exceed forty percent of the City's interim monies available for investment; and
8. Bankers acceptances for a period not to exceed 180 days and in an amount not to exceed forty percent of the City's interim monies available for investment.

**CITY OF FAIRLAWN, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019**

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

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

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

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

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

**A. Cash on Hand**

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

**B. Cash in Segregated Accounts**

At December 31, 2019, the City had \$6,965 in bank accounts outside of the City Treasury related to Mayor’s Court operations. These amounts are included on the financial statements as “cash and cash equivalents in segregated accounts” and are included in deposits with financial institutions below.

**C. Cash with Fiscal Agent**

The City had \$240,220 in unspent lease proceeds in bank accounts outside of the City Treasury at year-end. These amounts are included on the financial statements as “cash and cash equivalents with fiscal agent” and represent uncollateralized deposits exposed to custodial credit risk, as discussed below.

**D. Deposits with Financial Institutions**

At December 31, 2019, the carrying amount of the City’s deposits was \$9,257,557, and the bank balance of the City’s deposits was \$11,147,081. Of the bank balance, \$2,918,519 was covered by the Federal Deposit Insurance Corporation (FDIC) and \$8,228,562 was covered by the Ohio Pooled Collateral System (OPCS).

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019

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

Custodial credit risk is the risk that, in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. Ohio law requires that deposits either be insured or protected by: (1) eligible securities pledged to the City and deposited with a qualified trustee by the financial institution as security for repayment, whose market value at all times shall be at least 105 percent of the deposits being secured; or (2) participation in the OPCS, a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or a reduced rate set by the Treasurer of State. The City has no deposit policy for custodial credit risk beyond the requirements of the State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

**E. Investments**

As of December 31, 2019, the City had the following investments and maturities:

Measurement/ Investment Type	Measurement Value	Investment Maturities 6 months or less
Amortized Cost:		
STAR Ohio	\$ 10,115,740	\$ 10,115,740

*Interest Rate Risk:* The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase.

The City's investment policy addresses interest rate risk by requiring the consideration of market conditions and cash flow requirements in determining the term of an investment.

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

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

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019

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

*Concentration of Credit Risk:* The City’s investment policy addresses concentration of credit risk by requiring investments to be diversified to reduce the risk of loss resulting from over concentration of assets in a specific issue or specific class of securities. The following table includes the percentage of each investment type held by the City at December 31, 2019:

<u>Measurement/ Investment Type</u>	<u>Measurement Amount</u>	<u>% of Total</u>
Amortized Cost:		
STAR Ohio	\$ 10,115,740	100.00

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, 2019:

<u>Cash and Investments per Footnote</u>	
Cash on hand	\$ 1,300
Cash in segregated accounts	6,965
Cash with fiscal agent	240,220
Carrying amount of deposits	9,257,557
Investments	<u>10,115,740</u>
Total	<u>\$ 19,621,782</u>

<u>Cash and Investments per Statement of Net Position</u>	
Governmental activities	\$ 18,939,303
Business-type activities	<u>682,479</u>
Total	<u>\$ 19,621,782</u>

**NOTE 5 - INTERFUND TRANSACTIONS**

A. Interfund transfers for the year ended December 31, 2019 consisted of the following:

<u>Transfers to</u>	<u>Transfers from General</u>
Governmental:	
Major	
Capital improvement	\$ 2,405,213
Nonmajor governmental	574,700
Business-type:	
Broadband	<u>180,000</u>
Total	<u>\$ 3,159,913</u>



**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019

**NOTE 5 - INTERFUND TRANSACTIONS - (Continued)**

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

**B.** Due from/to other funds consisted of the following at December 31, 2019:

<u>Due to Other Funds</u>	<u>Due from Other Funds</u>
	<u>Federal Capital Grants</u>
Major:	
General	\$ 315,750

Amounts due from/to other funds represent advances from the general fund to the federal capital grants fund for right-of-way land purchases. These advances will be repaid as federal grant monies are reimbursed to the City. 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. 2019 public utility property taxes became a lien December 31, 2018, are levied after October 1, 2019, and are collected in 2019 with real property taxes. Public utility property taxes are payable on the same dates as real property taxes described previously.

The Summit County Fiscal Officer collects property taxes on behalf of all taxing districts in the County, including the City of Fairlawn. The Summit County Fiscal Officer periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real property taxes, public utility taxes, delinquent tangible personal property taxes and other outstanding delinquencies which are measurable as of December 31, 2019 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 2019 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.

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019

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

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

The full tax rate for all City operations for the year ended December 31, 2019 was \$2.70 per \$1,000 of assessed value. The assessed values of real and public utility property upon which 2019 property tax receipts were based are as follows:

<u>Real property</u>	
Residential/agricultural	\$ 173,885,420
Commercial/industrial/mineral	162,300,030
<u>Public utility</u>	
Personal	<u>4,465,780</u>
Total assessed value	<u><u>\$ 340,651,230</u></u>

**NOTE 7 - LOCAL INCOME TAX**

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

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

In addition, the City receives income tax monies, reported as JEDD revenues, as the result of its participation in the Bath-Akron-Fairlawn JEDD. The JEDD levies an income tax of 2.5 percent on gross salaries, wages, and other personal service compensation earned by residents of the JEDD and on the earnings of nonresidents working within the JEDD. This tax also applies to the net income of business operations within the JEDD. Akron is responsible for the administration, collection, and enforcement of the income tax for the JEDD. The City is entitled to 46.67 percent of income tax proceeds from the JEDD, net of collection expenditures.

**CITY OF FAIRLAWN, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019**

**NOTE 8 - RECEIVABLES**

Receivables at December 31, 2019, consisted of taxes, payments in lieu of taxes, accounts (billings for user charged services), special assessments, and intergovernmental receivables arising from grants, entitlements, and shared revenue. All intergovernmental receivables have been classified as “due from other governments” on the financial statements. Receivables have been recorded to the extent that they are measurable at December 31, 2019.

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

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Income taxes	\$ 2,219,997	\$ -
Real and other taxes	846,241	-
Payments in lieu of taxes	24,415	-
Accounts	408,761	85,712
Special assessments	138,880	-
Accrued Interest	73	-
Due from other governments	<u>1,074,882</u>	<u>175</u>
Total	<u><u>\$ 4,713,249</u></u>	<u><u>\$ 85,887</u></u>

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

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019

**NOTE 9 - CAPITAL ASSETS**

Capital assets of the governmental activities for the year ended December 31, 2019 were as follows:

	Balance 12/31/18	Additions	Disposals	Balance 12/31/19
<b>Governmental Activities:</b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 3,580,282	\$ -	\$ -	\$ 3,580,282
Construction in progress	-	732,001	-	732,001
Total capital assets, not being depreciated	<u>3,580,282</u>	<u>732,001</u>	<u>-</u>	<u>4,312,283</u>
<i>Capital assets, being depreciated:</i>				
Buildings and improvements	14,094,783	-	-	14,094,783
Land improvements	3,219,718	99,700	-	3,319,418
Licensed vehicles	3,808,604	130,871	-	3,939,475
Machinery and equipment	4,296,966	360,959	(15,773)	4,642,152
Infrastructure	79,091,915	1,953,642	-	81,045,557
Total capital assets, being depreciated	<u>104,511,986</u>	<u>2,545,172</u>	<u>(15,773)</u>	<u>107,041,385</u>
<i>Less: accumulated depreciation:</i>				
Buildings and improvements	(5,500,017)	(276,179)	-	(5,776,196)
Land improvements	(1,467,299)	(100,105)	-	(1,567,404)
Licensed vehicles	(2,532,117)	(199,021)	-	(2,731,138)
Machinery and equipment	(2,833,466)	(197,927)	15,273	(3,016,120)
Infrastructure	(41,660,391)	(1,501,778)	-	(43,162,169)
Total accumulated depreciation	<u>(53,993,290)</u>	<u>(2,275,010)</u>	<u>15,273</u>	<u>(56,253,027)</u>
Total capital assets, being depreciated, net	<u>50,518,696</u>	<u>270,162</u>	<u>(500)</u>	<u>50,788,358</u>
Governmental activities capital assets, net	<u>\$ 54,098,978</u>	<u>\$ 1,002,163</u>	<u>\$ (500)</u>	<u>\$ 55,100,641</u>

