



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

City of Sylvania
Lucas County
6730 Monroe Street
Sylvania, Ohio 43560

To the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sylvania, Lucas County, Ohio (the City), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Summary of Opinions

| Opinion Unit | Type of Opinion |
|--------------------------------------|-----------------|
| Governmental Activities | Unmodified |
| Business-Type Activities | Unmodified |
| General Fund | Qualified |
| City Services | Unmodified |
| G.O. Debt Services | Unmodified |
| Capital Improvement | Qualified |
| Water | Unmodified |
| Sewer | Unmodified |
| Aggregate Remaining Fund Information | Unmodified |

Basis for Qualified Opinions on Major Governmental Funds General and Capital Improvement

A finding for adjustment was issued in the audit of the 2013 financial statements to eliminate an improper transfer made by the City, however, this adjustment was not made by the City and as a result the beginning fund balances reported in the accompanying financial statements for the General and Capital Improvement funds are overstated or understated. The beginning balance for the General fund is overstated by \$3,411,732 and the beginning balance for the Capital Improvement fund is understated by \$3,411,732.

During 2014, the City of Sylvania transferred \$4,000,000 from the Capital Improvement Fund to the General Fund. Ohio Rev. Code § 5705.14(B) prohibits the transfer of funds from the Capital Improvement Fund to the General Fund. Had this amount and the amount of \$3,411,732 noted above not been improperly transferred to the General Fund, the effect would have been a decrease in the General Fund's ending balance of \$7,411,732 and an increase in the Capital Improvement fund's ending balance of \$7,411,732 as of and for the year ended December 31, 2014.

Qualified Opinions

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinions on Major Governmental Funds General and Capital Improvement* paragraph, the financial statements referred to

above present fairly, in all material respects, the respective financial position of the General and Capital Improvement Funds of the City of Sylvania, Lucas County, Ohio, as of December 31, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, City Services, G.O. Debt Service, Water, Sewer Funds, and the aggregate remaining fund information of the City of Sylvania, Lucas County, Ohio, as of December 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the General, and City Services Funds thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 7, 2016, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Dave Yost
Auditor of State

Columbus, Ohio

January 7, 2016

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CITY OF SYLVANIA, OHIO

Statement of Net Position
December 31, 2014

| | Governmental Activities | Business-Type Activities | Total |
|--|------------------------------------|-------------------------------------|----------------------|
| Assets: | | | |
| Cash and Cash Equivalents | \$ 3,952,942 | \$ 362,220 | \$ 4,315,162 |
| Investments | 12,790,557 | 2,268,457 | 15,059,014 |
| Receivables: | | | |
| Taxes | 3,447,203 | 0 | 3,447,203 |
| Accounts | 303,292 | 446,116 | 749,408 |
| Intergovernmental | 892,724 | 0 | 892,724 |
| Interest | 37,213 | 6,515 | 43,728 |
| Special Assessments | 1,027,825 | 0 | 1,027,825 |
| Internal Balances | 51,463 | (51,463) | 0 |
| Inventory of Supplies at Cost | 449,068 | 168,228 | 617,296 |
| Prepaid Items | 54,694 | 25,449 | 80,143 |
| Investment in Joint Venture | 1,074,000 | 0 | 1,074,000 |
| Restricted Assets: | | | |
| Cash and Cash Equivalents | 1,063 | 0 | 1,063 |
| Capital Assets: | | | |
| Capital Assets Not Being Depreciated | 10,594,223 | 0 | 10,594,223 |
| Capital Assets Being Depreciated, Net | 27,046,010 | 19,594,131 | 46,640,141 |
| Total Assets | 61,722,277 | 22,819,653 | 84,541,930 |
| Deferred Outflows of Resources: | | | |
| Deferred Loss on Debt Refunding | 60,861 | 0 | 60,861 |
| Liabilities: | | | |
| Accounts Payable | 208,382 | 195,902 | 404,284 |
| Accrued Wages and Benefits | 493,130 | 71,580 | 564,710 |
| Claims Payable | 347,400 | 0 | 347,400 |
| Accrued Interest Payable | 51,826 | 7,539 | 59,365 |
| Noncurrent liabilities: | | | |
| Due within one year | 1,443,897 | 146,682 | 1,590,579 |
| Due in more than one year | 19,331,173 | 2,771,271 | 22,102,444 |
| Total Liabilities | 21,875,808 | 3,192,974 | 25,068,782 |
| Deferred Inflows of Resources: | | | |
| Property Tax Levy for Next Fiscal Year | 1,802,459 | 0 | 1,802,459 |
| Net Position: | | | |
| Net Investment in Capital Assets | 18,014,490 | 16,914,131 | 34,928,621 |
| Restricted For: | | | |
| Capital Projects | 49,504 | 0 | 49,504 |
| Debt Service | 23,933 | 0 | 23,933 |
| Other Purposes | 2,181,802 | 0 | 2,181,802 |
| Unrestricted | 17,835,142 | 2,712,548 | 20,547,690 |
| Total Net Position | \$ 38,104,871 | \$ 19,626,679 | \$ 57,731,550 |

See accompanying notes to the basic financial statements

CITY OF SYLVANIA, OHIO

Statement of Activities
For the Year Ended December 31, 2014

| | Expenses | Program Revenues | | |
|---------------------------------------|----------------------|--------------------------------------|--|--|
| | | Charges for Services and Sales | Operating Grants and Contributions | Capital Grants and Contributions |
| Governmental Activities: | | | | |
| Current: | | | | |
| Security of Persons and Property | \$ 5,588,695 | \$ 333,959 | \$ 547,790 | \$ 0 |
| Public Health and Welfare Services | 129,489 | 15,704 | 0 | 0 |
| Leisure Time Activities | 992,341 | 0 | 0 | 0 |
| Community Environment | 549,931 | 18,708 | 242,824 | 0 |
| Basic Utility Services | 954,398 | 451,722 | 242,824 | 0 |
| Transportation | 2,964,180 | 49,065 | 1,078,173 | 351,806 |
| General Government | 5,085,627 | 1,062,424 | 21,514 | 224,205 |
| Interest and Fiscal Charges | 655,020 | 0 | 0 | 0 |
| Total Governmental Activities | 16,919,681 | 1,931,582 | 2,133,125 | 576,011 |
| Business-Type Activities: | | | | |
| Water | 4,468,737 | 4,024,507 | 0 | 0 |
| Sewer | 2,358,418 | 2,186,517 | 0 | 0 |
| Resource Recovery | 149,761 | 61,991 | 0 | 0 |
| Total Business-Type Activities | 6,976,916 | 6,273,015 | 0 | 0 |
| Totals | \$ 23,896,597 | \$ 8,204,597 | \$ 2,133,125 | \$ 576,011 |

General Revenues

Property Taxes
Municipal Income Taxes
Grants and Entitlements not Restricted to Specific Programs
Investment Earnings
Miscellaneous
Transfers
Total General Revenues and Transfers
Change in Net Position
Net Position Beginning of Year
Net Position End of Year

See accompanying notes to the basic financial statements

CITY OF SYLVANIA, OHIO

| Net (Expense) Revenue and Changes in Net Position | | |
|--|---------------------------------|----------------|
| Governmental Activities | Business- Type Activities | Total |
| \$ (4,706,946) | \$ 0 | \$ (4,706,946) |
| (113,785) | 0 | (113,785) |
| (992,341) | 0 | (992,341) |
| (288,399) | 0 | (288,399) |
| (259,852) | 0 | (259,852) |
| (1,485,136) | 0 | (1,485,136) |
| (3,777,484) | 0 | (3,777,484) |
| (655,020) | 0 | (655,020) |
| (12,278,963) | 0 | (12,278,963) |
| 0 | (444,230) | (444,230) |
| 0 | (171,901) | (171,901) |
| 0 | (87,770) | (87,770) |
| 0 | (703,901) | (703,901) |
| (12,278,963) | (703,901) | (12,982,864) |
| 1,678,544 | 0 | 1,678,544 |
| 9,405,687 | 0 | 9,405,687 |
| 969,219 | 0 | 969,219 |
| 118,646 | 19,564 | 138,210 |
| 421,895 | 0 | 421,895 |
| (100,000) | 100,000 | 0 |
| 12,493,991 | 119,564 | 12,613,555 |
| 215,028 | (584,337) | (369,309) |
| 37,889,843 | 20,211,016 | 58,100,859 |
| \$ 38,104,871 | \$ 19,626,679 | \$ 57,731,550 |

CITY OF SYLVANIA, OHIO

Balance Sheet
Governmental Funds
December 31, 2014

| | <u>General</u> | <u>City Services</u> | <u>G.O. Debt Service</u> |
|---|----------------------------|----------------------------|------------------------------|
| Assets: | | | |
| Cash and Cash Equivalents | \$ 442,045 | \$ 409,496 | \$ 131,192 |
| Investments | 3,367,100 | 0 | 0 |
| Receivables: | | | |
| Taxes | 2,245,575 | 0 | 537,505 |
| Accounts | 284,502 | 0 | 0 |
| Intergovernmental | 316,340 | 0 | 36,053 |
| Interest | 9,671 | 0 | 0 |
| Special Assessments | 0 | 913,063 | 0 |
| Inventory of Supplies, at Cost | 356,137 | 0 | 0 |
| Prepaid Items | 44,308 | 768 | 0 |
| Restricted Assets: | | | |
| Cash and Cash Equivalents | <u>0</u> | <u>0</u> | <u>0</u> |
| Total Assets | <u>\$ 7,065,678</u> | <u>\$ 1,323,327</u> | <u>\$ 704,750</u> |
| Liabilities: | | | |
| Accounts Payable | \$ 70,213 | \$ 27,426 | \$ 0 |
| Accrued Wages and Benefits Payable | 378,772 | 9,947 | 0 |
| Compensated Absences Payable | <u>30,190</u> | <u>0</u> | <u>0</u> |
| Total Liabilities | <u>479,175</u> | <u>37,373</u> | <u>0</u> |
| Deferred Inflows of Resources: | | | |
| Unavailable Amounts | 773,495 | 913,063 | 44,611 |
| Property Tax for Next Fiscal Year | <u>884,948</u> | <u>0</u> | <u>528,947</u> |
| Total Deferred Inflows of Resources | <u>1,658,443</u> | <u>913,063</u> | <u>573,558</u> |
| Fund Balances: | | | |
| Nonspendable | 400,445 | 768 | 0 |
| Restricted | 0 | 372,123 | 0 |
| Committed | 0 | 0 | 0 |
| Assigned | 468,810 | 0 | 131,192 |
| Unassigned | <u>4,058,805</u> | <u>0</u> | <u>0</u> |
| Total Fund Balances | <u>4,928,060</u> | <u>372,891</u> | <u>131,192</u> |
| Total Liabilities, Deferred Inflows of Resources and Fund Balances | <u>\$ 7,065,678</u> | <u>\$ 1,323,327</u> | <u>\$ 704,750</u> |

See accompanying notes to the basic financial statements

CITY OF SYLVANIA, OHIO

| Capital Improvement | Other Governmental Funds | Total Governmental Funds |
|------------------------|--------------------------------|--------------------------------|
| \$ 1,229,189 | \$ 1,678,237 | \$ 3,890,159 |
| 9,362,854 | 60,603 | 12,790,557 |
| 269,283 | 394,840 | 3,447,203 |
| 2,900 | 15,890 | 303,292 |
| 0 | 540,331 | 892,724 |
| 26,890 | 652 | 37,213 |
| 114,530 | 232 | 1,027,825 |
| 0 | 92,931 | 449,068 |
| 0 | 8,153 | 53,229 |
| 0 | 1,063 | 1,063 |
| \$ 11,005,646 | \$ 2,792,932 | \$ 22,892,333 |
| \$ 70,109 | \$ 37,301 | \$ 205,049 |
| 0 | 94,543 | 483,262 |
| 0 | 0 | 30,190 |
| 70,109 | 131,844 | 718,501 |
| 244,195 | 377,331 | 2,352,695 |
| 0 | 388,564 | 1,802,459 |
| 244,195 | 765,895 | 4,155,154 |
| 0 | 102,147 | 503,360 |
| 0 | 1,630,922 | 2,003,045 |
| 10,691,342 | 61,405 | 10,752,747 |
| 0 | 100,719 | 700,721 |
| 0 | 0 | 4,058,805 |
| 10,691,342 | 1,895,193 | 18,018,678 |
| \$ 11,005,646 | \$ 2,792,932 | \$ 22,892,333 |

