

CITY OF SYLVANIA, OHIO

Basic Financial Statements

Year Ended December 31, 2016

With Independent Auditor's Report



CLARK SCHAEFER HACKETT
CPAs & ADVISORS

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INDEPENDENT AUDITORS' REPORT

To the City Council
City of Sylvania, Ohio:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Sylvania, Ohio ("the City"), as of and for the year ended December 31, 2016, 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 the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards general accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Unmodified
Business-Type Activities	Unmodified
General Fund	Qualified
City Services Fund	Unmodified
G.O. Debt Service Fund	Unmodified
Capital Improvement Fund	Qualified
Water Fund	Unmodified
Sewer Fund	Unmodified
Resource Recovery Fund	Unmodified
Aggregate Remaining Fund Information	Unmodified

Basis for Qualified Opinions on General Fund and Capital Improvement Fund

Findings for adjustment were issued by the Auditor of State of Ohio in the audits of the 2013 and 2014 financial statements to eliminate improper transfers made by the City from the Capital Improvement Fund to the General Fund. However, these adjustments were not made by the City and as a result the beginning and ending fund balances reported in the accompanying financial statements for the General Fund are overstated by \$7,411,132 and understated in the Capital Improvement Fund by \$7,411,132. Had these adjustments been made, the effect would have been a decrease in the General Fund's ending fund balance of \$7,411,132 and an increase in the Capital Improvement Fund's ending fund balance of \$7,411,132. This also would have resulted in an increase of \$7,411,132 in the fund balance of the General Fund in the budgetary comparison.

Qualified Opinions

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinions on General Fund and Capital Improvement Fund" paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the General Fund and Capital Improvement Fund of the City as of December 31, 2016, and the respective changes in financial position thereof and the budgetary comparison for the General Fund 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 respective financial position of the governmental activities, the business-type activities, each major fund other than the General Fund and Capital Improvement Fund, and the aggregate remaining fund information of the City as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the City Services Fund for the year then ended in accordance with 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 that the management's discussion and analysis and schedules of net pension liabilities and pension contributions listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2017 on our consideration of City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's 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 City's internal control over financial reporting and compliance.

Clark, Schaefer, Hackett & Co.

Toledo, Ohio
June 27, 2017

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CITY OF SYLVANIA, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2016***

Unaudited

The discussion and analysis of the City of Sylvania's financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2016. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the City's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2016 are as follows:

- ❑ In total, net position increased \$621,510. Net position of governmental activities increased \$1,080,543 from 2015. Net position of business-type activities decreased \$459,033 from 2015.
- ❑ General revenues accounted for \$14.2 million in revenue or 55% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for 45% of total revenues of \$25.8 million.
- ❑ The City had \$17.5 million in expenses related to governmental activities; only \$4.4 million of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily taxes) of \$14.2 million provided for these programs.
- ❑ Among major funds, the general fund had \$13.6 million in revenues. The general fund had \$12.8 million in expenditures including \$1,950,139 in transfers out to other funds. The general fund's fund balance increased \$850,670 to \$5,407,437.
- ❑ Net position for enterprise funds decreased by \$429,852. This decrease resulted primarily from increases in the rate charged for water and sewer by the City's supplier.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – *management's discussion and analysis*, the *basic financial statements* and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the City:

These statements are as follows:

1. *The Government-Wide Financial Statements* – These statements provide both long-term and short-term information about the City's overall financial status.
2. *The Fund Financial Statements* – These statements focus on individual parts of the City, reporting the City's operations in more detail than the government-wide statements.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

CITY OF SYLVANIA, OHIO

*Management's Discussion and Analysis
For the Year Ended December 31, 2016*

Unaudited

Government-Wide Statements

The government-wide statements report information about the City as a whole using accepted methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets, deferred outflows of resources, liabilities and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net position and how they have changed. Net position (the difference between the City's assets plus deferred outflows of resources and liabilities plus deferred inflows of resources) is one way to measure the City's financial health or position.

- Over time, increases or decreases in the City's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City you need to consider additional nonfinancial factors such as property tax base, current property tax laws, conditions of the City's streets and continued growth within the City.