Depreciation expense was charged to governmental activities as follows:

<u>Governmental activities:</u>	
General government	\$ 51,721
Security of persons and property	320,782
Transportation	1,223,476
Community environment	2,147
Leisure time activity	93,260
Utility services	583,624
Total depreciation expense	<u>\$ 2,275,010</u>

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019

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

Capital assets of the business-type activities for the year ended December 31, 2019 were as follows:

	Balance 12/31/18	Additions	Disposals	Balance 12/31/19
<b>Business-Type Activities:</b>				
<i>Capital assets, being depreciated:</i>				
Machinery and equipment	\$ 2,789,643	\$ 421,529	\$ -	\$ 3,211,172
Infrastructure	7,241,385	459,020	-	7,700,405
Total capital assets, being depreciated	<u>10,031,028</u>	<u>880,549</u>	<u>-</u>	<u>10,911,577</u>
<i>Less: accumulated depreciation:</i>				
Machinery and equipment	(92,988)	(190,901)		(283,889)
Infrastructure	(144,827)	(290,016)		(434,843)
Total accumulated depreciation	<u>(237,815)</u>	<u>(480,917)</u>	<u>-</u>	<u>(718,732)</u>
Total capital assets, being depreciated, net	<u>9,793,213</u>	<u>399,632</u>	<u>-</u>	<u>10,192,845</u>
Total capital assets, net	<u>\$ 9,793,213</u>	<u>\$ 399,632</u>	<u>\$ -</u>	<u>\$ 10,192,845</u>

**NOTE 10 - LONG-TERM OBLIGATIONS**

**A. Description of Long-Term Obligations**

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

	Maturity Date	Interest Rate	Original Issue Amount
<u>General obligation bonds</u>			
2012 Various purpose refunding	2022	1.25 - 2.00%	\$ 4,500,000
<u>Note payable</u>			
2017 Real property note	2027	5.00%	640,000
<u>Capital lease obligation</u>			
2016 FairlawnGig project	2046	1.00 - 4.00%	10,175,000

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019

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

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

During 2019, the following changes occurred in governmental activities long-term obligations:

	<u>Balance 12/31/18</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/19</u>	<u>Due in One Year</u>
<b>Governmental Activities:</b>					
<u>General obligation bonds</u>					
2012 Various purpose refunding	\$ 1,430,000	\$ -	\$ (350,000)	\$ 1,080,000	\$ 355,000
Add: Unamortized premium	73,923	-	(18,481)	55,442	-
Total general obligation bonds	<u>1,503,923</u>	<u>-</u>	<u>(368,481)</u>	<u>1,135,442</u>	<u>355,000</u>
<u>Long term note</u>					
2017 Real property note	589,117	-	(53,427)	535,690	56,098
<u>Net pension liability</u>					
OPERS	3,891,759	2,529,469	-	6,421,228	-
OP&F	9,046,466	2,822,343	-	11,868,809	-
Total net pension liability	<u>12,938,225</u>	<u>5,351,812</u>	<u>-</u>	<u>18,290,037</u>	<u>-</u>
<u>Net OPEB liability</u>					
OPERS	2,526,925	336,373	-	2,863,298	-
OP&F	8,351,342	-	(7,027,216)	1,324,126	-
Total net OPEB liability	<u>10,878,267</u>	<u>336,373</u>	<u>(7,027,216)</u>	<u>4,187,424</u>	<u>-</u>
<u>Other long-term obligations</u>					
Capital lease	9,745,000	-	(220,000)	9,525,000	220,000
Add: Unamortized premium	590,424	-	(21,087)	569,337	-
Compensated absences	1,453,879	66,498	-	1,520,377	535,240
Total other obligations	<u>11,789,303</u>	<u>66,498</u>	<u>(241,087)</u>	<u>11,614,714</u>	<u>755,240</u>
Total governmental activities	<u>\$ 37,698,835</u>	<u>\$ 5,754,683</u>	<u>\$ (7,690,211)</u>	<u>\$ 35,763,307</u>	<u>\$ 1,166,338</u>

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019

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

During 2019, the following changes occurred in business-type activities long-term obligations:

	<u>Balance 12/31/18</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/19</u>	<u>Due in One Year</u>
<b>Business-Type Activities:</b>					
<u>Net pension liability</u>					
OPERS	\$ 110,422	\$ 133,487	\$ -	\$ 243,909	\$ -
<u>Net OPEB liability</u>					
OPERS	71,697	37,065	-	108,762	-
<u>Other long-term obligations</u>					
Compensated absences	<u>30,258</u>	<u>-</u>	<u>(563)</u>	<u>29,695</u>	<u>9,241</u>
Total business-type activities	<u>\$ 212,377</u>	<u>\$ 170,552</u>	<u>\$ (563)</u>	<u>\$ 382,366</u>	<u>\$ 9,241</u>

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

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

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

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019

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

**C. Debt Service Requirements**

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2019 are as follows:

Year	General Obligation Bonds			Long-Term Note		
	Principal	Interest	Total	Principal	Interest	Total
2020	\$ 355,000	\$ 21,600	\$ 376,600	\$ 56,098	\$ 26,785	\$ 82,883
2021	360,000	14,500	374,500	58,903	23,980	82,883
2022	365,000	7,300	372,300	61,849	21,034	82,883
2023	-	-	-	64,941	17,942	82,883
2024	-	-	-	68,188	14,695	82,883
2025-2027	-	-	-	225,711	22,938	248,649
Total	<u>\$ 1,080,000</u>	<u>\$ 43,400</u>	<u>\$ 1,123,400</u>	<u>\$ 535,690</u>	<u>\$ 127,374</u>	<u>\$ 663,064</u>

**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, 2019, there was one series of Health Care Facilities Revenue Bonds with an aggregate outstanding principal amount payable of \$5,805,000 and an original issue amount of \$10,000,000.

**E. Capital Lease Obligations**

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

Upon completion of the project, the general capital assets acquired by the agreement will be capitalized in the amount equal to the present value of the future minimum lease payments as of the date of their inception. For the City, a liability was recorded in the government-wide financial statements, as the capital improvement fund will be making the principal and interest payments. The City made principal payments of \$220,000 and interest and fiscal charges payments of \$367,350 in fiscal year 2019.

Capital assets consisting of machinery and equipment and infrastructure have been capitalized in the broadband fund, an enterprise fund of the City, in the amount of \$10,175,000. The remaining lease proceeds, issuance premium, and accumulated interest of \$240,220 were unspent as of December 31, 2019 and are held by a Trustee and included on the Statement of Net Position as cash with fiscal agent.



**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019

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

The following is a schedule of the future minimum lease payments required under the lease purchase agreement and the present value of the minimum lease payments as of December 31, 2019:

Year Ending December 31,	Governmental Activities
2020	\$ 582,950
2021	583,550
2022	584,050
2023	587,150
2024	584,950
2025-2029	2,930,900
2030-2034	2,921,600
2035-2039	2,919,000
2040-2044	2,926,200
2045-2046	1,169,800
Total minimum lease payments	15,790,150
Less: amount representing interest and fiscal charges	(6,265,150)
Present value of future minimum lease payments	\$ 9,525,000

**NOTE 11 - OTHER EMPLOYEE BENEFITS**

**A. Compensated Absences**

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

Employees earn sick leave at the rate of 1.25 days per month of service. Upon retirement, employees hired before January 1, 2005 are eligible to receive payment for accumulated unused sick days. The exact terms vary in accordance with the negotiated collective bargaining agreement in effect. In most cases, the sick leave termination payment is limited to a maximum of 90 days. Employees with a hire date subsequent to December 31, 2004 are not eligible to receive termination payments for sick leave, unless they are retiring from the City on a disability retirement approved by OPERS or OP&F.