CITY OF SYLVANIA, OHIO

***Reconciliation Of Total Governmental Fund Balances
To Net Position Of Governmental Activities
December 31, 2014***

| | |
|--|-----------------------------|
| Total Governmental Fund Balances | \$ 18,018,678 |
| <i>Amounts reported for governmental activities in the statement of net position are different because</i> | |
| Capital Assets used in governmental activities are not resources and therefore are not reported in the funds. | 37,640,233 |
| The government's explicit, measurable equity interest in a joint venture is not a financial asset to the government, therefore it is not reported in the governmental funds. However, the government is required to report the equity interest as an asset in connection with governmental activities in the government-wide statement of net position. | 1,074,000 |
| Other long-term assets are not available to pay for current- period expenditures and therefore are unavailable resources in the funds. | 2,352,695 |
| Internal service funds are used by management to charge the costs of services to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. | (273,550) |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. | (20,707,185) |
| <i>Net Position of Governmental Funds</i> | <u><u>\$ 38,104,871</u></u> |

See accompanying notes to the basic financial statements

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CITY OF SYLVANIA, OHIO

**Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2014**

| | General | City Services | G.O. Debt Service |
|---|---------------------|-------------------|----------------------|
| Revenues: | | | |
| Property Taxes | \$ 824,638 | \$ 0 | \$ 496,595 |
| Municipal Income Taxes | 7,865,808 | 0 | 0 |
| Intergovernmental Revenues | 832,162 | 0 | 75,357 |
| Charges for Services | 492,333 | 0 | 0 |
| Licenses, Permits and Fees | 381,784 | 0 | 0 |
| Investment Earnings | 42,977 | 0 | 0 |
| Special Assessments | 0 | 876,054 | 0 |
| Fines and Forfeitures | 854,684 | 0 | 0 |
| All Other Revenue | 339,782 | 29,326 | 0 |
| Total Revenue | 11,634,168 | 905,380 | 571,952 |
| Expenditures: | | | |
| Current: | | | |
| Security of Persons and Property | 4,413,936 | 393,805 | 0 |
| Public Health and Welfare Services | 131,856 | 0 | 0 |
| Leisure Time Activities | 967,514 | 0 | 0 |
| Community Environment | 339,094 | 206,468 | 0 |
| Basic Utility Services | 734,230 | 237,610 | 0 |
| Transportation | 120,241 | 0 | 0 |
| General Government | 4,603,897 | 0 | 7,192 |
| Capital Outlay | 0 | 0 | 0 |
| Debt Service: | | | |
| Principal Retirement | 0 | 0 | 1,250,000 |
| Interest & Fiscal Charges | 0 | 0 | 652,952 |
| Total Expenditures | 11,310,768 | 837,883 | 1,910,144 |
| Excess (Deficiency) of Revenues | | | |
| Over Expenditures | 323,400 | 67,497 | (1,338,192) |
| Other Financing Sources (Uses): | | | |
| Transfers In | 4,000,000 | 0 | 1,335,000 |
| Transfers Out | (4,900,198) | 0 | 0 |
| Total Other Financing Sources (Uses) | (900,198) | 0 | 1,335,000 |
| Net Change in Fund Balances | (576,798) | 67,497 | (3,192) |
| Fund Balances at Beginning of Year | 5,523,783 | 305,394 | 134,384 |
| Decrease in Inventory Reserve | (18,925) | 0 | 0 |
| Fund Balances End of Year | \$ 4,928,060 | \$ 372,891 | \$ 131,192 |

See accompanying notes to the basic financial statements

CITY OF SYLVANIA, OHIO

| Capital Improvement | Other Governmental Funds | Total Governmental Funds |
|------------------------|--------------------------------|--------------------------------|
| \$ 0 | \$ 364,169 | \$ 1,685,402 |
| 1,573,192 | 0 | 9,439,000 |
| 537,902 | 1,149,809 | 2,595,230 |
| 0 | 0 | 492,333 |
| 0 | 0 | 381,784 |
| 58,079 | 3,667 | 104,723 |
| 16,231 | 0 | 892,285 |
| 0 | 199,474 | 1,054,158 |
| 227,105 | 53,608 | 649,821 |
| <u>2,412,509</u> | <u>1,770,727</u> | <u>17,294,736</u> |
| 0 | 596,331 | 5,404,072 |
| 0 | 0 | 131,856 |
| 0 | 0 | 967,514 |
| 0 | 3,500 | 549,062 |
| 0 | 0 | 971,840 |
| 0 | 1,574,702 | 1,694,943 |
| 0 | 16,458 | 4,627,547 |
| 1,360,873 | 72,380 | 1,433,253 |
| 44,502 | 0 | 1,294,502 |
| 5,973 | 0 | 658,925 |
| <u>1,411,348</u> | <u>2,263,371</u> | <u>17,733,514</u> |
| 1,001,161 | (492,644) | (438,778) |
| 4,200,000 | 752,830 | 10,287,830 |
| (5,285,000) | (202,632) | (10,387,830) |
| <u>(1,085,000)</u> | <u>550,198</u> | <u>(100,000)</u> |
| (83,839) | 57,554 | (538,778) |
| 10,775,181 | 1,843,910 | 18,582,652 |
| 0 | (6,271) | (25,196) |
| <u>\$ 10,691,342</u> | <u>\$ 1,895,193</u> | <u>\$ 18,018,678</u> |

CITY OF SYLVANIA, 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, 2014***

Net Change in Fund Balances - Total Governmental Funds \$ (538,778)

Amounts reported for governmental activities in the statement of activities are different because

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period. (225,970)

Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the amount of the loss on the disposal of capital assets net of proceeds received. (64,688)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (60,027)

The issuance of long-term debt provides current financial resources to governmental funds, but has no effect on net assets. In addition, repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 1,295,837

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. 2,570

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 the governmental funds. (11,531)

The internal service funds, which are used by management to charge the costs of services to individual funds, are not reported in the statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service funds are allocated among the governmental activities. (182,385)

Change in Net Position of Governmental Activities \$ 215,028

See accompanying notes to the basic financial statements

CITY OF SYLVANIA, 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, 2014**

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|--|------------------------|---------------------|---------------------|---|
| Revenues: | | | | |
| Property Taxes | \$ 850,000 | \$ 850,000 | \$ 824,638 | \$ (25,362) |
| Municipal Income Taxes | 8,500,000 | 8,500,000 | 7,882,415 | (617,585) |
| Intergovernmental Revenue | 1,231,000 | 1,231,000 | 838,885 | (392,115) |
| Charges for Services | 506,000 | 506,000 | 479,664 | (26,336) |
| Licenses, Permits and Fees | 362,000 | 362,000 | 377,369 | 15,369 |
| Investment Earnings | 60,000 | 60,000 | 44,721 | (15,279) |
| Fines and Forfeitures | 905,000 | 905,000 | 841,917 | (63,083) |
| All Other Revenues | 321,000 | 321,000 | 328,102 | 7,102 |
| Total Revenues | <u>12,735,000</u> | <u>12,735,000</u> | <u>11,617,711</u> | <u>(1,117,289)</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Security of Persons and Property | 4,740,000 | 4,441,600 | 4,381,793 | 59,807 |
| Public Health and Welfare Services | 148,000 | 141,000 | 133,359 | 7,641 |
| Leisure Time Activities | 936,000 | 993,000 | 963,118 | 29,882 |
| Community Environment | 478,828 | 348,445 | 341,196 | 7,249 |
| Basic Utility Services | 773,000 | 744,200 | 734,071 | 10,129 |
| Transportation | 89,000 | 132,000 | 122,860 | 9,140 |
| General Government | 4,251,125 | 4,641,425 | 4,581,796 | 59,629 |
| Total Expenditures | <u>11,415,953</u> | <u>11,441,670</u> | <u>11,258,193</u> | <u>183,477</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 1,319,047 | 1,293,330 | 359,518 | (933,812) |
| Other Financing Sources (Uses): | | | | |
| Transfers In | 4,000,000 | 4,000,000 | 4,000,000 | 0 |
| Transfers Out | (5,305,000) | (5,272,500) | (4,900,198) | 372,302 |
| Total Other Financing Sources (Uses): | <u>(1,305,000)</u> | <u>(1,272,500)</u> | <u>(900,198)</u> | <u>372,302</u> |
| Net Change In Fund Balance | 14,047 | 20,830 | (540,680) | (561,510) |
| Fund Balance at Beginning of Year | 4,357,916 | 4,357,916 | 4,357,916 | 0 |
| Prior Year Encumbrances | 10,280 | 10,280 | 10,280 | 0 |
| Fund Balance at End of Year | <u>\$ 4,382,243</u> | <u>\$ 4,389,026</u> | <u>\$ 3,827,516</u> | <u>\$ (561,510)</u> |

See accompanying notes to the basic financial statements

CITY OF SYLVANIA, OHIO

**Statement of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
Special Revenue Fund - City Services Fund
For the Year Ended December 31, 2014**

| | Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|-----------------------------------|-----------------|--------------|------------|---|
| Revenues: | | | | |
| Special Assessments | \$ 908,000 | \$ 908,000 | \$ 876,054 | \$ (31,946) |
| All Other Revenues | 1,000 | 1,000 | 29,326 | 28,326 |
| Total Revenues | 909,000 | 909,000 | 905,380 | (3,620) |
| Expenditures: | | | | |
| Current: | | | | |
| Security of Persons and Property | 488,650 | 488,650 | 431,601 | 57,049 |
| Community Environment | 236,000 | 236,000 | 204,419 | 31,581 |
| Basic Utility Services | 197,796 | 251,796 | 237,885 | 13,911 |
| Total Expenditures | 922,446 | 976,446 | 873,905 | 102,541 |
| Excess (Deficiency) of Revenues | | | | |
| Over (Under) Expenditures | (13,446) | (67,446) | 31,475 | 98,921 |
| Fund Balance at Beginning of Year | | | | |
| Prior Year Encumbrances | 43,446 | 43,446 | 43,446 | 0 |
| Fund Balance at End of Year | \$ 325,544 | \$ 271,544 | \$ 370,465 | \$ 98,921 |

See accompanying notes to the basic financial statements

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CITY OF SYLVANIA, OHIO

**Statement of Net Position
Proprietary Funds
December 31, 2014**

| | Business-Type Activities | | |
|--|--------------------------|---------------|----------------------|
| | Enterprise Funds | | |
| | Water | Sewer | Resource Recovery |
| ASSETS | | | |
| Current assets: | | | |
| Cash and Cash Equivalents | \$ 182,465 | \$ 115,346 | \$ 64,409 |
| Investments | 1,389,854 | 878,603 | 0 |
| Accounts Receivable | 294,170 | 151,946 | 0 |
| Interest Receivable | 3,992 | 2,523 | 0 |
| Inventory of Supplies at Cost | 107,233 | 60,995 | 0 |
| Prepaid Items | 15,465 | 9,521 | 463 |
| Total current assets | 1,993,179 | 1,218,934 | 64,872 |
| Noncurrent assets: | | | |
| Capital assets: | | | |
| Property, Plant and Equipment | 16,212,571 | 25,637,900 | 164,233 |
| Less accumulated depreciation | (6,567,289) | (15,689,051) | (164,233) |
| Total capital assets (net of accumulated depr) | 9,645,282 | 9,948,849 | 0 |
| Total noncurrent assets | 9,645,282 | 9,948,849 | 0 |
| Total assets | 11,638,461 | 11,167,783 | 64,872 |
| LIABILITIES | | | |
| Current liabilities: | | | |
| Accounts Payable | 183,691 | 11,677 | 534 |
| Accrued Wages and Benefits | 40,984 | 29,967 | 629 |
| Claims Payable | 0 | 0 | 0 |
| Accrued Interest Payable | 7,539 | 0 | 0 |
| General Obligation Bonds Payable - Current | 130,000 | 0 | 0 |
| Compensated Absences Payable - Current | 9,291 | 7,391 | 0 |
| Total Current Liabilities | 371,505 | 49,035 | 1,163 |
| Noncurrent Liabilities: | | | |
| General Obligation Bonds Payable | 2,550,000 | 0 | 0 |
| Compensated Absences Payable | 122,057 | 99,214 | 0 |
| Total noncurrent liabilities | 2,672,057 | 99,214 | 0 |
| Total Liabilities | 3,043,562 | 148,249 | 1,163 |
| NET POSITION | | | |
| Net Investment in Capital Assets | 6,965,282 | 9,948,849 | 0 |
| Unrestricted | 1,629,617 | 1,070,685 | 63,709 |
| Total Net Position | \$ 8,594,899 | \$ 11,019,534 | \$ 63,709 |