The government-wide financial statements of the City are divided into two categories:

- Governmental Activities – Most of the City's programs and services are reported here including security of persons and property, public health and welfare services, leisure time activities, community environment, transportation and general government.
- Business-Type Activities – These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The City's water, sewer and resource recovery services are reported as business-type activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds, not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

Governmental Funds – Most of the City's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance City activities. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

CITY OF SYLVANIA, OHIO

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Proprietary Funds – Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City's programs. All of the City's fiduciary activities are reported in separate Statements of Fiduciary Net Position.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The following table provided a comparison of the City's net position between December 31, 2016 and 2015:

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$25,948,968	\$24,849,114	\$3,013,948	\$2,737,717	\$28,962,916	\$27,586,831
Capital assets, Net	36,414,044	36,671,180	18,538,192	19,167,262	54,952,236	55,838,442
Total assets	<u>62,363,012</u>	<u>61,520,294</u>	<u>21,552,140</u>	<u>21,904,979</u>	<u>83,915,152</u>	<u>83,425,273</u>
Deferred outflows of resources	<u>3,885,975</u>	<u>1,525,895</u>	<u>591,949</u>	<u>166,966</u>	<u>4,477,924</u>	<u>1,692,861</u>
Net pension liability	12,900,329	9,959,301	1,547,751	1,067,655	14,448,080	11,026,956
Other long-term liabilities	18,420,468	19,465,784	2,838,537	2,968,856	21,259,005	22,434,640
Other liabilities	993,912	900,164	496,982	326,216	1,490,894	1,226,380
Total liabilities	<u>32,314,709</u>	<u>30,325,249</u>	<u>4,883,270</u>	<u>4,362,727</u>	<u>37,197,979</u>	<u>34,687,976</u>
Deferred inflows of resources	<u>2,017,229</u>	<u>1,884,434</u>	<u>29,906</u>	<u>19,272</u>	<u>2,047,135</u>	<u>1,903,706</u>
Net position:						
Net investment in capital assets	19,178,963	18,369,167	15,965,128	16,450,283	35,144,091	34,819,450
Restricted	2,478,714	2,144,120	0	0	2,478,714	2,144,120
Unrestricted	10,259,372	10,323,219	1,265,785	1,239,663	11,525,157	11,562,882
Total net position	<u>\$31,917,049</u>	<u>\$30,836,506</u>	<u>\$17,230,913</u>	<u>\$17,689,946</u>	<u>\$49,147,962</u>	<u>\$48,526,452</u>

During 2015, the City adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions— an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the City's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

CITY OF SYLVANIA, OHIO

*Management's Discussion and Analysis
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Unaudited

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

Under the new standards required by GASB 68, the net pension liability equals the City's proportionate share of each plan's collective:

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

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the City is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system against the public employer. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

CITY OF SYLVANIA, OHIO

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Unaudited

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

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

A portion of the City's net position, \$2,478,714, represents resources that are subject to external restriction on how they may be used. Excluding the effect of implementing GASB 68, the City has approximately \$19 million in unrestricted net position which may be used to meet the City's ongoing obligations to the public and creditors.

At fiscal year-end for governmental activities, capital assets represented 58% of total assets. Capital assets include land, land improvements, buildings and improvements, machinery and equipment, and vehicles. Net investment in capital assets, at December 31, 2016 was \$19,408,366. These capital assets are used to provide services to the public and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

CITY OF SYLVANIA, OHIO

Management's Discussion and Analysis For the Year Ended December 31, 2016

Unaudited

Changes in Net position – The following table shows the changes in net position for the fiscal year 2016 and 2015:

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues						
Program Revenues:						
Charges for Services and Sales	\$1,778,682	\$1,977,470	\$7,228,842	\$6,188,499	\$9,007,524	\$8,165,969
Operating Grants and Contributions	2,190,275	2,123,527	0	0	2,190,275	2,123,527
Capital Grants and Contributions	390,524	565,443	0	0	390,524	565,443
Total Program Revenues	<u>4,359,481</u>	<u>4,666,440</u>	<u>7,228,842</u>	<u>6,188,499</u>	<u>11,588,323</u>	<u>10,854,939</u>
General Revenues:						
Property Taxes	1,727,597	1,693,567	0	0	1,727,597	1,693,567
Income Taxes	10,807,644	9,924,087	0	0	10,807,644	9,924,087
Intergovernmental Grant, Unrestricted	1,042,465	701,123	0	0	1,042,465	701,123
Investment Earnings	238,971	157,296	26,476	22,429	265,447	179,725
Miscellaneous	414,123	424,025	0	0	414,123	424,025
Total General Revenues	<u>14,230,800</u>	<u>12,900,098</u>	<u>26,476</u>	<u>22,429</u>	<u>14,257,276</u>	<u>12,922,527</u>
Total Revenues	<u>18,590,281</u>	<u>17,566,538</u>	<u>7,255,318</u>	<u>6,210,928</u>	<u>25,845,599</u>	<u>23,777,466</u>
Program Expenses						
Security of Persons and Property	6,185,354	5,514,598	0	0	6,185,354	5,514,598
Public Health and Welfare Services	126,906	126,714	0	0	126,906	126,714
Leisure Time Activities	931,644	950,413	0	0	931,644	950,413
Community Environment	721,018	656,390	0	0	721,018	656,390
Basic Utility Services	1,033,857	991,191	0	0	1,033,857	991,191
Transportation	3,111,544	2,978,456	0	0	3,111,544	2,978,456
General Government	4,766,122	4,417,695	0	0	4,766,122	4,417,695
Interest and Fiscal Charges	583,293	611,511	0	0	583,293	611,511
Water	0	0	4,974,654	4,397,472	4,974,654	4,397,472
Sewer	0	0	2,591,081	2,572,780	2,591,081	2,572,780
Resource Recovery	0	0	198,616	135,389	198,616	135,389
Total Expenses	<u>17,459,738</u>	<u>16,246,968</u>	<u>7,764,351</u>	<u>7,105,641</u>	<u>25,224,089</u>	<u>23,352,609</u>
Change in Net Position before Transfers	1,130,543	1,319,570	(509,033)	(894,713)	621,510	424,857
Transfers	(50,000)	(50,000)	50,000	50,000	0	0
Total Change in Net Position	1,080,543	1,269,570	(459,033)	(844,713)	621,510	424,857
Beginning Net Position	30,836,506	29,566,936	17,689,946	18,534,659	48,526,452	48,101,595
Ending Net Position	<u>\$31,917,049</u>	<u>\$30,836,506</u>	<u>\$17,230,913</u>	<u>\$17,689,946</u>	<u>\$49,147,962</u>	<u>\$48,526,452</u>