As of December 31, 2019, the total liability for unpaid compensated absences was \$1,644,179 in the governmental activities and \$29,945 in the business-type activities.

**B. Health Care Benefits**

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

## CITY OF FAIRLAWN, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019

#### **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 2019, 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 public official liability policies are provided by Hudson Insurance Company with a \$1,000,000 limit and a \$10,000 deductible. Selective Insurance Company covers Firemen and EMT professional liability with a limit of \$1,000,000 and no deductible. A commercial umbrella policy through Selective Insurance Company provides additional general liability and auto liability insurance up to a \$10,000,000 limit.

Vehicles are covered by Selective Insurance Company and hold a \$1,000 deductible for collision. Automobile liability coverage has no limit for collision, a \$500,000 limit for uninsured/underinsured motorist, and a \$1,000,000 combined limit for bodily injury and property damage.

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

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

#### **NOTE 13 - DEFINED BENEFIT PENSION PLANS**

##### *Net Pension Liability/Asset*

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

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

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

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

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019

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

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

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

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

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

<b>Group A</b> Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	<b>Group B</b> 20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	<b>Group C</b> Members not in other Groups and members hired on or after January 7, 2013
<b>State and Local</b>	<b>State and Local</b>	<b>State and Local</b>
<b>Age and Service Requirements:</b> Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	<b>Age and Service Requirements:</b> Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	<b>Age and Service Requirements:</b> Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
<b>Traditional Plan Formula:</b> 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	<b>Traditional Plan Formula:</b> 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	<b>Traditional Plan Formula:</b> 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35
<b>Combined Plan Formula:</b> 1% of FAS multiplied by years of service for the first 30 years and 1.25% for service years in excess of 30	<b>Combined Plan Formula:</b> 1% of FAS multiplied by years of service for the first 30 years and 1.25% for service years in excess of 30	<b>Combined Plan Formula:</b> 1% of FAS multiplied by years of service for the first 35 years and 1.25% for service years in excess of 35

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

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

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019

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

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3.00% simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3.00%.

Benefits in the Combined Plan consist of both an age-and-service formula benefit (defined benefit) and a defined contribution element. The defined benefit element is calculated on the basis of age, FAS, and years of service. Eligibility regarding age and years of service in the Combined Plan is the same as the Traditional Pension Plan. The benefit formula for the defined benefit component of the plan for State and Local members in transition Groups A and B applies a factor of 1.00% to the member's FAS for the first 30 years of service.

A factor of 1.25% is applied to years of service in excess of 30. The benefit formula for transition Group C applies a factor of 1.00% to the member's FAS and the first 35 years of service and a factor of 1.25% is applied to years in excess of 35. Persons retiring before age 65 with less than 30 years of service credit receive a percentage reduction in benefit. The defined contribution portion of the benefit is based on accumulated member contributions plus or minus any investment gains or losses on those contributions. Members retiring under the Combined Plan receive a 3.00% COLA adjustment on the defined benefit portion of their benefit.

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

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

	<u>State and Local</u>
<b>2019 Statutory Maximum Contribution Rates</b>	
Employer	14.0 %
Employee ***	10.0 %
<b>2019 Actual Contribution Rates</b>	
Employer:	
Pension	14.0 %
Post-employment Health Care Benefits ****	<u>0.0 %</u>
Total Employer	<u>14.0 %</u>
Employee	<u>10.0 %</u>

\*\*\* Member contributions within the combined plan are not used to fund the defined benefit retirement allowance

\*\*\*\* This employer health care rate is for the traditional and combined plans. The employer contribution for the member-directed plan is 4.00%.

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019

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

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

The City's contractually required contribution for the Traditional Pension Plan, the Combined Plan and Member-Directed Plan was \$486,110 for 2019.

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

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

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

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

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

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

Members retiring under normal service retirement, with less than 15 years of service credit on July 1, 2013, will receive a COLA equal to either 3.00% or the percent increase, if any, in the consumer price index (CPI) over the 12-month period ending on September 30 of the immediately preceding year, whichever is less. The COLA amount for members with at least 15 years of service credit as of July 1, 2013 is equal to 3.00% of their base pension or disability benefit.

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

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019

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

	<u>Police</u>	<u>Firefighters</u>
<b>2019 Statutory Maximum Contribution Rates</b>		
Employer	19.50 %	24.00 %
Employee	12.25 %	12.25 %
<b>2019 Actual Contribution Rates</b>		
Employer:		
Pension	19.00 %	23.50 %
Post-employment Health Care Benefits	<u>0.50 %</u>	<u>0.50 %</u>
Total Employer	<u>19.50 %</u>	<u>24.00 %</u>
Employee	12.25 %	12.25 %

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OP&F was \$699,032 for 2019.

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

The net pension liability and net pension asset for the OPERS Traditional Pension Plan, Combined Plan and Member-Directed Plan, respectively, were measured as of December 31, 2018, and the total pension liability or asset used to calculate the net pension liability or asset was determined by an actuarial valuation as of that date. OP&F's total pension liability was measured as of December 31, 2018, and was determined by rolling forward the total pension liability as of January 1, 2018, to December 31, 2018. The City's proportion of the net pension liability or asset was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities.

Following is information related to the proportionate share and pension expense:

	<u>OPERS - Traditional</u>	<u>OPERS - Member- Directed</u>	<u>OP&amp;F</u>	<u>Total</u>
Proportion of the net pension liability/asset prior measurement date	0.02551100%	0.00342200%	0.14739800%	
Proportion of the net pension liability/asset current measurement date	<u>0.02433600%</u>	<u>0.00342200%</u>	<u>0.14540400%</u>	
Change in proportionate share	<u>-0.00117500%</u>	<u>0.00000000%</u>	<u>-0.00199400%</u>	
Proportionate share of the net pension liability	\$ 6,665,137	\$ -	\$ 11,868,809	\$ 18,533,946
Proportionate share of the net pension asset	-	(78)	-	(78)
Pension expense	1,440,020	(20)	1,671,905	3,111,905

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019

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

At December 31, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	OPERS - Traditional	OPERS - Member- Directed	OP&F	Total
<b>Deferred outflows of resources</b>				
Differences between expected and actual experience	\$ 306	\$ 324	\$ 487,641	\$ 488,271
Net difference between projected and actual earnings on pension plan investments	904,647	25	1,462,226	2,366,898
Changes of assumptions	580,217	24	314,658	894,899
Changes in employer's proportionate percentage/difference between employer contributions	52,420	-	564,167	616,587
Contributions subsequent to the measurement date	484,252	1,858	699,032	1,185,142
Total deferred outflows of resources	<u>\$ 2,021,842</u>	<u>\$ 2,231</u>	<u>\$ 3,527,724</u>	<u>\$ 5,551,797</u>
<b>Deferred inflows of resources</b>				
Differences between expected and actual experience	\$ 87,517	\$ -	\$ 11,082	\$ 98,599
Changes in employer's proportionate percentage/difference between employer contributions	157,827	-	191,988	349,815
Total deferred inflows of resources	<u>\$ 245,344</u>	<u>\$ -</u>	<u>\$ 203,070</u>	<u>\$ 448,414</u>

\$1,185,142 reported as deferred outflows of resources related to pension resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability/asset in the year ending December 31, 2020.

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019

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

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

Year Ending December 31:	OPERS - Traditional	OPERS - Member- Directed	OP&F	Total
2020	\$ 601,206	\$ 52	\$ 709,393	\$ 1,310,651
2021	291,796	50	389,648	681,494
2022	83,926	50	450,234	534,210
2023	420,725	58	665,706	1,086,489
2024	-	49	38,462	38,511
Thereafter	-	114	-	114
<b>Total</b>	<b>\$ 1,397,653</b>	<b>\$ 373</b>	<b>\$ 2,253,443</b>	<b>\$ 3,651,469</b>

**Actuarial Assumptions - OPERS**

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability was determined by an actuarial valuation as of December 31, 2018, using the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB 67.