Adjustment to reflect the consolidation of internal service fund activities related to the enterprise funds.
Net Position of Business-type Activities

See accompanying notes to the basic financial statements

CITY OF SYLVANIA, OHIO

| Total | Governmental Activities Internal Service Funds |
|---------------|---|
| \$ 362,220 | \$ 62,783 |
| 2,268,457 | 0 |
| 446,116 | 0 |
| 6,515 | 0 |
| 168,228 | 0 |
| 25,449 | 1,465 |
| 3,276,985 | 64,248 |
| 42,014,704 | 15,985 |
| (22,420,573) | (15,985) |
| 19,594,131 | 0 |
| 19,594,131 | 0 |
| 22,871,116 | 64,248 |
| 195,902 | 3,333 |
| 71,580 | 9,868 |
| 0 | 347,400 |
| 7,539 | 0 |
| 130,000 | 0 |
| 16,682 | 1,887 |
| 421,703 | 362,488 |
| 2,550,000 | 0 |
| 221,271 | 26,773 |
| 2,771,271 | 26,773 |
| 3,192,974 | 389,261 |
| 16,914,131 | 0 |
| 2,764,011 | (325,013) |
| \$ 19,678,142 | \$ (325,013) |
| (51,463) | |
| \$ 19,626,679 | |

CITY OF SYLVANIA, OHIO

**Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the Year Ended December 31, 2014**

| | Business-Type Activities | | |
|--|--------------------------|----------------------|----------------------|
| | Enterprise Funds | | |
| | Water | Sewer | Resource Recovery |
| Operating Revenues: | | | |
| Charges for Services | \$ 3,933,235 | \$ 2,174,363 | \$ 61,991 |
| Other Operating Revenues | 91,272 | 12,154 | 0 |
| Total Operating Revenues | 4,024,507 | 2,186,517 | 61,991 |
| Operating Expenses: | | | |
| Personal Services | 868,730 | 731,491 | 77,275 |
| Materials and Supplies | 111,754 | 71,711 | 36,921 |
| Contractual Services | 3,004,429 | 1,042,249 | 35,565 |
| Depreciation | 369,353 | 499,125 | 0 |
| Total Operating Expenses | 4,354,266 | 2,344,576 | 149,761 |
| Operating Loss | (329,759) | (158,059) | (87,770) |
| Non-Operating Revenue (Expenses): | | | |
| Interest Income | 13,933 | 5,631 | 0 |
| Interest and Fiscal Charges | (97,490) | 0 | 0 |
| Other Nonoperating Revenue | 0 | 0 | 0 |
| Total Non-Operating Revenues (Expenses) | (83,557) | 5,631 | 0 |
| Loss Before Transfers | (413,316) | (152,428) | (87,770) |
| Transfers: | | | |
| Transfers In | 0 | 0 | 100,000 |
| Total Transfers | 0 | 0 | 100,000 |
| Change in Net Position | (413,316) | (152,428) | 12,230 |
| Net Position Beginning of Year | 9,008,215 | 11,171,962 | 51,479 |
| Net Position End of Year | \$ 8,594,899 | \$ 11,019,534 | \$ 63,709 |

Change in Net Position - Total Enterprise Funds

Adjustment to reflect the consolidation of internal
service fund activities related to the enterprise funds.

Change in Net Position - Business-type Activities

See accompanying notes to the basic financial statements

CITY OF SYLVANIA, OHIO

| Total | Governmental Activities Internal Service Funds |
|---------------|---|
| \$ 6,169,589 | \$ 2,422,650 |
| 103,426 | 0 |
| 6,273,015 | 2,422,650 |
| 1,677,496 | 2,171,119 |
| 220,386 | 102,972 |
| 4,082,243 | 426,483 |
| 868,478 | 0 |
| 6,848,603 | 2,700,574 |
| (575,588) | (277,924) |
| 19,564 | 0 |
| (97,490) | 0 |
| 0 | 64,716 |
| (77,926) | 64,716 |
| (653,514) | (213,208) |
| 100,000 | 0 |
| 100,000 | 0 |
| (553,514) | (213,208) |
| 20,231,656 | (111,805) |
| \$ 19,678,142 | \$ (325,013) |
| (553,514) | |
| (30,823) | |
| \$ (584,337) | |

CITY OF SYLVANIA, OHIO

Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2014

| | Business-Type Activities | | |
|--|--------------------------|-------------------------|------------------------|
| | Enterprise Funds | | |
| | Water | Sewer | Resource Recovery |
| <u>Cash Flows from Operating Activities:</u> | | | |
| Cash Received from Customers | \$3,970,491 | \$2,149,694 | \$61,991 |
| Cash Payments for Goods and Services | (3,089,418) | (1,113,451) | (71,937) |
| Cash Payments to Employees | (849,209) | (714,747) | (77,276) |
| Net Cash Provided (Used) by Operating Activities | <u>31,864</u> | <u>321,496</u> | <u>(87,222)</u> |
| <u>Cash Flows from Noncapital Financing Activities:</u> | | | |
| Transfers In from Other Funds | 0 | 0 | 100,000 |
| Miscellaneous Nonoperating Revenue | 0 | 0 | 0 |
| Net Cash Provided by Noncapital Financing Activities | <u>0</u> | <u>0</u> | <u>100,000</u> |
| <u>Cash Flows from Capital and Related Financing Activities:</u> | | | |
| Acquisition and Construction of Assets | (336,957) | (217,590) | 0 |
| Principal Paid on General Obligation Bonds | (130,000) | 0 | 0 |
| Interest Paid on All Debt | (97,707) | 0 | 0 |
| Net Cash Used for Capital and Related Financing Activities | <u>(564,664)</u> | <u>(217,590)</u> | <u>0</u> |
| <u>Cash Flows from Investing Activities:</u> | | | |
| Sale of Investments | 462,765 | 0 | 0 |
| Purchase of Investments | 0 | (96,692) | 0 |
| Receipts of Interest | 11,856 | 6,262 | 0 |
| Net Cash Provided (Used) for Investing Activities | <u>474,621</u> | <u>(90,430)</u> | <u>0</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | (58,179) | 13,476 | 12,778 |
| Cash and Cash Equivalents at Beginning of Year | <u>240,644</u> | <u>101,870</u> | <u>51,631</u> |
| Cash and Cash Equivalents at End of Year | <u><u>\$182,465</u></u> | <u><u>\$115,346</u></u> | <u><u>\$64,409</u></u> |

CITY OF SYLVANIA, OHIO

| Totals | Governmental Activities Internal Service Funds |
|-------------|---|
| \$6,182,176 | \$2,422,650 |
| (4,274,806) | (527,065) |
| (1,641,232) | (2,119,847) |
| 266,138 | (224,262) |
| 100,000 | 0 |
| 0 | 64,716 |
| 100,000 | 64,716 |
| (554,547) | (3,258) |
| (130,000) | 0 |
| (97,707) | 0 |
| (782,254) | (3,258) |
| 462,765 | 0 |
| (96,692) | 0 |
| 18,118 | 0 |
| 384,191 | 0 |
| (31,925) | (162,804) |
| 394,145 | 225,587 |
| \$362,220 | \$62,783 |

(Continued)

CITY OF SYLVANIA, OHIO

Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2014

| | Business-Type Activities | | |
|---|--------------------------|------------------|----------------------|
| | Enterprise Funds | | |
| | Water | Sewer | Resource Recovery |
| <u>Reconciliation of Operating Loss to Net Cash</u> | | | |
| <u>Provided (Used) by Operating Activities:</u> | | | |
| Operating Loss | (\$329,759) | (\$158,059) | (\$87,770) |
| Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities: | | | |
| Depreciation Expense | 369,353 | 499,125 | 0 |
| Changes in Assets and Liabilities: | | | |
| Increase in Accounts Receivable | (54,016) | (36,823) | 0 |
| Decrease (Increase) in Inventory | 13,702 | (4,263) | 0 |
| Decrease (Increase) in Prepaid Items | (2,435) | 610 | 15 |
| Increase in Accounts Payable | 15,498 | 4,162 | 534 |
| Increase (Decrease) in Accrued Wages and Benefits | 6,910 | 5,725 | (1) |
| Increase in Claims Payable | 0 | 0 | 0 |
| Increase (Decrease) in Compensated Absences | 12,611 | 11,019 | 0 |
| Total Adjustments | <u>361,623</u> | <u>479,555</u> | <u>548</u> |
| Net Cash Provided (Used) by Operating Activities | <u>\$31,864</u> | <u>\$321,496</u> | <u>(\$87,222)</u> |

Schedule of Noncash Investing, Capital and Financing Activities:

During 2014 the fair value of investments decreased by \$11,220 and \$7,093 in the Water and Sewer Funds respectively.

See accompanying notes to the basic financial statements

CITY OF SYLVANIA, OHIO

| <u>Totals</u> | <u>Governmental Activities Internal Service Funds</u> |
|------------------|---|
| (\$575,588) | (\$277,924) |
| 868,478 | 0 |
| (90,839) | 0 |
| 9,439 | 0 |
| (1,810) | (156) |
| 20,194 | 2,546 |
| 12,634 | (348) |
| 0 | 58,200 |
| 23,630 | (6,580) |
| <u>841,726</u> | <u>53,662</u> |
| <u>\$266,138</u> | <u>(\$224,262)</u> |

CITY OF SYLVANIA, OHIO

Statement of Fiduciary Net Position
December 31, 2014

| | <u>Agency</u> |
|---------------------------|------------------|
| Assets: | |
| Cash and Cash Equivalents | \$ 97,681 |
| Total Assets | <u>97,681</u> |
| Liabilities: | |
| Due to Others | <u>97,681</u> |
| Total Liabilities | <u>\$ 97,681</u> |

See accompanying notes to the basic financial statements

CITY OF SYLVANIA, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Sylvania, Ohio (the "City") is a home-rule municipal corporation created under the laws of the State of Ohio. The City operates under its own Charter. The current Charter which provides for a Council/Mayor form of government, was adopted in 1961 and has been amended 3 times (1968, 1984, 1985).

The accompanying basic financial statements of the City present the financial position of the various fund types, the results of operations of the various fund types, and the cash flows of the proprietary funds. The financial statements are presented as of December 31, 2014 and for the year then ended and have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to local governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification).

A. Reporting Entity

The accompanying basic financial statements comply with the provisions of GASB Statement No. 14, "*The Financial Reporting Entity*," as amended by GASB Statement No. 61 "*The Financial Reporting Entity: Omnibus; an amendment of GASB Statements No. 14 and No. 34*," in that the financial statements include all organizations, activities, functions and component units for which the City (the primary government) is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing body and either (1) the City's ability to impose its will over the organization, or (2) the potential that the organization will provide a financial benefit to, or impose a financial burden on, the City.

Based on the foregoing, there are no potential component units that meet the criteria imposed by GASB Statement No. 14 to be included in the City's reporting entity. The reporting entity of the City includes all funds, agencies, boards and commissions that are part of the primary government, which includes the following services: public safety, highways and streets, sanitation, cemetery, health and social services, culture and recreation, public improvements, planning and zoning and general administrative services. In addition, the City owns the water distribution and wastewater collection systems and a resource recovery operation, which are reported as enterprise funds. Water treatment services are provided by the City of Toledo. Wastewater treatment services are provided by Lucas County.

1. Joint Venture with Equity Interest

Community Center:

The City is a participant with the Township of Sylvania in a joint venture to enhance the programs and services available to senior citizen residents in the City and the Township. The City and the Township have agreed to jointly pay to construct a community center under the authority of Ohio Revised Code Section 173.11. The original agreement is for the City to bear (40) percent of the construction costs and the Township to bear (60) percent of the construction costs, resulting in a 40/60 split in equity interest between the two. The community center is managed by Sylvania Community Services Center, Inc. (SCS), an Ohio nonprofit corporation. See Note 16 "Joint Venture."

CITY OF SYLVANIA, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

2. Jointly Governed Organization

Sylvania Area Joint Recreation District:

The City in conjunction with the Sylvania Township Trustees and the Sylvania City School District formed the Sylvania Area Joint Recreation District (the "SAJRD") under the authority of Ohio Revised Code Section 755.14 (C). The SAJRD Board of Trustees is composed of twelve members, four of whom are appointed by each of the three separate governmental entities identified above. Funding for the SAJRD is provided by a voter approved tax levy on all real property located within Sylvania Township. Taxes are collected by the County Auditor and remitted to the SAJRD Board of Trustees. The SAJRD is fiscally independent of the City and the SAJRD's financial statements have not been included within the City's reporting entity.