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CITY OF SYLVANIA, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2016**

Unaudited

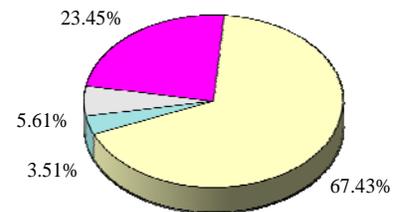
Governmental Activities

Net position of the City's governmental activities increased by \$1,080,543. The reason for this increase is due to an increase in income tax collections in 2016.

The City also receives an income tax, which is based on 1.5% of all salaries, wages, commissions and other compensation earned from residents living within the City and from nonresidents for work done or services performed or rendered in the City.

Property taxes and income taxes made up 9% and 58%, respectively, of revenues for governmental activities for the City in fiscal year 2016. The City's reliance upon tax revenues is demonstrated by the following graph indicating 67.43% of total revenues from general tax revenues:

Revenue Sources	2016	Percent of Total
Intergovernmental, Unrestricted	\$1,042,465	5.61%
Program Revenues	4,359,481	23.45%
General Tax Revenues	12,535,241	67.43%
General Other	653,094	3.51%
Total Revenue	<u>\$18,590,281</u>	<u>100.00%</u>



Business-Type Activities

Net position of the business-type activities decreased by \$459,033. Operating revenues increased by 17% from 2015 to 2016 related to an increase in charges for services. Expenditures remained consistent from 2015 to 2016 with the exception of water rate increases from the City's supplier.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The City's governmental funds reported a combined fund balance of \$19,491,076, which is an increase from last year's balance of \$18,418,099. The schedule below indicates the fund balance and the total change in fund balance by major fund as of December 31, 2016 and 2015:

	Fund Balance December 31, 2016	Fund Balance December 31, 2015	Increase (Decrease)
General	\$5,407,437	\$4,556,767	\$850,670
City Services	566,707	483,771	82,936
G.O. Debt Service	520,506	328,890	191,616
Capital Improvement	11,111,321	11,384,834	(273,513)
Other Governmental	1,885,105	1,663,837	221,268
Total	<u>\$19,491,076</u>	<u>\$18,418,099</u>	<u>\$1,072,977</u>

The increase in the general fund balance can be attributed to the increase in income tax revenue compared to 2015.

CITY OF SYLVANIA, OHIO

**Management's Discussion and Analysis
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Unaudited

The increase in fund balance in the City Services Fund was mostly due to an increase in special assessment collections during 2016.

The increase in fund balance in the G.O. Debt Service Fund was mostly due to a decrease in debt service payments along with a slight increase in income tax revenue during 2016. The change is consistent with the increase in the previous year.

The decrease in fund balance in the Capital Improvement Fund was mostly due to an increase in capital expenditures during 2016.