Wage inflation	3.25%
Future salary increases, including inflation COLA or ad hoc COLA	3.25% to 10.75% including wage inflation Pre 1/7/2013 retirees: 3.00%, simple Post 1/7/2013 retirees: 3.00%, simple through 2018, then 2.15% simple
Investment rate of return	
Current measurement date	7.20%
Prior measurement date	7.50%
Actuarial cost method	Individual entry age



**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019

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

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

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

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

During 2018, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio, and the Defined Contribution portfolio. The Defined Benefit portfolio contains the investment assets for the Traditional Pension Plan, the defined benefit component of the Combined Plan and the annuitized accounts of the Member-Directed Plan. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio was 2.94% for 2018.

The allocation of investment assets with the Defined Benefit portfolio is approved by the OPERS Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2018 and the long-term expected real rates of return:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u>
Fixed income	23.00 %	2.79 %
Domestic equities	19.00	6.21
Real estate	10.00	4.90
Private equity	10.00	10.81
International equities	20.00	7.83
Other investments	18.00	5.50
Total	<u>100.00 %</u>	<u>5.95 %</u>

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019

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

**Discount Rate** - The discount rate used to measure the total pension liability/asset was 7.20%, post-experience study results, for the Traditional Pension Plan, the Combined Plan and Member-Directed Plan. The discount rate used to measure total pension liability prior to December 31, 2018 was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for the Traditional Pension Plan, Combined Plan and Member-Directed Plan was applied to all periods of projected benefit payments to determine the total pension liability.

**Sensitivity of the City’s Proportionate Share of the Net Pension Liability/Asset to Changes in the Discount Rate** - The following table presents the City’s proportionate share of the net pension liability/asset calculated using the current period discount rate assumption of 7.20%, as well as what the City’s proportionate share of the net pension liability/asset would be if it were calculated using a discount rate that is one-percentage-point lower (6.20%) or one-percentage-point higher (8.20%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
City's proportionate share of the net pension liability (asset):			
Traditional Pension Plan	\$ 9,846,346	\$ 6,665,137	\$ 4,021,524
Member-Directed Plan	(34)	(78)	(137)

**Actuarial Assumptions – OP&F**

OP&F’s total pension liability as of December 31, 2018 is based on the results of an actuarial valuation date of January 1, 2018, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OP&F’s actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2018, are presented below.

Valuation date	1/1/18 with actuarial liabilities rolled forward to 12/31/18
Actuarial cost method	Entry age normal
Investment rate of return	8.00%
Projected salary increases	3.75% - 10.50%
Payroll increases	3.25%
Inflation assumptions	2.75%, plus productivity increase rate of 0.50%
Cost of living adjustments	3.00% simple; 2.20% simple for increases based on the lesser of the increase in CPI and 3.00%

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019

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

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

<u>Age</u>	<u>Police</u>	<u>Fire</u>
67 or less	77%	68%
68-77	105%	87%
78 and up	115%	120%

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

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

The most recent experience study was completed for the five-year period ended December 31, 2016. The recommended assumption changes based on this experience study were adopted by OP&F's Board and were effective beginning with the January 1, 2018 actuarial valuation.

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

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019

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

Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F's target asset allocation as of December 31, 2018 are summarized below:

Asset Class	Target Allocation	10 Year Expected Real Rate of Return **	30 Year Expected Real Rate of Return **
Cash and Cash Equivalents	- %	1.00 %	0.80 %
Domestic Equity	16.00	5.30	5.50
Non-US Equity	16.00	6.10	5.90
Private Markets	8.00	8.40	8.40
Core Fixed Income *	23.00	2.20	2.60
High Yield Fixed Income	7.00	4.20	4.80
Private Credit	5.00	8.30	7.50
U.S. Inflation			
Linked Bonds *	17.00	1.30	2.30
Master Limited Partnerships	8.00	6.70	6.40
Real Assets	8.00	7.00	7.00
Private Real Estate	12.00	5.70	6.10
Total	<u>120.00 %</u>		

Note: assumptions are geometric.

\* levered 2x

\*\* numbers include inflation

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

**Discount Rate** - The total pension liability was calculated using the discount rate of 8.00%. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the longer-term assumed investment rate of return 8.00%. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, a long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019

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

*Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*  
- Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 8.00%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.00%), or one percentage point higher (9.00%) than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
City's proportionate share of the net pension liability	\$ 15,600,731	\$ 11,868,809	\$ 8,750,248

**NOTE 14 - DEFINED BENEFIT OPEB PLANS**

*Net OPEB Liability*

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

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

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

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

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

## CITY OF FAIRLAWN, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019

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

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

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

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

In order to qualify for postemployment health care coverage, age and service retirees under the traditional pension and combined plans must have twenty or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available.

The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 75. See OPERS' CAFR referenced below for additional information.

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

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

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

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2019, state and local employers contributed at a rate of 14.00% of earnable salary and public safety and law enforcement employers contributed at 18.10%. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care was 0.00% for the Traditional and Combined plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the RMA for participants in the Member-Directed Plan for 2019 was 4.00%.

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$743 for 2019.

## CITY OF FAIRLAWN, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019

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

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

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

OP&F provides access to postretirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or statutory survivor benefit, or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F meets the definition of an Other Post Employment Benefit (OPEB) as described in Government Accounting Standards Board (GASB) Statement No. 75.

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

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. The report may be obtained by visiting the OP&F website at [www.op-f.org](http://www.op-f.org) or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy – The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F defined benefit pension plan. Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently 19.50% and 24.00% of covered payroll for police and fire employer units, 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. There is one account for health care benefits and one account for Medicare Part B reimbursements. A separate health care trust accrual account is maintained for health care benefits under IRS Code Section 115 trust. An Internal Revenue Code 401(h) account is maintained for Medicare Part B reimbursements.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For 2019, the portion of employer contributions allocated to health care was 0.50% of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019

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

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

The City's contractually required contribution to OP&F was \$16,792 for 2019.

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

The net OPEB liability and total OPEB liability for OPERS were determined by an actuarial valuation as of December 31, 2017, rolled forward to the measurement date of December 31, 2018, by incorporating the expected value of health care cost accruals, the actual health care payment, and interest accruals during the year. OP&F's total OPEB liability was measured as of December 31, 2018, and was determined by rolling forward the total OPEB liability as of January 1, 2018, to December 31, 2018. The City's proportion of the net OPEB liability was based on the City's share of contributions to the retirement plan relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

	OPERS	OP&F	Total
Proportion of the net OPEB liability prior measurement date	0.02393000%	0.14739800%	
Proportion of the net OPEB liability current measurement date	0.02279600%	0.14540400%	
Change in proportionate share	-0.00113400%	-0.00199400%	
Proportionate share of the net OPEB liability	\$ 2,972,060	\$ 1,324,126	\$ 4,296,186
OPEB expense	\$ 253,152	\$ (6,449,140)	\$ (6,195,988)



**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019

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

At December 31, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>OPERS</u>	<u>OP&amp;F</u>	<u>Total</u>
<b>Deferred outflows of resources</b>			
Differences between expected and actual experience	\$ 1,006	\$ -	\$ 1,006
Net difference between projected and actual earnings on OPEB plan investments	136,252	44,822	181,074
Changes of assumptions	95,822	686,363	782,185
Changes in employer's proportionate percentage/ difference between employer contributions	35,109	492,013	527,122
Contributions subsequent to the measurement date	743	16,792	17,535
Total deferred outflows of resources	<u>\$ 268,932</u>	<u>\$ 1,239,990</u>	<u>\$ 1,508,922</u>
<b>Deferred inflows of resources</b>			
Differences between expected and actual experience	\$ 8,064	\$ 35,476	\$ 43,540
Changes of assumptions	-	366,581	366,581
Changes in employer's proportionate percentage/ difference between employer contributions	98,197	88,452	186,649
Total deferred inflows of resources	<u>\$ 106,261</u>	<u>\$ 490,509</u>	<u>\$ 596,770</u>

\$17,535 reported as deferred outflows of resources related to OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2020.