B. Basis of Presentation - Fund Accounting

The accounting policies and financial reporting practices of the City conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of its significant accounting policies:

The accounting system is organized and operated on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues and expenditures (expenses). The various funds are summarized by type in the basic financial statements. The following fund types are used by the City:

Governmental Funds

Governmental Funds - Governmental funds are those funds through which most governmental functions are typically financed. The acquisition, use and balances of the City's expendable financial resources and the related current liabilities and deferred inflows of resources (except those accounted for in the proprietary funds) are accounted for through governmental funds. The measurement focus is upon determination of "financial flow" (sources, uses and balances of financial resources). The following are the City's major governmental funds:

CITY OF SYLVANIA, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

General Fund - This fund is used to account for all financial resources except those accounted for in another fund. The general fund balance is available to the City for any purpose provided it is expended or transferred according to the general laws of Ohio, and the limitations of the City Charter.

City Services Fund - This fund is used to account for the revenues received from special assessments for tree repair and replacement, ditch maintenance and street lighting.

G.O. Debt Service Fund – This fund is used to account for the accumulation of resources for the payments of general obligation debt of the City including self-supporting obligations not otherwise paid from proprietary funds.

Capital Improvement Fund - This fund is used to account for financial resources, primarily income taxes, to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Proprietary Funds

All proprietary funds are accounted for on an "economic resources" measurement focus. This measurement focus provides that all assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of these funds are included on the balance sheet. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in total net position.

Enterprise Funds - These funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, whereby the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The City's major enterprise funds are:

Water Fund – This fund is used to account for the operation of the City's water service.

Sewer Fund – This fund is used to account for the operation of the City's sanitary sewer service.

Internal Service Funds - These funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments, on a cost-reimbursement basis. The City has two internal service funds, the Self Insurance Fund, which is used to account for monies received from City departments to cover the cost of health care for employees of the City's departments and the Information Technology Fund, which is used to account for the costs of the City's information technology personnel along with the services provided by them to the City's various departments.

CITY OF SYLVANIA, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations or other governments and therefore not available to support the City's own programs. The agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operation. These funds operate on a full accrual basis of accounting. The City has one agency fund. The fund is the Municipal Court Fund, which accounts for monies that flow through the municipal court office.

C. Basis of Presentation – Financial Statements

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 internal service funds are eliminated to avoid “doubling up” revenues and expenses; however, the interfund services provided and used are not eliminated in the process of consolidation.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function or program of the City's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of 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 – Fund financial statements report detailed information about the City. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

CITY OF SYLVANIA, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation – Financial Statements (Continued)

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and deferred outflows of resources and current liabilities and deferred inflows of resources, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and deferred outflows of resources and all liabilities and deferred inflows of resources 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.

Fiduciary funds are reported using the economic resources measurement focus.

D. Basis of Accounting

Basis of accounting represents the methodology utilized in the recognition of revenues and expenditures or expenses reported in the financial statements. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

The modified accrual basis of accounting is followed by the governmental funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the modified accrual basis when the exchange takes place and the resources are available. The term "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, which for the City is 60 days after year end. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt which is recognized when due.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. Revenue from income taxes is recognized in the period in which the income is earned and is available. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied and the revenue is available. 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 specific purpose, and expenditure requirements, in which the resources

CITY OF SYLVANIA, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting (Continued)

are provided to the City on a reimbursement basis. Revenue considered susceptible to accrual at year end includes income taxes withheld by employers, interest on investments, state levied locally shared taxes (including motor vehicle license fees and local government assistance). Income taxes other than those withheld by employers, licenses, permits, charges for service and other miscellaneous revenues are recorded as revenue when received in cash because generally this revenue is not measurable until received.

Special assessment installments, which are measurable, but not available at December 31, are recorded as deferred inflow of resources – unavailable amount. Property taxes measurable as of December 31, 2014, but which are not intended to finance 2014 operations and delinquent property taxes, whose availability is indeterminate, are recorded as deferred inflow of resources as further described in Note 6.

The accrual basis of accounting is utilized for reporting purposes by the proprietary funds and fiduciary funds. Revenues are recognized when they are earned and expenses recognized when incurred. Government-Wide Statements are also prepared using the accrual basis of accounting.

E. Deferred Inflows/Outflows of Resources

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expenses/expenditures) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. On the government-wide statement of net position and governmental funds balance sheet, property taxes that are intended to finance future fiscal periods are reported as deferred inflows. In addition, the governmental funds balance sheet reports deferred inflows which arise only under a modified accrual basis of accounting. Accordingly, the item, *unavailable amounts*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable amounts for delinquent property taxes, income taxes, special assessments, and state levied shared taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

F. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the certificate of estimated resources and the appropriation ordinance, which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation ordinance are subject to amendment throughout the year.

All funds other than agency funds are legally required to be budgeted and appropriated; however, only governmental funds are required to be reported. The primary level of budgetary control is at the object level within each department. Budgetary modifications may only be made by ordinance of the City Council.

CITY OF SYLVANIA, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Budgetary Process (Continued)

1. Estimated Resources

The County Budget Commission reviews estimated revenue and determines if the budget substantiates a need to levy all or part of previously authorized taxes. The Budget Commission then certifies its actions to the City by September 1 of each year. As part of the certification process, the City receives an official certificate of estimated resources stating the projected receipts by 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 do 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 any unencumbered fund balances from the previous year. The certificate may be further amended during the year if a new source of revenue is identified or if actual receipts exceed current estimates. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 2014.

2. Appropriations

A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 through March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 through December 31. The appropriation ordinance establishes spending controls at the fund, department and object level. The appropriation ordinance may be amended during the year as additional information becomes available, provided that total fund appropriations do not exceed the current estimated resources as certified by the county budget commission. The allocation of appropriations among departments and objects within a fund may be modified during the year only by an ordinance of City Council. The Finance Director is authorized to transfer appropriations between objects of expenditure budgeted within the same function, so long as total appropriations for each function do not exceed the amount approved by Council. During the year, several supplemental appropriations were necessary to budget for capital improvements, vehicle purchases, community service programs, and various incidental expenditures. The budgetary figures which appear in the "Statement of Revenues, Expenditures, and Changes in Fund Balances--Budget and Actual—General Fund," in the "Statement of Revenues, Expenditures, and Changes in Fund Balances-Budget and Actual—Special Revenue Fund -Police Pension Fund" and in the "Statement of Revenues, Expenditures, and Changes in Fund Balances-Budget and Actual—Special Revenue Fund-City Services Fund" are provided on the budgetary basis to provide a comparison of actual results to the final budget, including all amendments and modifications.

CITY OF SYLVANIA, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Budgetary Process (Continued)

3. Encumbrances

As part of formal budgetary control, purchase orders, contracts and other commitments for expenditures are encumbered and recorded as the equivalent of expenditures (budget basis) in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. However, on the GAAP basis of accounting, encumbrances do not constitute expenditures or liabilities and are included in the restricted, committed or assigned fund balance classifications for governmental funds in the accompanying basic financial statements.

4. Lapsing of Appropriations

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the subsequent fiscal year and need not be reappropriated.

5. Budgetary Basis of Accounting

The City's budgetary process accounts for certain transactions on a basis other than generally accepted accounting principles (GAAP). The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recorded. Under the budgetary basis, revenues and expenditures are recognized on a cash basis. Utilizing the cash basis, revenues are recorded when received in cash and expenditures when paid. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting. On the budgetary basis investment earnings are recognized when realized, whereas on a GAAP basis unrealized gains and losses are recognized when investments are adjusted to fair value.

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CITY OF SYLVANIA, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2014**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Budgetary Process (Continued)

5. Budgetary Basis of Accounting (Continued)

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund and the major special revenue fund:

| | Net Change In Fund Balance | |
|--|----------------------------|-----------------------|
| | General Fund | City Services Fund |
| GAAP Basis (as reported) | (\$576,798) | \$67,497 |
| Increase (Decrease): | | |
| Accrued Revenues at December 31, 2014 received during 2015 | (1,170,464) | 0 |
| Accrued Revenues at December 31, 2013 received during 2014 | 1,154,007 | 0 |
| Accrued Expenditures at December 31, 2014 paid during 2015 | 479,175 | 37,373 |
| Accrued Expenditures at December 31, 2013 paid during 2014 | (433,984) | (34,267) |
| 2013 Prepays for 2014 | 60,502 | 671 |
| 2014 Prepays for 2015 | (44,308) | (768) |
| Outstanding Encumbrances | (8,810) | (39,031) |
| Budget Basis | (\$540,680) | \$31,475 |

G. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits, the State Treasury Asset Reserve (STAR Ohio), and investments with original maturities of less than three months. The STAR Ohio is reported as a cash equivalent in the basic financial statements because it is a highly liquid instrument which is readily convertible to cash. The City pools its cash for investment and resource management purposes. Each fund's equity in pooled cash and investments represents the balance on hand as if each fund maintained its own cash and investment account. For purposes of the statement of cash flows, the proprietary funds' share of equity in pooled certificates of deposit are considered to be cash equivalents. See Note 5, "Cash, Cash Equivalents and Investments."

CITY OF SYLVANIA, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Investments

Investment procedures and interest allocations are restricted by provisions of the Ohio Constitution and the Ohio Revised Code. The City allocates interest among certain funds based upon the fund's cash balance at the date of investment. In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", the City records all its investments at fair value except for nonparticipating investment contracts (certificates of deposit) which are reported at cost, which approximates fair value. All investment income, including changes in the fair value of investments, are recognized as revenue in the operating statements. Fair value is determined by quoted market prices. During fiscal year 2014, investments were limited to Certificates of Deposit, FNMA, FHLMC, FHLB, FFCB, STAR Ohio, United States Treasury Notes, Sylvania Township Notes and the Toledo Community Foundation, Inc. Mutual Funds. See Note 5, "Cash, Cash Equivalents and Investments."

Interest revenue credited to the General Fund during fiscal year 2013 amounted to \$42,977, which includes \$34,498 assigned from other City funds.

The City has invested funds in the STAR Ohio during 2014. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2014.

I. Inventory

Inventory is stated at cost (first-in, first-out) in the governmental funds and at the lower of cost or market in the proprietary funds. The costs of inventory items are recorded as expenditures in the governmental funds when purchased and as expenses in the proprietary funds when used.

J. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2014, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

CITY OF SYLVANIA, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Capital Assets and Depreciation

Capital assets are defined by the City as assets with an initial, individual cost of more than \$10,000, except for computer software which is capitalized if the purchase price, including license fees and installation, exceed \$50,000.

1. Property, Plant and Equipment - Governmental Activities

Governmental activities capital assets are those not directly related to the business-type funds. These generally are acquired or constructed for governmental activities and are recorded as expenditures in the governmental funds and are capitalized at cost (or estimated historical cost for assets not purchased in recent years). These assets are reported in the Governmental Activities column of the Government-wide Statement of Net Position, but they are not reported in the Fund Financial Statements. All infrastructure acquired prior to the implementation of GASB Statement No. 34, “*Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*”, has been reported.

Contributed capital assets are recorded at fair market value at the date received. Capital assets include land, buildings, building improvements, machinery, equipment and infrastructure. Infrastructure is defined as long-lived capital assets that normally are stationary in nature and normally can be preserved for a significant number of years. Examples of infrastructure include roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems. Estimated historical costs for governmental activities capital asset values were initially determined by identifying historical costs when such information was available. In cases where information supporting original cost was not obtainable, estimated historical costs were developed. For certain capital assets, the estimates were arrived at by indexing estimated current costs back to the estimated year of acquisition.

2. Property, Plant and Equipment – Business Type Activities

Property, plant and equipment acquired by the proprietary funds are stated at cost (or estimated historical cost), including interest capitalized during construction and architectural and engineering fees where applicable. Contributed capital assets are recorded at fair market value at the date received. These assets are reported in both the Business-Type Activities column of the Government-wide Statement of Net Position and in the respective funds.