General Fund – The City's General Fund balance decrease is due to many factors. The tables that follow assist in illustrating the financial activities and balance of the General Fund:

	2016 Revenues	2015 Revenues	Increase (Decrease)
Taxes	\$10,740,350	\$9,146,077	\$1,594,273
Intergovernmental Revenue	831,370	690,551	140,819
Charges for Services	470,928	500,863	(29,935)
Licenses, Permits and Fees	397,088	413,008	(15,920)
Fines and Forfeitures	882,702	951,020	(68,318)
Investment Earnings	77,667	65,220	12,447
All Other Revenue	170,281	291,406	(121,125)
Total	\$13,570,386	\$12,058,145	\$1,512,241

General Fund revenues in 2016 increased compared to revenues in fiscal year 2015. The most significant factor contributing to this increase was an increase in tax revenue related to greater income tax collections during 2016.

	2016 Expenditures	2015 Expenditures	Increase (Decrease)
Security of Persons and Property	\$4,441,578	\$4,276,594	\$164,984
Public Health and Welfare Services	121,136	119,891	1,245
Leisure Time Activities	824,400	910,851	(86,451)
Community Environment	444,490	400,536	43,954
Basic Utility Services	741,823	719,642	22,181
Transportation	157,263	154,526	2,737
General Government	4,077,807	4,043,373	34,434
Total	\$10,808,497	\$10,625,413	\$183,084

General Fund expenditures increased by \$183,084 or 1.7%. The largest portion of this increase came in the Security of Persons and Property expenditures.

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund.

During the course of fiscal year 2016 the City amended its General Fund budget several times, none significant.

CITY OF SYLVANIA, OHIO

*Management's Discussion and Analysis
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Unaudited

For the General Fund, final budget basis revenue of \$13.9 million changed slightly from the original budget estimates of \$13.1.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2016 the City had \$54,952,236 net of accumulated depreciation invested in land, improvements, infrastructure, buildings, machinery and equipment and construction in progress. Of this total, \$36,414,044 was related to governmental activities and \$18,538,192 to the business-type activities. The following table shows fiscal year 2016 and 2015 balances:

	Governmental Activities		Increase (Decrease)
	2016	2015	
Land	\$10,190,738	\$10,190,738	\$0
Construction in Progress	0	695,261	(695,261)
Land Improvements	3,349,060	3,349,060	0
Buildings	9,799,569	9,799,569	0
Machinery and Equipment	5,285,913	5,337,351	(51,438)
Infrastructure	34,490,447	32,671,759	1,818,688
Less: Accumulated Depreciation	(26,701,683)	(25,372,558)	(1,329,125)
Totals	\$36,414,044	\$36,671,180	(\$257,136)

	Business-Type Activities		Increase (Decrease)
	2016	2015	
Buildings	\$619,633	\$619,633	\$0
Machinery and Equipment	1,536,702	1,536,702	0
Improvements	40,597,183	40,325,983	271,200
Less: Accumulated Depreciation	(24,215,326)	(23,315,056)	(900,270)
Totals	\$18,538,192	\$19,167,262	(\$629,070)

Additional information on the City's capital assets can be found in Note 9.

CITY OF SYLVANIA, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2016***

Unaudited

Debt

At December 31, 2016, the City had \$19.5 million in bonds outstanding, \$1,472,421 due within one year. The following table summarizes the City's debt outstanding as of December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Governmental Activities:		
General Obligation Bonds	\$17,054,367	\$18,356,788
OPWC Loan Payable	229,403	0
Compensated Absences	1,136,698	1,108,996
Net Pension Liability	12,900,329	9,959,301
Total Governmental Activities	<u>31,320,797</u>	<u>29,425,085</u>
Business-Type Activities:		
General Obligation Bonds	2,420,000	2,550,000
OPWC Loan Payable	153,064	166,979
Compensated Absences	265,473	251,877
Net Pension Liability	1,547,751	1,067,655
Total Business-Type Activities	<u>4,386,288</u>	<u>4,036,511</u>
Totals	<u><u>\$35,707,085</u></u>	<u><u>\$33,461,596</u></u>

State statutes limit the amount of unvoted general obligation debt the City may issue. The aggregate amount of the City's unvoted debt is also subject to overlapping debt restrictions with other political subdivisions. The actual aggregate amount of the City's unvoted debt, when added to that of other political subdivisions within the respective counties in which Sylvania lies, is limited to fifteen mills. At December 31, 2016, the City's outstanding debt was below the legal limit. Additional information on the City's long-term debt can be found in Note 13.

ECONOMIC FACTORS

The City's economic base continues to be very stable since it is based on primarily commercial and retail with little manufacturing. Medical, education and financial interests provide a relatively predictable income source.

City Council has the ability to increase income tax revenues by eliminating or reducing the 100% credit for taxes paid by residents to other cities in which they work.

CITY OF SYLVANIA, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2016***

Unaudited

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information contact the Finance Department by calling 419-885-8934 or writing to City of Sylvania Finance Department, 6730 Monroe Street, Sylvania, Ohio 43560.