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019

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

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

Year Ending December 31:	OPERS	OP&F	Total
2020	\$ 85,009	\$ 128,431	\$ 213,440
2021	(12,877)	128,431	115,554
2022	21,157	128,431	149,588
2023	68,639	141,985	210,624
2024	-	120,614	120,614
Thereafter	-	84,797	84,797
Total	\$ 161,928	\$ 732,689	\$ 894,617

***Actuarial Assumptions - OPERS***

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

Projections of health care costs for financial reporting purposes are based on the substantive plan and include the types of coverage provided at the time of each valuation and the historical pattern of sharing of costs between OPERS and plan members. The total OPEB liability was determined by an actuarial valuation as of December 31, 2017, rolled forward to the measurement date of December 31, 2018. The actuarial valuation used the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB 74:

Wage Inflation	3.25%
Projected Salary Increases, including inflation	3.25 to 10.75% including wage inflation
Single Discount Rate:	
Current measurement date	3.96%
Prior Measurement date	3.85%
Investment Rate of Return	
Current measurement date	6.00%
Prior Measurement date	6.50%
Municipal Bond Rate	
Current measurement date	3.71%
Prior Measurement date	3.31%
Health Care Cost Trend Rate	
Current measurement date	10.00% initial, 3.25% ultimate in 2029
Prior Measurement date	7.50%, initial 3.25%, ultimate in 2028
Actuarial Cost Method	Individual Entry Age

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019

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

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

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

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

During 2018, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio and the Defined Contribution portfolio. The Health Care portfolio includes the assets for health care expenses for the Traditional Pension Plan, Combined Plan and Member-Directed Plan eligible members. Within the Health Care portfolio, contributions into the plans are assumed to be received continuously throughout the year based on the actual payroll payable at the time contributions are made, and health care-related payments are assumed to occur mid-year. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Health Care portfolio is 5.60% for 2018.

The allocation of investment assets with the Health Care portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Assets are managed on a total return basis with a long-term objective of continuing to offer a sustainable health care program for current and future retirees. OPERS' primary goal is to achieve and maintain a fully funded status for the benefits provided through the defined pension plans. Health care is a discretionary benefit. The table below displays the Board-approved asset allocation policy for 2018 and the long-term expected real rates of return:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	34.00 %	2.42 %
Domestic Equities	21.00	6.21
Real Estate Investment Trust	6.00	5.98
International Equities	22.00	7.83
Other investments	17.00	5.57
Total	100.00 %	5.16 %

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019

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

**Discount Rate** - A single discount rate of 3.96% was used to measure the OPEB liability on the measurement date of December 31, 2018. A single discount rate of 3.85% was used to measure the OPEB liability on the measurement date of December 31, 2017. Projected benefit payments are required to be discounted to their actuarial present value using a single discount rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the health care fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate are not met). This single discount rate was based on an expected rate of return on the health care investment portfolio of 6.00% and a municipal bond rate of 3.71%. The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rate. Based on these assumptions, the health care fiduciary net position and future contributions were sufficient to finance health care costs through 2031. As a result, the long-term expected rate of return on health care investments was applied to projected costs through the year 2031, and the municipal bond rate was applied to all health care costs after that date.

**Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate** - The following table presents the City's proportionate share of the net OPEB liability calculated using the single discount rate of 3.96%, as well as what the City's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (2.96%) or one-percentage-point higher (4.96%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
City's proportionate share of the net OPEB liability	\$ 3,802,373	\$ 2,972,060	\$ 2,311,742

**Sensitivity of the City/County's Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate** Changes in the health care cost trend rate may also have a significant impact on the net OPEB liability. The following table presents the net OPEB liability calculated using the assumed trend rates, and the expected net OPEB liability if it were calculated using a health care cost trend rate that is 1.00% lower or 1.00% higher than the current rate.

Retiree health care valuations use a health care cost-trend assumption that changes over several years built into the assumption. The near-term rates reflect increases in the current cost of health care; the trend starting in 2019 is 10.00%. If this trend continues for future years, the projection indicates that years from now virtually all expenditures will be for health care. A more reasonable alternative is that in the not-too-distant future, the health plan cost trend will decrease to a level at, or near, wage inflation. On this basis, the actuaries project premium rate increases will continue to exceed wage inflation for approximately the next decade, but by less each year, until leveling off at an ultimate rate, assumed to be 3.25% in the most recent valuation.

	<u>1% Decrease</u>	<u>Current Health Care Trend Rate Assumption</u>	<u>1% Increase</u>
City's proportionate share of the net OPEB liability	\$ 2,856,795	\$ 2,972,060	\$ 3,104,815

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019

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

***Actuarial Assumptions – OP&F***

OP&F’s total OPEB liability as of December 31, 2018, is based on the results of an actuarial valuation date of January 1, 2018, and rolled-forward using generally accepted actuarial procedures. The total OPEB liability is determined by OP&F’s actuaries in accordance with GASB Statement No. 74, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

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

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

Valuation Date	January 1, 2018, with actuarial liabilities rolled forward to December 31, 2018
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)
Investment Rate of Return	8.00%
Projected Salary Increases	3.75% to 10.50%
Payroll Growth	Inflation rate of 2.75% plus productivity increase rate of 0.50%
Single discount rate:	
Current measurement date	4.66%
Prior measurement date	3.24%
Cost of Living Adjustments	3.00% simple; 2.20% simple for increases based on the lesser of the increase in CPI and 3.00%

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

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

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019

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

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

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

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

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

Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F's target asset allocation as of December 31, 2018, are summarized below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>10 Year Expected Real Rate of Return **</u>	<u>30 Year Expected Real Rate of Return **</u>
Cash and Cash Equivalents	- %	1.00 %	0.80 %
Domestic Equity	16.00	5.30	5.50
Non-US Equity	16.00	6.10	5.90
Private Markets	8.00	8.40	8.40
Core Fixed Income *	23.00	2.20	2.60
High Yield Fixed Income	7.00	4.20	4.80
Private Credit	5.00	8.30	7.50
U.S. Inflation			
Linked Bonds *	17.00	1.30	2.30
Master Limited Partnerships	8.00	6.70	6.40
Real Assets	8.00	7.00	7.00
Private Real Estate	12.00	5.70	6.10
<b>Total</b>	<b><u>120.00 %</u></b>		

Note: assumptions are geometric.

\* levered 2x

\*\* numbers include inflation

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019

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

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

**Discount Rate** - The total OPEB liability was calculated using the discount rate of 4.66%. A discount rate of 3.24% was used to measure the total OPEB liability at December 31, 2017. The projection of cash flows used to determine the discount rate assumed the contribution from employers and from members would be computed based on contribution requirements as stipulated by state statute. Projected inflows from investment earnings were calculated using the longer-term assumed investment rate of return 8.00%. Based on those assumptions, OP&F’s fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, a municipal bond rate of 4.13% at December 31, 2018 and 3.16% at December 31, 2017, was blended with the long-term rate of 8.00%, which resulted in a blended discount rate of 4.66%.

**Sensitivity of the City’s Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate** - Net OPEB liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net OPEB liability calculated using the discount rate of 4.66%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (3.66%), or one percentage point higher (5.66%) than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
City’s proportionate share of the net OPEB liability	\$ 1,613,148	\$ 1,324,126	\$ 1,081,518

**Sensitivity of the City’s Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate** - Due to the change from a self-funded plan to the stipend plan, disclosure of the healthcare cost trend rate for OP&F is no longer available.

**Changes Between Measurement Date and Report Date** - Beginning January 1, 2019 OP&F is changing its retiree health care model and the current self-insured health care plan will no longer be offered. In its place will be a stipend-based health care model. OP&F has contracted with a vendor who will assist eligible retirees in choosing health care plans from their marketplace (both Medicare-eligible and pre-Medicare populations). A stipend funded by OP&F will be placed in individual Health Reimbursement Accounts that retirees will use to be reimbursed for health care expenses. As a result of changing from the current healthcare model to the stipend-based healthcare model, management expects that it will be able to provide stipends to eligible participants for the next 15 years. Although the exact amount of these changes is not known, the overall decrease to the City’s net OPEB liability is expected to be significant.