CITY OF SYLVANIA, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2014***

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Capital Assets and Depreciation (Continued)

3. Depreciation

All capital assets are depreciated, excluding land. Depreciation has been provided using the straight-line method over the following estimated useful lives:

| <u>Description</u> | <u>Governmental and Business-Type Activities Estimated Lives (in years)</u> |
|--|---|
| Buildings | 30 |
| Improvements other than Buildings | 20 |
| Infrastructure | 10-100 |
| Machinery, Equipment, Furniture and Fixtures | 5 - 20 |

L. Long-Term Obligations

Long-term liabilities are being repaid from the following funds:

| <u>Obligation</u> | <u>Fund</u> |
|--------------------------|---|
| General Obligation Bonds | General Obligation Debt Service Fund |
| Promissory Note Payable | Capital Improvement Fund |
| Compensated Absences | General Fund Street Construction, Maintenance and Repair Fund Water Fund Sewer Fund Information Technology Fund |

CITY OF SYLVANIA, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Compensated Absences

Employees of the City earn vacation leave at various rates within limits specified under collective bargaining agreements or under statute. Vacation earned in a calendar year must be used during the following year. Vacation time cannot carry over into the subsequent year, unless written permission is granted from the Mayor. At termination or retirement, employees are paid at their full rate for 100% of their unused vacation leave.

In accordance with GASB Statement No. 16, "*Accounting for Compensated Absences*," vacation and compensatory time are accrued as liabilities when an employee's right to receive compensation is attributable to services already rendered and it is probable that the employee will be compensated through paid time off or some other means, such as cash payments at termination or retirement. Leave time that has been earned but is unavailable for use as paid time off or as some other form of compensation because an employee has not met the minimum service time requirement, is accrued to the extent that it is considered to be probable that the conditions for compensation will be met in the future.

Sick leave is accrued using the vesting method, whereby the liability is recorded on the basis of leave accumulated by employees eligible to receive termination payments as of the balance sheet date, and on leave balances accumulated by other employees expected to become eligible to receive such payments in the future.

For governmental funds, that portion of unpaid compensated absences that has matured and is expected to be paid using expendable, available resources is reported as an expenditure in the fund from which the individual earning the leave is paid, and a corresponding liability is reflected in the account "Compensated Absences Payable." In the government wide statement of net position, "Compensated Absences Payable" is recorded within the "Due within one year" account and the long-term portion of the liability is recorded within the "Due in more than one year" account. Compensated absences are expensed in the proprietary funds when earned and the related liability is reported within the fund.

N. Net Position

Net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflow of resources. Net investment in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings 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 adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The City first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

CITY OF SYLVANIA, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Fund Balances

In the fund financial statements, fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purpose for which amounts in the funds can be spent. Fund balance is reported in five components – nonspendable, restricted, committed, assigned and unassigned.

Nonspendable – Nonspendable fund balance includes amounts that cannot be spent because they are either not in spendable form or legally contractually required to be maintained intact.

Restricted – Restricted fund balance consists of amounts that have constraints placed on them either externally by third parties (creditors, grantors, contributors, or laws or regulations of other governments) or by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the City to assess, levy, charge or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement (compelled by external parties) that those resources be used only for the specific purposes stipulated in the legislation.

Committed – Committed fund balance consists of amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City’s highest level of decision making authority. For the City, these constraints consist of ordinances passed by City Council. Committed amounts cannot be used for any other purpose unless the City removes or changes the specified use by taking the same type of action (ordinance) it employed previously to commit those amounts.

Assigned – Assigned fund balance consists of amounts that are constrained by the Council’s intent to be used for specific purposes, but are neither restricted nor committed.

Unassigned – Unassigned fund balance consists of amounts that have not been restricted, committed or assigned to specific purposes within the General Fund as well as negative fund balances in all other governmental funds.

When both restricted and unrestricted resources are available for use, it is the City’s policy to use restricted resources first (committed, assigned and unassigned), then unrestricted resources as they are needed. 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.

CITY OF SYLVANIA, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Pensions

The provision for pension costs is recorded when the related payroll is accrued and the obligation is incurred.

Q. Interfund Activity

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

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues. In addition, interfund transfers between governmental funds are eliminated for reporting on the government-wide financial statements. Only transfers between governmental activities and business-type activities are reported on the statement of activities.

R. Estimates

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

S. Operating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for water treatment and distribution, wastewater collection and treatment, maintenance of storm water collection systems and collection of solid waste refuse. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

CITY OF SYLVANIA, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2014***

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

T. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Council and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2014.

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CITY OF SYLVANIA, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2014***

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net position of governmental funds as reported in the government-wide statement of net position. The following is a detailed listing of those reconciling items that are net adjustments or a combination of several transactions:

Other long-term assets not available to pay for current-period expenditures:

| | |
|---------------------------------|------------------|
| Delinquent Income Tax Revenue | \$675,424 |
| Delinquent Property Tax Revenue | 29,083 |
| Shared Revenues | 597,124 |
| Interest Revenues | 23,239 |
| Special Assessment Revenue | <u>1,027,825</u> |
| | \$2,352,695 |

Long-Term liabilities not reported in the funds:

| | |
|------------------------------------|--------------------|
| General Obligation Bonds Payable | (\$19,639,209) |
| Promissory Notes Payable | (47,395) |
| Accrued Interest on Long-Term Debt | (51,826) |
| Deferred Loss on Debt Refunding | 60,861 |
| Compensated Absences Payable | <u>(1,029,616)</u> |
| | (\$20,707,185) |

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CITY OF SYLVANIA, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2014**

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental activities as reported in the government – wide statement of activities. The following is a detailed listing of those reconciling items that are net adjustments or a combination of several transactions:

Amount by which depreciation exceeded capital outlay in the current period:

| | |
|----------------------|--------------------|
| Capital Outlay | \$1,258,345 |
| Depreciation Expense | (1,484,315) |
| | <u>(\$225,970)</u> |

Governmental revenues not reported in the funds:

| | |
|---|-------------------|
| Decrease in Delinquent Income Tax Revenue | (\$33,313) |
| Decrease in Delinquent Property Tax | (6,858) |
| Decrease in Shared Revenue | (12,679) |
| Increase in Interest Revenue | 13,923 |
| Decrease in Special Assessment Revenue | (21,100) |
| | <u>(\$60,027)</u> |

Expenses not requiring the use of current financial resources:

| | |
|--|-------------------|
| Decrease in Compensated Absences Payable | \$13,665 |
| Decrease in supplies inventory | (25,196) |
| | <u>(\$11,531)</u> |

Net amount of long-term debt issuance and bond principal payments:

| | |
|---|--------------------|
| G.O. Bond Principal Payment | \$1,250,000 |
| Amortization of Deferred Loss on Debt Refunding | (6,086) |
| Promissory Note Principal Payment | 44,502 |
| Amortization of Premium on Bonds Issued | 7,421 |
| | <u>\$1,295,837</u> |

CITY OF SYLVANIA, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2014**

NOTE 3 – FUND BALANCE CLASSIFICATION

Fund balance is classified as nonspendable, restricted, committed, assigned and unassigned 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 constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

| Fund Balances | General Fund | City Services Fund | General Obligation Bond Retirement Fund | Capital Improvement Fund | Other Governmental Funds | Total Governmental Funds |
|--|--------------------|--------------------------|---|--------------------------------|--------------------------------|--------------------------------|
| Nonspendable: | | | | | | |
| Principal | \$0 | \$0 | \$0 | \$0 | \$1,063 | \$1,063 |
| Prepaid Items | 44,308 | 768 | 0 | 0 | 8,153 | 53,229 |
| Supplies Inventory | 356,137 | 0 | 0 | 0 | 92,931 | 449,068 |
| Total Nonspendable | <u>400,445</u> | <u>768</u> | <u>0</u> | <u>0</u> | <u>102,147</u> | <u>503,360</u> |
| Restricted: | | | | | | |
| Police Pension | 0 | 0 | 0 | 0 | 206,584 | 206,584 |
| City Services | 0 | 372,123 | 0 | 0 | 0 | 372,123 |
| Street Construction and Maintenance | 0 | 0 | 0 | 0 | 435,413 | 435,413 |
| City Permissive Tax | 0 | 0 | 0 | 0 | 353,788 | 353,788 |
| State Highway Improvement | 0 | 0 | 0 | 0 | 195,602 | 195,602 |
| Law Enforcement | 0 | 0 | 0 | 0 | 119,155 | 119,155 |
| Indigent Driver | 0 | 0 | 0 | 0 | 178,502 | 178,502 |
| Federal Equitable Sharing | 0 | 0 | 0 | 0 | 55,056 | 55,056 |
| Indigent Support | 0 | 0 | 0 | 0 | 13,385 | 13,385 |
| Court Capital Improvement | 0 | 0 | 0 | 0 | 49,504 | 49,504 |
| Special Assessment Debt Service Payments | 0 | 0 | 0 | 0 | 23,933 | 23,933 |
| Total Restricted | <u>0</u> | <u>372,123</u> | <u>0</u> | <u>0</u> | <u>1,630,922</u> | <u>2,003,045</u> |
| Committed: | | | | | | |
| Capital Improvements | 0 | 0 | 0 | 10,691,342 | 0 | 10,691,342 |
| War Memorial | 0 | 0 | 0 | 0 | 150 | 150 |
| Parks/Recreation | 0 | 0 | 0 | 0 | 61,255 | 61,255 |
| Total Committed | <u>0</u> | <u>0</u> | <u>0</u> | <u>10,691,342</u> | <u>61,405</u> | <u>10,752,747</u> |
| Assigned Fund Balance | 460,000 | 0 | 0 | 0 | 100,719 | 560,719 |
| Assigned Encumbrances | 8,810 | 0 | 0 | 0 | 0 | 8,810 |
| Assigned for Debt Service | 0 | 0 | 131,192 | 0 | 0 | 131,192 |
| Unassigned | 4,058,805 | 0 | 0 | 0 | 0 | 4,058,805 |
| Total Fund Balances | <u>\$4,928,060</u> | <u>\$372,891</u> | <u>\$131,192</u> | <u>\$10,691,342</u> | <u>\$1,895,193</u> | <u>\$18,018,678</u> |

CITY OF SYLVANIA, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

NOTE 4 – CHANGE IN ACCOUNTING PRINCIPLE

For 2014 the City implemented GASB Statement No. 69, “*Government Combinations and Disposals of Government Operations*,” and GASB Statement No. 70, “*Accounting and Financial Reporting for Nonexchange Financial Guarantees*”.

Statement No. 69 establishes accounting and financial reporting standards for mergers, acquisitions, and transfers of operations (i.e., government combinations). This statement also provides guidance on how to determine the gain or loss on a disposal of government operations.

Statement No. 70 establishes accounting and financial reporting standards for situations where a state or local government , as guarantor, agrees to indemnify a third-party obligation holder under specific conditions.

The implementation of these GASB Statements had no impact on beginning of year fund balance/net position.

NOTE 5 - CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash resources of several individual funds are combined to form a pool of cash, cash equivalents and investments. In addition, investments are separately held by a number of individual funds.

Statutes require the classification of funds held by the City into three categories:

Category 1 consists of "active" funds - those funds required to be kept in "cash" or "near cash" status for immediate use by the City. Such funds must be maintained either as cash in the City Treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Category 2 consists of "inactive" funds - those funds not required for use within the current five year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing no later than the end of the current period of designation of depositories.

CITY OF SYLVANIA, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

NOTE 5 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Category 3 consists of "interim" funds - those funds not needed for immediate use but needed before the end of the current period of designation of depositories. Interim funds may be invested or deposited in the following securities:

- 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;
- 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;
- 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;
- Interim deposits in eligible institutions applying for interim funds;
- Bonds and other obligations of the State of Ohio;
- No-load money market mutual funds consisting exclusively of obligations described in the first two bullets of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions, and
- The State Treasury Asset Reserve of Ohio (STAR Ohio).

A. Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the City.

CITY OF SYLVANIA, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2014**

NOTE 5 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

A. Deposits (Continued)

The City has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the City or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105% of the deposits being secured.