CITY OF SYLVANIA, OHIO

Statement of Net Position
December 31, 2016

	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and Cash Equivalents	\$ 4,467,741	\$ 232,961	\$ 4,700,702
Investments	13,907,217	1,960,354	15,867,571
Receivables:			
Taxes	3,519,614	0	3,519,614
Accounts	223,703	683,227	906,930
Intergovernmental	855,416	0	855,416
Interest	52,573	7,409	59,982
Special Assessments	1,248,635	0	1,248,635
Internal Balances	56,194	(56,194)	0
Inventory of Supplies at Cost	486,420	160,068	646,488
Prepaid Items	56,392	26,123	82,515
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	10,190,738	0	10,190,738
Capital Assets Being Depreciated, Net	26,223,306	18,538,192	44,761,498
Total Assets	62,363,012	21,552,140	83,915,152
Deferred Outflows of Resources:			
Deferred Loss on Debt Refunding	48,689	0	48,689
Pension	3,837,286	591,949	4,429,235
Total Deferred Outflows of Resources	3,885,975	591,949	4,477,924
Liabilities:			
Accounts Payable	247,805	433,686	681,491
Accrued Wages and Benefits	368,065	56,569	424,634
Claims Payable	332,000	0	332,000
Accrued Interest Payable	46,042	6,727	52,769
Noncurrent liabilities:			
Due within one year	1,454,721	163,095	1,617,816
Net Pension Liability	12,900,329	1,547,751	14,448,080
Due in more than one year	16,965,747	2,675,442	19,641,189
Total Liabilities	32,314,709	4,883,270	37,197,979

(Continued)

CITY OF SYLVANIA, OHIO

	Governmental Activities	Business-Type Activities	Total
Deferred Inflows of Resources:			
Property Tax Levy for Next Fiscal Year	1,887,490	0	1,887,490
Pension	129,739	29,906	159,645
Total Deferred Inflows of Resources	<u>2,017,229</u>	<u>29,906</u>	<u>2,047,135</u>
Net Position:			
Net Investment in Capital Assets	19,178,963	15,965,128	35,144,091
Restricted For:			
Capital Projects	66,958	0	66,958
Other Purposes	2,411,756	0	2,411,756
Unrestricted	10,259,372	1,265,785	11,525,157
Total Net Position	<u>\$ 31,917,049</u>	<u>\$ 17,230,913</u>	<u>\$ 49,147,962</u>

See accompanying notes to the basic financial statements

CITY OF SYLVANIA, OHIO

Statement of Activities
For the Year Ended December 31, 2016

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Current:				
Security of Persons and Property	\$ 6,185,354	\$ 255,514	\$ 577,927	\$ 0
Public Health and Welfare Services	126,906	10,467	0	0
Leisure Time Activities	931,644	0	0	0
Community Environment	721,018	19,250	236,794	0
Basic Utility Services	1,033,857	452,438	270,907	0
Transportation	3,111,544	18,100	1,104,647	0
General Government	4,766,122	1,022,913	0	390,524
Interest and Fiscal Charges	583,293	0	0	0
Total Governmental Activities	17,459,738	1,778,682	2,190,275	390,524
Business-Type Activities:				
Water	4,974,654	5,175,978	0	0
Sewer	2,591,081	1,971,026	0	0
Resource Recovery	198,616	81,838	0	0
Total Business-Type Activities	7,764,351	7,228,842	0	0
Totals	\$ 25,224,089	\$ 9,007,524	\$ 2,190,275	\$ 390,524

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
\$ (5,351,913)	\$ 0	\$ (5,351,913)
(116,439)	0	(116,439)
(931,644)	0	(931,644)
(464,974)	0	(464,974)
(310,512)	0	(310,512)
(1,988,797)	0	(1,988,797)
(3,352,685)	0	(3,352,685)
(583,293)	0	(583,293)
<u>(13,100,257)</u>	<u>0</u>	<u>(13,100,257)</u>
0	201,324	201,324
0	(620,055)	(620,055)
0	(116,778)	(116,778)
0	(535,509)	(535,509)
<u>(13,100,257)</u>	<u>(535,509)</u>	<u>(13,635,766)</u>
1,727,597	0	1,727,597
10,807,644	0	10,807,644
1,042,465	0	1,042,465
238,971	26,476	265,447
414,123	0	414,123
(50,000)	50,000	0
<u>14,180,800</u>	<u>76,476</u>	<u>14,257,276</u>
1,080,543	(459,033)	621,510
30,836,506	17,689,946	48,526,452
<u>\$ 31,917,049</u>	<u>\$ 17,230,913</u>	<u>\$ 49,147,962</u>