**CITY OF FAIRLAWN, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019**

**NOTE 15 - BUDGETARY BASIS OF ACCOUNTING**

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

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

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

<b>Net Change in Fund Balance</b>	
	<u>General</u>
Budget basis	\$ (2,715,888)
Net adjustment for revenue accruals	506,711
Net adjustment for expenditure accruals	48,461
Adjustment for encumbrances	<u>1,148,440</u>
GAAP basis	<u><u>\$ (1,012,276)</u></u>



**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019

**NOTE 16 - FUND BALANCE**

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

Fund Balance	General	Capital Improvement	Other Governmental	Total Governmental Funds
Nonspendable:				
Materials & supplies inventory	\$ 588,152	\$ -	\$ -	\$ 588,152
Prepayments	205,112	-	-	205,112
Unclaimed monies	13,735	-	-	13,735
Total nonspendable	<u>806,999</u>	<u>-</u>	<u>-</u>	<u>806,999</u>
Restricted:				
Capital improvements	-	3,919,619	-	3,919,619
Law enforcement	-	-	78,794	78,794
Police and fire pensions	-	-	277,262	277,262
Sewer maintenance	-	-	501,032	501,032
Streets and highways	-	-	561,445	561,445
Tax increment financing	-	-	48,013	48,013
Enforcement	-	-	148,265	148,265
Total restricted	<u>-</u>	<u>3,919,619</u>	<u>1,614,811</u>	<u>5,534,430</u>
Committed:				
Law enforcement	<u>5,000</u>	<u>-</u>	<u>-</u>	<u>5,000</u>
Assigned:				
Encumbrances	797,150	-	-	797,150
Subsequent year operations	<u>1,860,271</u>	<u>-</u>	<u>-</u>	<u>1,860,271</u>
Total assigned	<u>2,657,421</u>	<u>-</u>	<u>-</u>	<u>2,657,421</u>
Unassigned	<u>11,686,613</u>	<u>-</u>	<u>(60,643)</u>	<u>11,625,970</u>
Total fund balances	<u>\$ 15,156,033</u>	<u>\$ 3,919,619</u>	<u>\$ 1,554,168</u>	<u>\$ 20,629,820</u>

**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, 2019.

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019

**NOTE 17 – CONTINGENCIES – (Continued)**

**B. Litigation**

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

**NOTE 18 - CONTRACTUAL AND OTHER COMMITMENTS**

**A. Contractual Commitments**

As of December 31, 2019, the City had the following significant contractual commitments:

<u>Project</u>	<u>Contracts Awarded</u>	<u>Paid</u>	<u>Remaining</u>
Fire/EMS ambulance	\$ 172,855	\$ -	\$ 172,855
FairlawnGig construction	313,665	-	313,665
Total	<u>\$ 486,520</u>	<u>\$ -</u>	<u>\$ 486,520</u>

**B. Encumbrances**

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

<u>Fund</u>	<u>Year-End Encumbrances</u>
General	\$ 797,150
Capital improvement	296,300
Other governmental	260,956
Total	<u>\$ 1,354,406</u>

**NOTE 19 - SUBSEQUENT EVENTS**

The United States and the State of Ohio declared a state of emergency in March 2020 due to the COVID-19 pandemic. The financial impact of COVID-19 and the ensuing emergency measures will impact subsequent periods of the City. The City’s investment portfolio and the investments of the pension and other employee benefit plan in which the City participates have incurred a significant decline in fair value, consistent with the general decline in financial markets. However, because the values of individual investments fluctuate with market conditions, and due to market volatility, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined. In addition, the impact on the City’s future operating costs, revenues, and any recovery from emergency funding, either federal or state, cannot be estimated.

**NOTE 20 - RELATED PARTY TRANSACTIONS**

During 2019, the City contributed \$199,000 to the CIC, a discretely presented component unit of the City.

## CITY OF FAIRLAWN, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019

#### **NOTE 21 - COMMUNITY IMPROVEMENT CORPORATION OF FAIRLAWN, OHIO**

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

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

#### **Summary of Significant Accounting Policies**

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

#### **A. Basis of Accounting**

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

#### **B. Basis of Presentation**

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

The CIC distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the CIC's principal ongoing operation. The principal operating revenues of the CIC are contributions from the City and operating grants. Operating expenses for the CIC primarily include contract services. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses. The CIC did not have any nonoperating revenues or expenses in 2019.

#### **C. Federal Income Tax**

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

#### **D. Cash and Cash Equivalents**

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

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019

**NOTE 21 - COMMUNITY IMPROVEMENT CORPORATION OF FAIRLAWN, OHIO – (Continued)**

**E. Assets Held for Sale**

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

Assets Held for Sale activity for the year ended December 31, 2019 was as follows:

	Balance 12/31/18	Additions	Disposals	Balance 12/31/19
Assets held for sale	\$ 522,000	\$ -	\$ (417,000)	\$ 105,000

**F. Prepayments**

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

**G. Net Position**

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

**H. Estimates**

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

**I. Deposits**

At December 31, 2019, the carrying amount of the CIC’s deposits was \$26,344 and the bank balance of the CIC’s deposits was \$26,529. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, the CIC’s entire bank balance of was covered by the Federal Deposit Insurance Corporation.

**J. Rent Receivable**

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

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019

**NOTE 21 - COMMUNITY IMPROVEMENT CORPORATION OF FAIRLAWN, OHIO - (Continued)**

The future minimum lease payments as of December 31, 2019, were as follows:

<u>Year Ending December 31</u>	<u>Future Minimum Lease Payments</u>
2019 *	\$ 13,000
2020	13,000
2021	13,000
2022	13,000
2023	13,000
2024	13,000
2025-2029	65,000
2030	<u>195,000</u>
Total	<u>\$ 338,000</u>

\* Outstanding as of December 31, 2019.

**K. Loan Receivable**

On March 21, 2019, the CIC entered into a \$300,000 property redevelopment loan agreement with Fairlawn Associates Ltd, as grantee, for the redevelopment of office space within the City of Fairlawn. As specified in the agreement, the loan shall be forgiven in full at such time as the grantee’s new tenant provides the City of Fairlawn with at least \$600,000 in payroll withholding taxes during the 10-year term ending December 31, 2029. If not forgiven, the loan will be due in full as the end of the 10-year term.

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

**Cash**

The CIC received \$199,000 in contributions from the City during the year.

**Property**

Donations of property are recorded as contributions at their estimated fair market value at the date of donation. Such donations are reported as increases to assets held for sale. The CIC did not receive any donated property from the City during the year.

**Services**

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

**CITY OF FAIRLAWN, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019

**NOTE 21 - COMMUNITY IMPROVEMENT CORPORATION OF FAIRLAWN, OHIO - (Continued)**

**M. 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 2019, the CIC had general liability insurance through Auto-Owners Insurance Company and directors and officer's insurance through Allied World Specialty Insurance Company.