At year end the carrying amount of the City's deposits was \$6,336,930 and the bank balance was \$6,640,462. Federal depository insurance covered \$1,000,000 of the bank balance and \$5,640,462 was uninsured. Of the remaining uninsured bank balance, the City was exposed to custodial risk as follows:

| | <u>Balance</u> |
|--|----------------|
| Uninsured and collateralized with securities held by the pledging institution's trust department not in the City's name | \$5,640,462 |
| Total Balance | \$5,640,462 |

B. Investments

The City's investments at December 31, 2014 are summarized below:

| | <u>Fair Value</u> | <u>Investment Maturities (in Years)</u> | | | <u>Greater Than 5</u> |
|--|-------------------|---|-------------|-------------|---------------------------|
| | | <u>less than 1</u> | <u>1-3</u> | <u>3-5</u> | |
| Toledo Community Foundation, Inc. (mutual fund) | \$60,602 | \$60,602 | \$0 | \$0 | \$0 |
| STAR Ohio | 76,976 | 76,976 | 0 | 0 | 0 |
| Sylvania Township Bonds | 565,000 | 55,000 | 150,000 | 145,000 | 215,000 |
| Negotiable CD's | 5,461,360 | 4,216,643 | 747,796 | 496,921 | 0 |
| FNMA | 2,107,525 | 0 | 1,859,835 | 247,690 | 0 |
| FHLMC | 2,078,695 | 0 | 1,355,477 | 723,218 | 0 |
| FHLB | 1,652,188 | 0 | 750,232 | 901,956 | 0 |
| FFCB | 1,133,644 | 0 | 0 | 1,133,644 | 0 |
| Total Investments | \$13,135,990 | \$4,409,221 | \$4,863,340 | \$3,648,429 | \$215,000 |

Interest Rate Risk – The City's policy states that all investments must mature within five years from the date of settlement, unless the investment is matched to a specific obligation or debt of the City and is specifically approved by the Treasury Investment Board. Notwithstanding this limitation, in no case will the City funds be invested in securities with a term to maturity that exceeds the expected disbursement date of those funds.

CITY OF SYLVANIA, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

NOTE 5 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

B. Investments (Continued)

Credit Risk – The City’s investments in Negotiable CD’s, FNMA, FHLMC, FHLB and FFCB securities were rated AAA and Aaa by Standard & Poor’s and Moody’s Investor Services, respectively. Standard and Poor’s has assigned Star Ohio an AAA money market rating.

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 investments or collateral securities that are in the possession of an outside party. The City’s investments in Negotiable CD’s, FNMA, FHLMC, FHLB and FFCB securities in the amounts of \$5,461,360, \$2,107,525, \$2,078,695, \$1,652,188 and \$1,133,644, respectively, are uninsured and unregistered with securities held by the counterparty’s trust department or agent in the City’s name. The City has no investment policy dealing with investments’ custodial risk beyond the requirement in State statute that prohibits payments for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Concentration of Credit Risk – Of the City’s investments, 41.6% are Negotiable CD’s, 16% are FNMA, 15.8% are FHLMC, 12.6% are FHLB and 8.6% are FFCB. The City’s policy states the portfolio shall be structured to diversify investments to reduce the risk of loss resulting from over-concentration of assets in a specific maturity, a specific issuer or specific type of security. The maximum percentage of the portfolio (book value at the date of acquisition) permitted in each eligible security type is as follows:

- | | |
|---|--------------|
| • U.S. Treasury | 100% Maximum |
| • Federal Agency | 100% Maximum |
| • Repurchase Agreements | 20% Maximum |
| • Commercial Paper and Bankers Acceptances Combined | 25% Maximum |
| • Certificates of Deposits | 25% Maximum |
| • Municipal Obligations | 10% Maximum |
| • Star Ohio | 50% Maximum |

The City’s portfolio will be further diversified to limit the exposure to any one issuer. No more than 5% of the City’s total portfolio will be invested in the securities of any single issuer with the following exceptions:

- | | |
|-------------------------------|--------------|
| • U.S. Government Obligations | 100% Maximum |
| • Federal Agency Obligations | 100% Maximum |
| • Star Ohio | 100% Maximum |

CITY OF SYLVANIA, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

NOTE 6 - TAXES

A. Property Taxes

Property taxes include amounts levied against all real estate and public utility property, and tangible personal property used in business and located in the City. Real property taxes (other than public utility) collected during 2014 were levied after October 1, 2013 on assessed values as of January 1, 2013, the lien date. Assessed values were established by the County Auditor at 35% of appraised market value. All property is required to be reappraised every six years, and equalization adjustments are made in the third year following reappraisal. The last revaluation was completed in 2007 and the equalization adjustment was completed in 2010. Real property taxes are payable annually or semi-annually. The first payment is due in January; the remainder is payable by July.

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. Certain public utility tangible personal property is currently assessed at 100% of its true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

The County Treasurer collects property taxes on behalf of all taxing districts in the County including the City of Sylvania. The County Auditor periodically remits to the City its portion of the taxes collected. The full tax rate for all City operations for the year ended December 31, 2014 was \$5.10 per \$1,000 of assessed value. The assessed value upon which the 2014 receipts were based was \$380,786,380. This amount constitutes \$375,962,810 in real property assessed value and \$4,823,570 in public utility assessed value.

Ohio law prohibits taxation of property from all taxing authorities in excess of 1% of assessed value without a vote of the people. Under current procedures, the City's share is .510% (5.10 mills) of assessed value.

CITY OF SYLVANIA, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

NOTE 6 - TAXES (Continued)

B. Income Tax

The City levies a tax of 1.5% on all salaries, wages, commissions and other compensation and on net profits earned within the City as well as on incomes of residents earned outside the City. In the latter case, the City allows a credit of 100% of the tax paid to another municipality to a maximum of the total amount assessed.

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.

NOTE 7 - RECEIVABLES

Receivables at December 31, 2014 consisted of taxes, intergovernmental receivables, special assessments, accounts receivable and interest.

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CITY OF SYLVANIA, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2014**

NOTE 8 - TRANSFERS

Following is a summary of transfers in and out for all funds for 2014:

| Transfers Out: | Transfers In: | | | | | Total |
|--------------------------|-----------------|------------------------------|--------------------------------|--------------------------------|------------------------------|--------------|
| | General Fund | G.O. Debt Service Fund | Capital Improvement Fund | Other Governmental Funds | Resource Recovery Fund | |
| General Fund | \$0 | \$0 | \$4,200,000 | \$600,198 | \$100,000 | \$4,900,198 |
| Capital Improvement Fund | 4,000,000 | 1,285,000 | 0 | 0 | 0 | 5,285,000 |
| Other Governmental Funds | 0 | 50,000 | 0 | 152,632 | 0 | 202,632 |
| | \$4,000,000 | \$1,335,000 | \$4,200,000 | \$752,830 | \$100,000 | \$10,387,830 |

Transfers are used to (1) move revenues from the fund that statute or budget required 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 authorization.

Inactive funds are held in the Capital Improvement Fund and transferred to the General Fund for operations and to the Debt Service Fund for bond retirement as needed. Transfers from the Court Capital Improvement and Capital Improvement Fund to the Debt Service Fund are to retire bonds issued for building construction that house these operations. Transfers from the Sewer Fund to the City Services Fund are to support ditch and drain maintenance performed by that fund.

Contrary to Ohio Revised Code 5705.14(B), the City transferred \$4,000,000 from the Capital Improvement Fund to the General Fund without the approval of the court of common pleas of the County in which each subdivision is located.

CITY OF SYLVANIA, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2014**

NOTE 9 - CAPITAL ASSETS

A. Governmental Activities Capital Assets

Summary by category of changes in governmental activities capital assets at December 31, 2014:

Historical Cost:

| Class | December 31, 2013 | Additions | Deletions | December 31, 2014 |
|--|----------------------|--------------------|--------------------|----------------------|
| <i>Capital assets not being depreciated:</i> | | | | |
| Land | \$9,867,881 | \$31,081 | \$0 | \$9,898,962 |
| Construction in Progress | 0 | 695,261 | 0 | 695,261 |
| <i>Capital assets being depreciated:</i> | | | | |
| Land Improvements | 3,349,060 | 0 | 0 | 3,349,060 |
| Buildings | 9,847,740 | 0 | (48,171) | 9,799,569 |
| Machinery and Equipment | 5,246,756 | 224,704 | (146,959) | 5,324,501 |
| Infrastructure | 32,173,818 | 307,299 | 0 | 32,481,117 |
| Total Cost | <u>\$60,485,255</u> | <u>\$1,258,345</u> | <u>(\$195,130)</u> | <u>\$61,548,470</u> |

Accumulated Depreciation:

| Class | December 31, 2013 | Additions | Deletions | December 31, 2014 |
|-------------------------|-----------------------|------------------------|------------------|-----------------------|
| Land Improvements | (\$1,225,192) | (\$136,013) | \$0 | (\$1,361,205) |
| Buildings | (5,013,964) | (290,547) | 48,171 | (5,256,340) |
| Machinery and Equipment | (4,248,245) | (266,427) | 82,271 | (4,432,401) |
| Infrastructure | (12,066,963) | (791,328) | 0 | (12,858,291) |
| Total Depreciation | <u>(\$22,554,364)</u> | <u>(\$1,484,315) *</u> | <u>\$130,442</u> | <u>(\$23,908,237)</u> |
| <i>Net Value:</i> | <u>\$37,930,891</u> | | | <u>\$37,640,233</u> |

* Depreciation expenses were charged to governmental functions as follows:

| | |
|----------------------------------|--------------------|
| Security of Persons and Property | \$110,894 |
| Leisure Time Activities | 35,392 |
| Community Environment | 4,467 |
| Transportation | 857,222 |
| General Government | 476,340 |
| Total Depreciation Expense | <u>\$1,484,315</u> |

CITY OF SYLVANIA, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2014**

NOTE 9 - CAPITAL ASSETS (continued)

B. Business-Type Activities Capital Assets

Summary by Category at December 31, 2014:

Historical Cost:

| Class | December 31, 2013 | Additions | Deletions | December 31, 2014 |
|--|----------------------|------------------|--------------------|----------------------|
| <i>Capital assets being depreciated:</i> | | | | |
| Buildings | 619,633 | 0 | 0 | 619,633 |
| Machinery and Equipment | 1,543,888 | 93,657 | (277,731) | 1,359,814 |
| Improvements | 39,574,367 | 460,890 | 0 | 40,035,257 |
| Total Cost | <u>\$41,737,888</u> | <u>\$554,547</u> | <u>(\$277,731)</u> | <u>\$42,014,704</u> |

Accumulated Depreciation:

| Class | December 31, 2013 | Additions | Deletions | December 31, 2014 |
|-------------------------|-----------------------|--------------------|------------------|-----------------------|
| Buildings | (\$566,999) | \$0 | \$0 | (\$566,999) |
| Machinery and Equipment | (1,133,228) | (69,936) | 277,731 | (925,433) |
| Improvements | (20,129,599) | (798,542) | 0 | (20,928,141) |
| Total Depreciation | <u>(\$21,829,826)</u> | <u>(\$868,478)</u> | <u>\$277,731</u> | <u>(\$22,420,573)</u> |
| <i>Net Value:</i> | <u>\$19,908,062</u> | | | <u>\$19,594,131</u> |

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CITY OF SYLVANIA, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

NOTE 10 – DEFINED BENEFIT PENSION PLANS

All of the City's full-time employees participate in one of two separate retirement systems which are cost-sharing multiple employer defined benefit pension plans.

A. Ohio Public Employees Retirement System (“OPERS”)

The following information was provided by OPERS to assist the City in complying with GASB Statement No. 27, *“Accounting for Pensions by State and Local Government Employers.”*

All employees of the City, except full-time uniformed police officers and full-time firefighters, participate in one of the three pension plans administered by OPERS: the Traditional Pension Plan (TP), the Member-Directed Plan (MD), and the Combined Plan (CO). The TP Plan is a cost-sharing multiple employer defined benefit pension plan. The MD Plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the MD Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon. The CO Plan is a cost-sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. Under the CO Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the TP Plan. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the MD Plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the TP Plan and CO Plan. Members of the MD Plan do not qualify for ancillary benefits, including postemployment health care benefits. Chapter 145 of the Ohio Revised Code provides statutory authority to establish and amend benefits. The Ohio Public Employees Retirement System issues a stand-alone financial report that includes financial statements and required supplementary information for OPERS. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, by making a written request to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 1-800-222-7377.

The ORC provides statutory authority for employee and employer contributions. For 2014, employee and employer contribution rates were consistent across all three plans (TP, MD and CO). The employee contribution rate is 10.0%. The 2014 employer contribution rate for local government employer units was 14.00% of covered payroll, which is the maximum contribution rate set by State statutes. Employer contribution rates are actuarially determined. A portion of the City's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. The portion of employer contributions allocated to pension obligations for members in the Traditional and Combined Plans was 12.0% for calendar year 2014. The contribution requirements of plan members and the City are established and may be amended by the OPERS Board. The City's contributions for pension obligations to OPERS for the years ending December 31, 2014, 2013, and 2012 were \$1,119,343, \$753,037 and \$791,159, respectively, which were equal to the required contributions for each year.