CITY OF SYLVANIA, OHIO

Balance Sheet
Governmental Funds
December 31, 2016

	General	City Services	G.O. Debt Service
Assets:			
Cash and Cash Equivalents	\$ 451,219	\$ 600,144	\$ 520,506
Investments	3,866,859	0	0
Receivables:			
Taxes	2,406,660	0	572,709
Accounts	200,421	35	0
Intergovernmental	269,843	0	36,925
Interest	14,616	0	0
Special Assessments	0	918,495	0
Inventory of Supplies, at Cost	391,185	0	0
Prepaid Items	46,223	789	0
Restricted Assets:			
Cash and Cash Equivalents	0	0	0
Total Assets	\$ 7,647,026	\$ 1,519,463	\$ 1,130,140
Liabilities:			
Accounts Payable	\$ 74,379	\$ 26,155	\$ 0
Accrued Wages and Benefits Payable	280,256	8,106	0
Compensated Absences Payable	27,047	0	0
Total Liabilities	381,682	34,261	0
Deferred Inflows of Resources:			
Unavailable Amounts	931,414	918,495	51,559
Property Tax for Next Fiscal Year	926,493	0	558,075
Total Deferred Inflows of Resources	1,857,907	918,495	609,634
Fund Balances:			
Nonspendable	437,408	789	0
Restricted	0	565,918	0
Committed	0	0	0
Assigned	15,469	0	520,506
Unassigned	4,954,560	0	0
Total Fund Balances	5,407,437	566,707	520,506
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 7,647,026	\$ 1,519,463	\$ 1,130,140

See accompanying notes to the basic financial statements

CITY OF SYLVANIA, OHIO

Capital Improvement	Other Governmental Funds	Total Governmental Funds
\$ 1,164,071	\$ 1,624,902	\$ 4,360,842
9,975,857	64,501	13,907,217
126,592	413,653	3,519,614
1,975	12,607	215,038
0	548,648	855,416
37,705	252	52,573
330,140	0	1,248,635
0	95,235	486,420
0	8,337	55,349
0	1,063	1,063
\$ 11,636,340	\$ 2,769,198	\$ 24,702,167
\$ 113,024	\$ 21,141	\$ 234,699
0	73,190	361,552
0	0	27,047
113,024	94,331	623,298
411,995	386,840	2,700,303
0	402,922	1,887,490
411,995	789,762	4,587,793
0	104,635	542,832
0	1,642,293	2,208,211
11,111,321	64,903	11,176,224
0	73,274	609,249
0	0	4,954,560
11,111,321	1,885,105	19,491,076
\$ 11,636,340	\$ 2,769,198	\$ 24,702,167

CITY OF SYLVANIA, OHIO

***Reconciliation Of Total Governmental Fund Balances
To Net Position Of Governmental Activities
December 31, 2016***

Total Governmental Fund Balances \$ 19,491,076

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

Capital Assets used in governmental activities are not resources and therefore are not reported in the funds. 36,414,044

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 deferred in the funds.

Municipal Income Taxes	769,827	
Property Taxes	49,748	
Interest	28,125	
Special Assessments	1,248,635	
Intergovernmental	603,968	2,700,303

The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:

Deferred Outflows - Pension	3,765,032	
Deferred Inflows - Pension	(126,089)	
Net Pension Liability	(12,711,407)	(9,072,464)

Accrued interest on outstanding debt is not due and payable in the current period and, therefore, is not reported in the funds: it is reported when due. (46,042)

Internal service funds are used by management to charge the costs of insurance to individual funds. The assets, liabilities and deferred inflows/outflows of the internal service funds are included in governmental activities in the statement of net position. (334,451)

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

General Obligation Bonds Payable	(17,054,367)	
Deferred Loss on Debt Refunding	48,689	
OPWC Loan Payable	(229,403)	
Compensated Absences Payable	(1,074,336)	(18,309,417)