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

**N. Litigation**

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

**CITY OF FAIRLAWN, OHIO**

SCHEDULES OF THE REQUIRED SUPPLEMENTARY INFORMATION

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

LAST SIX YEARS

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<i>Traditional Plan:</i>						
City's proportion of the net pension liability	0.024336%	0.025511%	0.024803%	0.024912%	0.023637%	0.023637%
City's proportionate share of the net pension liability	\$ 6,665,137	\$ 4,002,181	\$ 5,632,340	\$ 4,315,072	\$ 2,850,886	\$ 2,786,494
City's covered payroll	\$ 3,286,950	\$ 3,239,638	\$ 3,229,808	\$ 3,105,650	\$ 2,906,808	\$ 2,887,162
City's proportionate share of the net pension liability as a percentage of its covered payroll	202.78%	123.54%	174.39%	138.94%	98.08%	96.51%
Plan fiduciary net position as a percentage of the total pension liability	74.70%	84.66%	77.25%	81.08%	86.45%	86.36%
<i>Combined Plan:</i>						
City's proportion of the net pension asset	0.000000%	0.000000%	0.000000%	0.014030%	0.016754%	0.016754%
City's proportionate share of the net pension asset	\$ -	\$ -	\$ -	\$ 6,827	\$ 6,451	\$ 1,758
City's covered payroll	\$ -	\$ -	\$ -	\$ 59,025	\$ 61,242	\$ 51,038
City's proportionate share of the net pension asset as a percentage of its covered payroll	0.00%	0.00%	0.00%	11.57%	10.53%	3.44%
Plan fiduciary net position as a percentage of the total pension asset	126.64%	137.28%	116.55%	116.90%	114.83%	104.56%
<i>Member Directed Plan:</i>						
City's proportion of the net pension asset	0.003422%	0.003422%	0.003573%	0.003709%	n/a	n/a
City's proportionate share of the net pension asset	\$ 78	\$ 119	\$ 15	\$ 14	n/a	n/a
City's covered payroll	\$ 19,560	\$ 18,760	\$ 14,683	\$ 20,658	n/a	n/a
City's proportionate share of the net pension asset as a percentage of its covered payroll	0.40%	0.63%	0.10%	0.07%	n/a	n/a
Plan fiduciary net position as a percentage of the total pension asset	113.42%	124.46%	103.40%	103.91%	n/a	n/a

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

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

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF FAIRLAWN, OHIO**

SCHEDULES OF THE REQUIRED SUPPLEMENTARY INFORMATION

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

LAST SIX YEARS

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
City's proportion of the net pension liability	0.14540400%	0.14739800%	0.13322700%	0.13672800%	0.13517390%	0.13517390%
City's proportionate share of the net pension liability	\$ 11,868,809	\$ 9,046,466	\$ 8,438,464	\$ 8,795,761	\$ 7,002,572	\$ 6,583,393
City's covered payroll	\$ 3,336,222	\$ 3,139,305	\$ 2,913,374	\$ 2,827,364	\$ 2,735,974	\$ 2,649,515
City's proportionate share of the net pension liability as a percentage of its covered payroll	355.76%	288.17%	289.65%	311.09%	255.94%	248.48%
Plan fiduciary net position as a percentage of the total pension liability	63.07%	70.91%	68.36%	66.77%	72.20%	73.00%

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

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

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION



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**CITY OF FAIRLAWN, OHIO**

SCHEDULES OF THE REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN YEARS

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<i>Traditional Plan:</i>					
Contractually required contribution	\$ 484,252	\$ 460,173	\$ 421,153	\$ 387,577	\$ 372,678
Contributions in relation to the contractually required contribution	<u>(484,252)</u>	<u>(460,173)</u>	<u>(421,153)</u>	<u>(387,577)</u>	<u>(372,678)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered payroll	\$ 3,458,943	\$ 3,286,950	\$ 3,239,638	\$ 3,229,808	\$ 3,105,650
Contributions as a percentage of covered payroll	14.00%	14.00%	13.00%	12.00%	12.00%
<i>Combined Plan:</i>					
Contractually required contribution	\$ -	\$ -	\$ -	\$ -	\$ 7,083
Contributions in relation to the contractually required contribution	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(7,083)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered payroll	\$ -	\$ -	\$ -	\$ -	\$ 59,025
Contributions as a percentage of covered payroll	14.00%	14.00%	13.00%	12.00%	12.00%
<i>Member Directed Plan:</i>					
Contractually required contribution	\$ 1,858	\$ 1,956	\$ 1,876	\$ 1,762	\$ 2,479
Contributions in relation to the contractually required contribution	<u>(1,858)</u>	<u>(1,956)</u>	<u>(1,876)</u>	<u>(1,762)</u>	<u>(2,479)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered payroll	\$ 18,580	\$ 19,560	\$ 18,760	\$ 14,683	\$ 20,658
Contributions as a percentage of covered payroll	10.00%	10.00%	10.00%	12.00%	12.00%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

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

**CITY OF FAIRLAWN, OHIO**

SCHEDULES OF THE REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN YEARS

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<i>Police:</i>					
Contractually required contributor	\$ 380,914	\$ 372,853	\$ 345,693	\$ 327,066	\$ 317,509
Contributions in relation to the contractually required contributor	<u>(380,914)</u>	<u>(372,853)</u>	<u>(345,693)</u>	<u>(327,066)</u>	<u>(317,509)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered payroll	\$ 2,004,811	\$ 1,962,384	\$ 1,819,437	\$ 1,721,400	\$ 1,671,100
Contributions as a percentage of covered payroll	19.00%	19.00%	19.00%	19.00%	19.00%
<i>Fire:</i>					
Contractually required contributor	\$ 318,118	\$ 322,852	\$ 310,169	\$ 280,114	\$ 271,722
Contributions in relation to the contractually required contributor	<u>(318,118)</u>	<u>(322,852)</u>	<u>(310,169)</u>	<u>(280,114)</u>	<u>(271,722)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered payroll	\$ 1,353,694	\$ 1,373,838	\$ 1,319,868	\$ 1,191,974	\$ 1,156,264
Contributions as a percentage of covered payroll	23.50%	23.50%	23.50%	23.50%	23.50%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
\$ 314,593	\$ 258,005	\$ 204,674	\$ 197,448	\$ 197,359
<u>(314,593)</u>	<u>(258,005)</u>	<u>(204,674)</u>	<u>(197,448)</u>	<u>(197,359)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 1,655,753	\$ 1,624,376	\$ 1,605,286	\$ 1,548,612	\$ 1,547,914
19.00%	15.88%	12.75%	12.75%	12.75%
\$ 253,852	\$ 208,854	\$ 164,450	\$ 178,967	\$ 183,840
<u>(253,852)</u>	<u>(208,854)</u>	<u>(164,450)</u>	<u>(178,967)</u>	<u>(183,840)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 1,080,221	\$ 1,024,631	\$ 953,333	\$ 1,037,490	\$ 1,065,739
23.50%	20.38%	17.25%	17.25%	17.25%

**CITY OF FAIRLAWN, OHIO**

SCHEDULES OF THE REQUIRED SUPPLEMENTARY INFORMATION

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

LAST THREE YEARS

	<u>2019</u>	<u>2018</u>	<u>2017</u>
City's proportion of the net OPEB liability	0.022796%	0.023930%	0.023253%
City's proportionate share of the net OPEB liability	\$ 2,972,060	\$ 2,598,622	\$ 2,348,618
City's covered payroll	\$ 3,306,510	\$ 3,239,638	\$ 3,244,491
City's proportionate share of the net OPEB liability as a percentage of its covered payroll	89.89%	80.21%	72.39%
Plan fiduciary net position as a percentage of the total OPEB liability	46.33%	54.14%	54.05%

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

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

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF FAIRLAWN, OHIO**

SCHEDULES OF THE REQUIRED SUPPLEMENTARY INFORMATION

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

LAST THREE YEARS

	<u>2019</u>	<u>2018</u>	<u>2017</u>
City's proportion of the net OPEB liability	0.14540400%	0.14739800%	0.13322700%
City's proportionate share of the net OPEB liability	\$ 1,324,126	\$ 8,351,342	\$ 6,323,986
City's covered payroll	\$ 3,336,222	\$ 3,139,305	\$ 2,913,374
City's proportionate share of the net OPEB liability as a percentage of its covered payroll	39.69%	266.03%	217.07%
Plan fiduciary net position as a percentage of the total OPEB liability	46.57%	14.13%	15.96%