CITY OF SYLVANIA, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

NOTE 10 – DEFINED BENEFIT PENSION PLANS (Continued)

B. Ohio Police and Fire Pension Fund (“OP&F”)

All City full-time police officers participate in OP&F, a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries. Contribution requirements and benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the ORC. The Ohio Police and Fire Pension Fund issues a stand-alone financial report that includes financial statements and required supplementary information for the plan. Interested parties may obtain a copy by making a written request to 140 East Town Street, Columbus, Ohio 43215-5164, by calling (614) 228-2975, or by visiting www.op-f.org.

From January 1, 2014 through July 1, 2014, plan members were required to contribute 10.75% of their annual covered salary. From July 2, 2014 through December 31, 2014, plan members were required to contribute 11.5% of their annual covered salary. Throughout 2014, employers were required to contribute 19.5% for police officers. A portion of the City’s contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for 2014, 19.0% of annual covered salary for police was the portion used to fund pension obligations. The City's contributions for pension obligations to the OP&F Fund for the years ending December 31, 2014, 2013, and 2012 were \$416,972, \$416,466 and \$478,894 for police officers, which were equal to the required contributions for each year.

NOTE 11 - POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System (“OPERS”)

Plan Description – 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 plan, which includes a medical plan, prescription drug program and Medicare Part B Premium reimbursement, to qualifying member of both the Traditional Pension and the Combined Plans. Members of the Member Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 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 is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 45. OPERS’ eligibility requirements for post-employment health care coverage changed for those retiring on and after January 1, 2015. Please see the Plan Statement in the OPERS 2013 CAFR for details.

CITY OF SYLVANIA, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

NOTE 11 - POSTEMPLOYMENT BENEFITS (Continued)

A. Ohio Public Employees Retirement System (“OPERS”) (Continued)

The ORC permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the ORC.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, by making a written request to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 1-800-222-7377.

Funding Policy – The ORC provides the statutory authority requiring public employers to fund post retirement health care coverage through their contributions to OPERS. A portion of each employer’s contribution to OPERS is set aside for the funding of post retirement health care benefits. Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2014, local government employers contributed at a rate of 14.00% of covered payroll. The ORC currently limits the employer contribution to a rate not to exceed 14.0% of covered payroll for local government employers. Active members do not make contributions to the OPEB plan.

The OPERS Postemployment Health Care plan was established under, and is administered in accordance with Internal Revenue Code 401(h). Each year the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of postemployment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional and Combined Plans was 2.0% for calendar year 2014. Effective January 1, 2015, the portion of employer contributions allocated to healthcare remains at 2% for both plans, as recommended by the OPERS actuary. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions for health care to the OPERS for the years ending December 31, 2014, 2013, and 2012 were \$159,906, \$53,788 and \$226,045, respectively, which were equal to the required contributions for each year.

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

B. Ohio Police and Fire Pension Fund (“OP&F”)

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

CITY OF SYLVANIA, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

NOTE 11 - POSTEMPLOYMENT BENEFITS (Continued)

B. Ohio Police and Fire Pension Fund (“OP&F”) (Continued)

OP&F provides access to post-retirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 45.

The ORC permits, but does not mandate, OP&F to provide OPEB benefits. Authority to establish and amend benefits is provided in Chapter 742 of the ORC.

OP&F issues a stand-alone financial report that includes financial information and required supplementary information for the plan. Interested parties may obtain a copy by making a written request to 140 East Town Street, Columbus, Ohio 43215-5164. That report is also available on OP&F's website at www.op-f.org.

Funding Policy – The ORC provides for contribution requirements of the participating employers and of plan members to the OP&F. Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.5% for police. The ORC states that the employer contribution may not exceed 19.5% of covered payroll for police. Active members do not make contributions to the OPEB Plan.

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

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 2014, the portion of employer contributions allocated to health care was 0.5% of covered payroll for both police officers and firefighters. 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 also is authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions for health care to the OP&F for the years ending December 31, 2014, 2013, and 2012 were \$10,692, \$80,517 and \$165,771 for police, which were equal to the required contributions for each year.

CITY OF SYLVANIA, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2014***

NOTE 12 – COMPENSATED ABSENCES

All City employees earn vacation at varying rates based upon length of service. Vacation time cannot be carried over from one year to the next without approval from the Mayor.

Sick leave is accrued using the vesting method, whereby the liability is recorded on the basis of leave accumulated by employees who are eligible to receive termination payments as of the balance sheet date, and on leave balances accumulated by other employees who are expected to become eligible in the future to receive such payments.

At December 31, 2014, the City's accumulated, unpaid compensated absences amounted to \$1,326,419, of which \$1,088,466 is recorded as a liability of the Governmental Activities and \$237,953 is recorded as a liability of the Business-Type Activities.

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CITY OF SYLVANIA, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2014**

NOTE 13 - LONG-TERM DEBT

Long-term debt and other long-term obligations of the City at December 31, 2014 were as follows:

| | | Balance December 31, 2013 | Additions | (Reductions) | Balance December 31, 2014 | Amount Due Within One Year |
|--|------|---------------------------------|--------------------|----------------------|---------------------------------|----------------------------------|
| Governmental Activities: | | | | | | |
| General Obligation Bonds: | | | | | | |
| 3.0-5.05% Senior Center/Field House | 2002 | \$415,000 | \$0 | (\$40,000) | \$375,000 | \$40,000 |
| 3.5-4.00% Various Improvements | 2008 | 6,465,000 | 0 | (335,000) | 6,130,000 | 345,000 |
| 2-4.00% Various Improvements | 2011 | 7,260,000 | 0 | (430,000) | 6,830,000 | 445,000 |
| 3-4.00% Various Improvements | 2011 | 3,335,000 | 0 | (150,000) | 3,185,000 | 150,000 |
| 2-2.125% Street Improvement | 2012 | 3,340,000 | 0 | (295,000) | 3,045,000 | 295,000 |
| Premium | | 81,630 | 0 | (7,421) | 74,209 | 7,421 |
| Total General Obligation Bonds | | 20,896,630 | 0 | (1,257,421) | 19,639,209 | 1,282,421 |
| Promissory Notes Payable: | | | | | | |
| 6.500% Howard Property | 1995 | 91,897 | 0 | (44,502) | 47,395 | 47,395 |
| Compensated Absences | | 1,112,118 | 1,088,466 | (1,112,118) | 1,088,466 | 114,081 |
| Total Governmental Activities Long-Term Debt | | <u>\$22,100,645</u> | <u>\$1,088,466</u> | <u>(\$2,414,041)</u> | <u>\$20,775,070</u> | <u>\$1,443,897</u> |
| Business-Type Activities: | | | | | | |
| General Obligation Bond: | | | | | | |
| 2-4.00% Water Tower Bond | 2011 | \$2,810,000 | \$0 | (\$130,000) | \$2,680,000 | \$130,000 |
| Compensated Absences | | \$214,323 | \$237,953 | (\$214,323) | \$237,953 | \$16,682 |
| Total Business-Type Long-Term Debt | | <u>\$3,024,323</u> | <u>\$237,953</u> | <u>(\$344,323)</u> | <u>\$2,917,953</u> | <u>\$146,682</u> |

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CITY OF SYLVANIA, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2014**

NOTE 13 - LONG-TERM DEBT (Continued)

A. Principal and Interest Requirements

A summary of the City's future long-term debt funding requirements, including principal and interest payments as of December 31, 2014, follows:

| Years | General Obligation Bonds | | Promissory Notes Payable | | Total | |
|-----------|-----------------------------|--------------------|-----------------------------|----------------|---------------------|--------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2015 | 1,405,000 | 712,376 | 47,395 | 3,081 | \$1,452,395 | \$715,457 |
| 2016 | 1,425,000 | 673,141 | 0 | 0 | 1,425,000 | 673,141 |
| 2017 | 1,465,000 | 633,230 | 0 | 0 | 1,465,000 | 633,230 |
| 2018 | 1,490,000 | 597,119 | 0 | 0 | 1,490,000 | 597,119 |
| 2019 | 1,365,000 | 557,652 | 0 | 0 | 1,365,000 | 557,652 |
| 2020-2024 | 7,235,000 | 2,174,531 | 0 | 0 | 7,235,000 | 2,174,531 |
| 2025-2029 | 6,055,000 | 1,018,271 | 0 | 0 | 6,055,000 | 1,018,271 |
| 2030-2031 | 1,805,000 | 108,539 | 0 | 0 | 1,805,000 | 108,539 |
| Totals | <u>\$22,245,000</u> | <u>\$6,474,859</u> | <u>\$47,395</u> | <u>\$3,081</u> | <u>\$22,292,395</u> | <u>\$6,477,940</u> |

B. Defeasance of General Obligation Debt

On May 25, 1995, the City sold Sylvania Pacesetter Park for \$1,465,710 to the Sylvania Area Joint Recreation District (SAJRD) to defease \$1,350,000 of outstanding bonds with an interest rate of 6.705%. The principal amount outstanding on the defeased bonds of \$125,000 was paid off during 2011. The entire amount of proceeds from the sale of Pacesetter Park was transferred to an irrevocable trust. The trustee was directed to hold \$44,410 in cash in the escrow fund and to use the remaining \$1,421,300 to purchase United States Treasury Securities - State and Local Government Series (SLGS). The cash deposit combined with anticipated earnings from the SLGS were determined to be sufficient to pay, when due, the remaining debt service payments. As a result, the old bonds are considered to be defeased and the liability for those bonds has been removed from the statement of net position.

On June 25, 2008, the City sold the Tam O'Shanter Sports Complex for \$3,839,598 to the Sylvania Area Joint Recreation District (SAJRD) to defease \$3,700,000 of outstanding bonds with interest rates ranging from 3.00% to 7.00%. The principal amount outstanding on the defeased bonds at December 31, 2013 was \$2,185,000. The entire amount of proceeds from the sale of the Tam O'Shanter Sports Complex was transferred to an irrevocable trust. The trustee was directed to use the \$3,839,598 to purchase United States Treasury Securities - State and Local Government Series (SLGS). The anticipated earnings from the SLGS were determined to be sufficient to pay, when due, the remaining debt service payments. As a result, the old bonds are considered to be defeased and the liability for those bonds has been removed from the statement of net position.

CITY OF SYLVANIA, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

NOTE 13 - LONG-TERM DEBT (Continued)

C. Refunded General Obligation Debt

On July 7, 2011, the City refunded \$1,090,000 of outstanding bonds (the "1998 Bonds") with an interest rate of 4.25% with a portion of the \$8,095,000 refunding bonds issued in June 2011. The entire principal amount of the 1998 bonds was paid off during 2011. The refunding was undertaken for the purpose of reducing interest rates and debt service on the prior bonds. This transaction resulted in a savings to the City of \$120,448.

On July 25, 2012, the City refunded \$3,560,000 of outstanding bonds (the "2004 Bonds") with an interest rate of 3.625% with \$3,650,000 refunding bonds issued in July 2012. The entire principal amount of the 2004 bonds was paid off during 2012. The refunding was undertaken for the purpose of reducing interest rates and debt service on the prior bonds. This transaction resulted in a savings to the City of \$546,926.

NOTE 14 - 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. The City has contracted with various private carriers for the provision of property damage, general liability, automotive damage, public officials liability, police liability, boiler and machinery damage/loss, umbrella liability, and crime and employee dishonesty. Deductible levels for the various policies have been selected so as not to expose the City to excessive "first dollars" loss in the case of a claim. Deductibles range between \$250 and \$1,000 per loss for property damage. In the professional liability areas, no deductible exceeds \$10,000.

Workers' Compensation claims are covered through the City's participation in the State of Ohio's program. The City pays the State Workers' Compensation System a premium based upon a rate per \$100 of payroll. The rate is determined based on accident history and administrative costs. The City also pays unemployment claims to the State of Ohio as incurred.

CITY OF SYLVANIA, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2014***

NOTE 14 - RISK MANAGEMENT (Continued)

The City continues to carry commercial insurance for other risks of loss, including employee life insurance. There has been no significant reduction in insurance coverages from coverages in the prior year. In addition, settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

The City maintains a self-funded health insurance program with claims processed by Paramount Care, Inc. A separate Self Insurance Fund (an internal service fund) was created in 2004 to account for and finance the health insurance program. As an integral part of the health insurance program, a reinsurance policy has been purchased covering claims in excess of \$170,000 per individual per year. Settled claims have not exceeded the commercial coverage limits in either of the past two fiscal years.