Net Position of Governmental Activities **\$ 31,917,049**

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, 2016

	General	City Services	G.O. Debt Service
	<u> </u>	<u> </u>	<u> </u>
Revenues:			
Property Taxes	\$ 843,493	\$ 0	\$ 507,963
Municipal Income Taxes	9,896,857	0	0
Intergovernmental Revenues	831,370	0	73,856
Charges for Services	470,928	0	0
Licenses, Permits and Fees	397,088	0	0
Investment Earnings	77,667	0	0
Special Assessments	0	912,327	0
Fines and Forfeitures	882,702	0	0
All Other Revenue	170,281	563	0
Total Revenue	<u>13,570,386</u>	<u>912,890</u>	<u>581,819</u>
Expenditures:			
Current:			
Security of Persons and Property	4,441,578	376,328	0
Public Health and Welfare Services	121,136	0	0
Leisure Time Activities	824,400	0	0
Community Environment	444,490	221,036	0
Basic Utility Services	741,823	232,590	0
Transportation	157,263	0	0
General Government	4,077,807	0	7,655
Capital Outlay	0	0	0
Debt Service:			
Principal Retirement	0	0	1,245,000
Interest & Fiscal Charges	0	0	587,548
Total Expenditures	<u>10,808,497</u>	<u>829,954</u>	<u>1,840,203</u>
Excess (Deficiency) of Revenues Over Expenditures	2,761,889	82,936	(1,258,384)
Other Financing Sources (Uses):			
OPWC Loan Issued	0	0	0
Transfers In	0	0	1,450,000
Transfers Out	(1,950,139)	0	0
Total Other Financing Sources (Uses)	<u>(1,950,139)</u>	<u>0</u>	<u>1,450,000</u>
Net Change in Fund Balances	811,750	82,936	191,616
Fund Balances at Beginning of Year	4,556,767	483,771	328,890
Increase (Decrease) in Inventory Reserve	38,920	0	0
Fund Balances End of Year	<u>\$ 5,407,437</u>	<u>\$ 566,707</u>	<u>\$ 520,506</u>

See accompanying notes to the basic financial statements

CITY OF SYLVANIA, OHIO

Capital Improvement	Other Governmental Funds	Total Governmental Funds
\$ 0	\$ 372,506	\$ 1,723,962
859,246	0	10,756,103
231,588	1,205,040	2,341,854
0	0	470,928
0	0	397,088
153,382	4,123	235,172
25,079	0	937,406
0	233,969	1,116,671
356,447	23,009	550,300
<u>1,625,742</u>	<u>1,838,647</u>	<u>18,529,484</u>
0	582,905	5,400,811
0	0	121,136
0	0	824,400
0	0	665,526
0	0	974,413
0	1,351,310	1,508,573
0	25,595	4,111,057
2,128,658	50,449	2,179,107
0	50,000	1,295,000
0	0	587,548
<u>2,128,658</u>	<u>2,060,259</u>	<u>17,667,571</u>
(502,916)	(221,612)	861,913
229,403	0	229,403
0	450,139	1,900,139
0	0	(1,950,139)
<u>229,403</u>	<u>450,139</u>	<u>179,403</u>
(273,513)	228,527	1,041,316
11,384,834	1,663,837	18,418,099
0	(7,259)	31,661
<u>\$ 11,111,321</u>	<u>\$ 1,885,105</u>	<u>\$ 19,491,076</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, 2016***

Net Change in Fund Balances - Total Governmental Funds \$ 1,041,316

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.

Capital Outlay	1,206,731	
Depreciation	<u>(1,463,867)</u>	(257,136)

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

Municipal Income Taxes	51,541	
Property Taxes	3,635	
Interest	3,799	
Special Assessments	(11,814)	
Intergovernmental	<u>13,635</u>	60,796

Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.

978,057

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

(1,617,852)

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

General Obligation Bonds Principal	1,295,000	
Amortization of Deferred Loss on Debt Refunding	(6,086)	
OPWC Loan Issued	<u>(229,403)</u>	1,059,511

(Continued)

CITY OF SYLVANIA, OHIO

Interest is reported as an expenditure when due in the governmental funds but is accrued on outstanding debt on the statement of net position. Premiums are reported as revenues when the debt is first issued; however, these amounts are deferred and amortized on the statement of net position.

Amortization of Premium	7,421	
Accrued Interest Payable	<u>2,920</u>	10,341

Some expenses reported on the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Increase in Supplies Inventory	31,661	
Increase in Compensated Absences Payable	<u>(20,537)</u>	11,124

The internal service funds are used by management to charge the costs of services to individual funds and is 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.

(205,614)