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

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

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF FAIRLAWN, OHIO**

SCHEDULES OF THE REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN YEARS

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 743	\$ 783	\$ 33,146	\$ 65,430	\$ 63,294
Contributions in relation to the contractually required contribution	<u>(743)</u>	<u>(783)</u>	<u>(33,146)</u>	<u>(65,430)</u>	<u>(63,294)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered payroll	\$ 3,477,523	\$ 3,306,510	\$ 3,258,398	\$ 3,244,491	\$ 3,185,333
Contributions as a percentage of covered payroll	0.02%	0.02%	1.02%	2.02%	1.99%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION



<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
\$ 59,156	\$ 29,369	\$ 112,331	\$ 113,619	\$ 147,430
<u>(59,156)</u>	<u>(29,369)</u>	<u>(112,331)</u>	<u>(113,619)</u>	<u>(147,430)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a

**CITY OF FAIRLAWN, OHIO**

SCHEDULES OF THE REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN YEARS

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<i>Police:</i>					
Contractually required contribution	\$ 10,024	\$ 9,812	\$ 9,097	\$ 8,607	\$ 8,581
Contributions in relation to the contractually required contribution	<u>(10,024)</u>	<u>(9,812)</u>	<u>(9,097)</u>	<u>(8,607)</u>	<u>(8,581)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered payroll	\$ 2,004,811	\$ 1,962,384	\$ 1,819,437	\$ 1,721,400	\$ 1,671,100
Contributions as a percentage of covered payroll	0.50%	0.50%	0.50%	0.50%	0.50%
<i>Fire:</i>					
Contractually required contribution	\$ 6,768	\$ 6,869	\$ 6,599	\$ 5,960	\$ 5,781
Contributions in relation to the contractually required contribution	<u>(6,768)</u>	<u>(6,869)</u>	<u>(6,599)</u>	<u>(5,960)</u>	<u>(5,781)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered payroll	\$ 1,353,694	\$ 1,373,838	\$ 1,319,868	\$ 1,191,974	\$ 1,156,264
Contributions as a percentage of covered payroll	0.50%	0.50%	0.50%	0.50%	0.50%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

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

CITY OF FAIRLAWN, OHIO

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2019

PENSION

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OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

*Changes in benefit terms* : There were no changes in benefit terms from the amounts reported for 2014-2019.

*Changes in assumptions* : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2014-2016. For 2017, the following were the most significant changes of assumptions that affected the total pension liability since the prior measurement date: (a) reduction in the actuarially assumed rate of return from 8.00% to 7.50%; (b) for defined benefit investments, decreasing the wage inflation from 3.75% to 3.25%; and (c) changing the future salary increases from a range of 4.25%-10.05% to 3.25%-10.75%. There were no changes in assumptions for 2018. For 2019, the following were the most significant changes of assumptions that affected the total pension liability since the prior measurement date: the assumed rate of return and discount rate were reduced from 7.50% to 7.20%.

OHIO POLICE AND FIRE (OP&F) PENSION FUND

*Changes in benefit terms* : There were no changes in benefit terms from the amounts reported for 2014-2019.

*Changes in assumptions* : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2014-2017. For 2018, the following were the most significant changes of assumptions that affected the total pension since the prior measurement date: (a) reduction in the actuarially assumed rate of return from 8.50% to 8.00%; (b) changing the future salary increases from a range of 4.25%-11.00% to 3.75%-10.50%; (c) reduction in payroll increases from 3.75% to 3.25%; (d) reduction in inflation assumptions from 3.25% to 2.75%; and (e) Cost of Living Adjustments (COLA) were reduced from 2.60% and 3.00% simple to 2.20% and 3.00% simple. There were no changes in assumptions for 2019.

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

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OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

*Changes in benefit terms* : There were no changes in benefit terms from the amounts reported for 2017-2019.

*Changes in assumptions* : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2017. For 2018, the following was the most significant changes of assumptions that affected the total OPEB liability since the prior measurement date: reduction in the actuarially assumed rate of return from 4.23% to 3.85%. For 2019, the following were the most significant changes in assumptions that affect the total OPEB liability since the prior measurement date: (a) the discount rate was increased from 3.85% to 3.96%; (b) the investment rate of return was decreased from 6.50% to 6.00%; (c) the municipal bond rate was increased from 3.31% to 3.71%; and (d) the health care cost trend rate was increased from 7.50%, initial/3.25%, ultimate in 2028 to 10.00%, initial/3.25%, ultimate in 2029.

OHIO POLICE AND FIRE (OP&F) PENSION FUND

*Changes in benefit terms* : There were no changes in benefit terms from the amounts reported for 2017-2018. For 2019, OP&F changed its retiree health care model from a self-insured plan to a stipend-based model.

*Changes in assumptions* : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2017. For 2018, the following were the most significant changes of assumptions that affected the total OPEB liability since the prior measurement date: (a) DROP interest rate was reduced from 4.50% to 4.00%; (b) CPI-based COLA was reduced from 2.60% to 2.20%; (c) investment rate of return was reduced from 8.25% to 8.00%; (d) salary increases were reduced from 3.75% to 3.25%; and (e) payroll growth was reduced from 3.75% to 3.25%. For 2019, the following was the most significant changes of assumptions that affect the total OPEB liability since the prior measurement date: the discount rate was increased from 3.24% to 4.66%.



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

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

To the City Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the business-type activities, 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, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 20, 2020, wherein we noted the City adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*, and referred to the financial impact of COVID-19 and the continuing emergency measures that will impact subsequent periods.

***Internal Control Over Financial Reporting***

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a significant deficiency. We consider finding 2019-001 to be a significant deficiency.

***Compliance and Other Matters***

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

***City's Response to Findings***

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

***Purpose of this Report***

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



Keith Faber  
Auditor of State

Columbus, Ohio

October 20, 2020

CITY OF FAIRLAWN  
SUMMIT COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2019

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

FINDING NUMBER 2019-001

Significant Deficiency – Financial Reporting

In our audit engagement letter, as required by AU-C Section 210, *Terms of Engagement*, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error as discussed in AU-C Section 210 paragraphs .A14 & .A16. Governmental Accounting Standards Board (GASB) Cod. 1100 paragraph .101 states a governmental accounting system must make it possible both: (a) to present fairly and with full disclosure the funds and activities of the governmental unit in conformity with generally accepted accounting principles, and (b) to determine and demonstrate compliance with finance-related legal and contractual provisions.

The following exception was noted indicating a deficiency in the design, implementation and maintenance of internal control relevant to preparing and fairly presenting financial statements:

Business-type Activities/Proprietary Fund-Broadband Capital Assets balances were overstated by \$196,005 on the Statement of Net Position due an infrastructure project expenditure erroneously included twice in the City's 2019 capital asset additions. The expenditure was a Governmental Activities Capital Improvement Fund expenditure that was subsequently contributed to the Business-type Activities/Proprietary Fund-Broadband Fund. As a result, the Governmental Activities Utility Services expenses were understated and Transfers were overstated by \$196,005 on the Statement of Activities, while the Contributed Capital balance on the Proprietary Fund Statement of Revenues, Expenses and Changes in Net Position was overstated by \$196,005.

The financial statements and footnote disclosure were adjusted to reflect correction of this error.

To help ensure the financial statements are presented properly, the City should review the design, implementation and maintenance of internal controls relevant to preparing and fairly presenting financial statements and updated and/or clarify the procedures and expected practices and develop appropriate procedures to help ensure proper reporting and compliance. City management should implement a system to review capital asset transactions to ensure schedules are accurate and complete prior to compiling their annual financial statements.

**Official's Response:** We will review and update our GAAP conversion processes and procedures to ensure the proper internal controls are in place to prevent or detect and timely correct future journal entries posted in error.

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# OHIO AUDITOR OF STATE KEITH FABER



**CITY OF FAIRLAWN**

**SUMMIT COUNTY**

## **AUDITOR OF STATE OF OHIO CERTIFICATION**

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



**Certified for Release 11/17/2020**

88 East Broad Street, Columbus, Ohio 43215  
Phone: 614-466-4514 or 800-282-0370

This report is a matter of public record and is available online at  
[www.ohioauditor.gov](http://www.ohioauditor.gov)