All funds of the City from which employee salaries are paid, participate in the health insurance program and make payments to the Self Insurance Fund based on actuarial estimates of the amounts needed to pay prior and current year claims and to establish a reserve for catastrophic losses. Total contributions to the program during the year were \$1,978,650. The claims liability of \$347,400 reported in the Self Insurance Fund at December 31, 2014 is based on the requirements of GASB Statement No. 10, "*Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*," as amended by GASB Statement No. 30 "*Risk Management Omnibus*," which requires that a liability for claims be reported if information prior to issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and if the amount of the loss can be reasonably estimated. Changes in the Fund's claims liability amount in fiscal 2013 and 2014 were:

| <u>Fiscal Year</u> | <u>Beginning of Fiscal Year Liability</u> | <u>Current Year Claims and Changes in Estimates</u> | <u>Claims Payments</u> | <u>Balance at Fiscal Year End</u> |
|--------------------|---|---|----------------------------|---|
| 2013 | \$316,600 | \$1,785,558 | (\$1,812,958) | \$289,200 |
| 2014 | 289,200 | 2,011,215 | (1,953,015) | 347,400 |

CITY OF SYLVANIA, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2014

NOTE 15 - CONTINGENCIES

The City is a party to various legal proceedings which seek damages or injunctive relief generally incidental to its operations and pending projects. The City's management is of the opinion that the ultimate disposition of various claims and legal proceedings will not have a material effect, if any, on the financial condition of the City.

NOTE 16 - JOINT VENTURE

Community Center - The City is a participant with the Township of Sylvania in a joint venture to enhance the programs and services available to senior citizen residents in the City and the Township. The City and the Township agreed to jointly pay to construct a community center under the authority of Ohio Revised Code Section 173.11. The original agreement required the City to bear (40) percent of the construction costs and the Township to bear (60) percent of the construction costs, resulting in a 40/60 split in equity interest between the two. The community center is managed by Sylvania Community Services Center, Inc. (SCS), an Ohio nonprofit corporation. During 2002 the City issued \$4,110,000 in General Obligation Bonds, \$740,000 of which were used to help in the construction of the community center. The City also donated \$334,000 worth of land towards the construction of the community center. The issuance of the general obligation bonds along with the donated land total \$1,074,000 worth of equity interest that the City has in the community center. In addition to the (40) percent equity interest that the City owns in the community center, the City also has an option to purchase on or after January 1, 2022, the Township's equity interest in the community center.

NOTE 17 - CONDUIT DEBT OBLIGATIONS

On March 28, 2012, the City of Sylvania issued \$4,395,000 of Ohio Health Care Revenue bonds on behalf of the Rosery Care Center, an Ohio nonprofit corporation. The bonds were issued pursuant to a Trust Indenture between the City, Rosery Care Center, and Huntington National Bank. For financial reporting purposes, the bonds are considered "conduit" debt, and are not an obligation of the City of Sylvania. As of December 31, 2014, the balance outstanding on the debt obligation is \$4,100,000.



Dave Yost • Auditor of State

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

City of Sylvania
Lucas County
6730 Monroe Street
Sylvania, Ohio 43560

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, each major fund, and the aggregate remaining fund information of the City of Sylvania, Lucas County, Ohio (the City) as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 7, 2016. We qualified our opinions on the General Fund and the Capital Improvement Fund because of an improper transfer made from the Capital Improvement Fund to the General Fund. Additionally we noted the finding for adjustment from the previous audit was not made, in addition to the improper transfer this year, the beginning and ending balance for the General and Capital Improvement Funds were overstated and understated respectively.

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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider material weaknesses. We consider findings 2014-001 and 2014-002 to be material weaknesses.

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 an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2014-001.

Entity's Response to Findings

The City's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the City's response 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 communication is not suitable for any other purpose.



Dave Yost
Auditor of State

Columbus, Ohio

January 7, 2016

CITY OF SYLVANIA
LUCAS COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2014

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

FINDING NUMBER 2014-001

Finding for Adjustment/Material Weakness

Ohio Rev. Code § 5705.14 provides that no transfer shall be made from one fund of a subdivision to any other fund, by order of the court or otherwise, except for as provided under Ohio Rev. Code § 5705.14.

Ohio Rev. Code § 5705.14(B) requires the unexpended balance in any specific permanent improvement fund, other than a bond fund, after the payment of all obligations incurred in the acquisition of such improvement, shall be transferred to the sinking fund or bond retirement fund of the subdivision. However, if such money is not required to meet the obligations payable from such funds, it may be transferred to a special fund for the acquisition of permanent improvements, or, with the approval of the court of common pleas of the county in which such subdivision is located, to the general fund of the subdivision.

Following policies previously enacted by the City, the City transferred \$4,000,000 from the Capital Improvement Fund, which was classified as a permanent improvement fund on the City's GAAP financial statements, to the General Fund without the approval of the court of common pleas of the county in which such subdivision is located. This resulted in an improper transfer being made by the City because Ohio Rev. Code § 5705.14 does not provide statutory authority for a transfer from the City's Capital Improvement Fund to its General Fund under these circumstances.

A finding for adjustment in the amount of \$3,411,732 was issued in the 2013 financial statement audit that was not corrected.

In accordance with the foregoing facts, we hereby issue a finding for adjustment against the General Fund in the amount of \$7,411,732 and in favor of the Capital Improvement Fund.

We recommend the City obtain the approval of the Lucas County Court of Common Pleas before transferring funds from the Capital Improvement Fund to the General Fund.

Officials' Response:

The City of Sylvania objects to Finding Number 2014-001 for the following reasons:

1. The transfer of monies from the City's Capital Improvement Fund to the City's General Fund has been a long-standing practice of the City and has previously been approved in audits performed by the State Auditor and private auditors. Inter-fund transfers have been authorized and approved by our Council from the City's Capital Improvement Fund annually since the City first began collecting an income tax in 1967. Accordingly, such inter-fund transfers were executed during the years 2006 and 2007 when the State Auditor's Office last performed the City's Audit and were approved by the State Auditor. I am enclosing copies of the Audit Reports for those years for your review. I am also enclosing copies of Ordinance Nos. 106-2006 and 106-2007 authorizing the transfer of funds from the Capital Improvement Fund to the General Fund. Although the same transfer was performed in both 2006 and 2007, neither Audit Report mentions these transfers. Accordingly, Finding Number 2014-001 is inconsistent with previous audits performed by the State Auditor. These transfers were also issued as a Finding in the City's 2013 Audit, which the City also objected to.

2. The City of Sylvania's Capital Improvement Fund is not a "Specific Permanent Improvement Fund" that is subject to the restrictions in Ohio Revised Code Section 5705.14(B). That Section provides as follows: "The unexpended balance in any specific permanent improvement fund, other than a bond fund, after the payment of all obligations incurred in the acquisition of such improvement, shall be transferred into the sinking fund or bond retirement fund of the subdivision; provided that if such money is not required to meet obligations payable from such funds, it may be transferred to a special fund for the acquisition of permanent improvements, or, with the approval of the court of common pleas of the county in which such subdivision is located, to the general fund of the subdivision."

It is the Auditor's assertion that the City's Capital Improvement Fund is a "Specific Permanent Improvement Fund" and its use is therefore limited. This is simply not that case and is not supported in the Revised Code, our City ordinances, or our City policies. Sylvania Municipal Code Section 171.14(a)(5) allocates any remaining balance in the Income Tax Fund to the Capital Improvement Fund and provides those funds are to be used "...for equipment and improvements in City departments, including utilities, acquiring lands for municipal and park purposes, preparation of a master plan, zoning and building code, construction of a municipal building and maintenance and equipment building, and providing facilities and equipment for recreation." The Ohio Revised Code does not define "specific permanent improvement fund" although "permanent improvement" is defined as "...any property, assets, or improvement with an estimated life or usefulness of five years or more, including land and interests therein, and reconstructions, enlargements, and extensions thereof having and estimated life or usefulness of five years or more." The City's Municipal Code Section more comprehensively describes and outlines the intents and purpose of its Capital Improvement Fund and is distinguishable from the Ohio Revised Code's definition of "permanent improvement" in that most of the items delineated to be paid out of the City's Capital Improvement Fund do not meet the definition of "permanent improvement" under the Ohio Revised Code. Expenditures authorized from the Capital Improvement Fund that are not "permanent improvements" include (1) equipment and improvements in all city departments, (2) building maintenance, (3) preparation of a master plan and zoning and building codes, and (4) facilities and equipment for recreation. All these items are not permanent improvements under the Revised Code. Moreover the purpose of the City's Capital Improvement Fund is not in any way "specific." The fund was not created to pay for any specific improvement. The Capital Improvement Fund was created by Sylvania City Council to address a wide range of appropriate and necessary needs of the City and was never intended to be restricted to expenditures on permanent improvements, let alone any specific permanent improvement. Finally, Council never intended to limit the uses of the Capital Improvement Fund to permanent improvements. The intent of Council is demonstrated in part by the long standing practice of inter-fund transfers as mentioned above. It is further confirmed by City Council's Resolution No. 11-2010, passed March 15, 2010, which approved the City of Sylvania's Financial and Debt policy, a copy of which is enclosed. The Finance and Debt Policy expressly anticipates inter-fund transfers from the Capital Improvement Fund to other funds created by Council upon action by a majority of City Council. Based on the foregoing, the Auditor's characterization and assertion that the City's Capital Improvement Fund is a "specific permanent improvement fund" subject to limitations of the Ohio Revised Code Section 5705.14 is erroneous and unfounded.

Auditor of State's Conclusion:

Regarding the comment that "audits have been performed annually by both private and state auditors, and these transfers have never been included as a finding. To include it after all of these years is inconsistent and contrary to all prior audits." It is important to note that failing to include a citation is not an indication the Auditor's Office approves such transfers. The authority to approve or disapprove transfers derives from the Ohio Revised Code and the Lucas County Common Pleas Court. Additionally, the principles of estoppel do not apply against the state or its agencies.

Ohio Rev. Code§ 5705.14 provides that no transfer shall be made from one fund of a subdivision to any other fund, by order of the court or otherwise, except for as provided under ORC 5705.14. Ohio Rev. Code§ 5705.14(B) requires the unexpended balance in any specific permanent improvement fund, other than a bond fund, after the payment of all obligations incurred in the acquisition of such improvement, shall be transferred to the sinking fund or bond retirement fund of the subdivision. However, if such money is not required to meet the obligations payable from such funds, it may be transferred to a special fund for the acquisition of permanent improvements, or, with the approval of the court of common pleas of the county in which such subdivision is located, to the general fund of the subdivision.

Following policies previously enacted by the City, the City transferred \$7,411,733; \$4,000,000 during 2014 and \$3,411,732 during 2013, from the Capital improvement Fund, which was classified as a permanent improvement fund on the City's financial statements, to the General Fund without the approval of the Court of Common Pleas for Lucas County. Without proper authorization under Ohio's transfer statutes, ORC Ohio Rev. Code§ 5705.14 and 5705.16, this transfer was improper.

FINDING NUMBER 2014-002

Material Weakness

Capital Assets

We have identified the following weaknesses over capital assets:

- Infrastructure additions for water and sewer lines were added to the capital asset listing under government-wide. The water and sewer lines however should have been additions for the business-type activities; the financial statements were adjusted for this amount.
- Projects that were not complete were recorded as depreciable capital assets.
- A land purchase that met the capitalization threshold was not included on the asset listing.

This occurred due to lack of communication between departments and an oversight in recording capital assets.

As a result, the financial statements did not correctly reflect the Capital Asset balance for the Governmental and Business-Type Activities of the City. Audit adjustments in the amount of \$1,251,646 for Governmental Activities and \$205,355 for Business-Type Activities were identified. The accompanying financial statements and the City's accounting records have been adjusted to reflect these amounts.

**FINDING NUMBER 2014-002
(continued)**

These conditions could also result in possible inadequate insurance coverage and lack of control and accountability over the City's capital assets.

To correct the above weaknesses over capital assets, we recommend the City:

- Assign assets at time of addition to the proper fund and account;
- Assign assets at the time of completion to the proper classification; and
- Add all assets that meet the City's capital asset policy threshold

Officials' Response:

We did not receive a response from the Officials to this finding.

**CITY OF SYLVANIA
LUCAS COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2014**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i> |
|----------------|--|------------------|--|
| 2013-001 | Finding for Adjustment/Material Weakness against Ohio Rev. Code §§ 5705.14 and 16(B) for making an improper transfer from the Capital Projects Fund to the General Fund. | No | Not corrected and re-issued as finding 2014-001 in this report. |