Change in Net Position of Governmental Activities

\$ 1,080,543

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, 2016**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Property Taxes	\$ 850,000	\$ 850,000	\$ 843,493	\$ (6,507)
Municipal Income Taxes	9,200,000	10,000,000	10,116,580	116,580
Intergovernmental Revenue	786,000	786,000	832,455	46,455
Charges for Services	511,000	511,000	472,931	(38,069)
Licenses, Permits and Fees	390,000	390,000	395,899	5,899
Investment Earnings	60,000	60,000	62,185	2,185
Fines and Forfeitures	998,000	1,033,000	897,181	(135,819)
All Other Revenues	315,000	316,000	238,769	(77,231)
Total Revenues	<u>13,110,000</u>	<u>13,946,000</u>	<u>13,859,493</u>	<u>(86,507)</u>
Expenditures:				
Current:				
Security of Persons and Property	4,601,000	4,525,000	4,442,823	82,177
Public Health and Welfare Services	125,000	125,000	118,439	6,561
Leisure Time Activities	908,000	826,000	814,349	11,651
Community Environment	437,000	457,000	444,834	12,166
Basic Utility Services	755,000	746,000	740,704	5,296
Transportation	75,000	180,000	157,088	22,912
General Government	4,210,000	4,252,000	4,097,482	154,518
Total Expenditures	<u>11,111,000</u>	<u>11,111,000</u>	<u>10,815,719</u>	<u>295,281</u>
Excess of Revenues				
Over Expenditures	1,999,000	2,835,000	3,043,774	208,774
Other Financing Uses:				
Transfers Out	(1,951,000)	(1,951,000)	(1,950,139)	861
Total Other Financing Uses:	<u>(1,951,000)</u>	<u>(1,951,000)</u>	<u>(1,950,139)</u>	<u>861</u>
Net Change In Fund Balance	48,000	884,000	1,093,635	209,635
Fund Balance at Beginning of Year	3,217,804	3,217,804	3,217,804	0
Fund Balance at End of Year	<u>\$ 3,265,804</u>	<u>\$ 4,101,804</u>	<u>\$ 4,311,439</u>	<u>\$ 209,635</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, 2016**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Special Assessments	\$ 938,000	\$ 938,000	\$ 912,327	\$ (25,673)
All Other Revenues	7,000	7,000	528	(6,472)
Total Revenues	945,000	945,000	912,855	(32,145)
Expenditures:				
Current:				
Security of Persons and Property	400,000	454,907	396,120	58,787
Community Environment	230,000	230,000	223,640	6,360
Basic Utility Services	285,000	285,000	232,736	52,264
Total Expenditures	915,000	969,907	852,496	117,411
Excess (Deficiency) of Revenues Over (Under) Expenditures	30,000	(24,907)	60,359	85,266
Fund Balance at Beginning of Year	463,170	463,170	463,170	0
Prior Year Encumbrances	54,907	54,907	54,907	0
Fund Balance at End of Year	\$ 548,077	\$ 493,170	\$ 578,436	\$ 85,266

See accompanying notes to the basic financial statements

CITY OF SYLVANIA, OHIO

**Statement of Net Position
Proprietary Funds
December 31, 2016**

	Business-Type Activities		
	Enterprise Funds		
	Water	Sewer	Resource Recovery
ASSETS			
Current assets:			
Cash and Cash Equivalents	\$ 134,580	\$ 94,171	\$ 4,210
Investments	1,153,327	807,027	0
Accounts Receivable	395,348	287,879	0
Interest Receivable	4,359	3,050	0
Inventory of Supplies at Cost	104,744	55,324	0
Prepaid Items	18,643	6,972	508
Total current assets	1,811,001	1,254,423	4,718
Noncurrent assets:			
Capital assets:			
Property, Plant and Equipment	16,814,311	25,774,974	164,233
Less accumulated depreciation	(7,347,487)	(16,703,606)	(164,233)
Total capital assets (net of accumulated depr)	9,466,824	9,071,368	0
Total noncurrent assets	9,466,824	9,071,368	0
Total assets	11,277,825	10,325,791	4,718
Deferred Outflows of Resources:			
Pension	307,979	246,115	37,855
LIABILITIES			
Current liabilities:			
Accounts Payable	284,575	148,992	119
Accrued Wages and Benefits	30,065	25,891	613
Claims Payable	0	0	0
Accrued Interest Payable	6,727	0	0
General Obligation Bonds Payable - Current	135,000	0	0
Compensated Absences Payable - Current	9,091	9,727	0
OPWC Loans Payable - Current	9,277	0	0
Total Current Liabilities	474,735	184,610	732

CITY OF SYLVANIA, OHIO

	Governmental	
	Activities	
Total	Internal Service	
<u> </u>	<u> </u>	<u> </u>
Funds	Funds	Funds
\$ 232,961	\$ 106,899	
1,960,354	0	
683,227	8,665	
7,409	0	
160,068	0	
<u>26,123</u>	<u>1,043</u>	
<u>3,070,142</u>	<u>116,607</u>	
42,753,518	15,985	
<u>(24,215,326)</u>	<u>(15,985)</u>	
<u>18,538,192</u>	<u>0</u>	
<u>18,538,192</u>	<u>0</u>	
<u>21,608,334</u>	<u>116,607</u>	
<u>591,949</u>	<u>72,254</u>	
433,686	13,106	
56,569	6,513	
0	332,000	
6,727	0	
135,000	0	
18,818	2,649	
<u>9,277</u>	<u>0</u>	
<u>660,077</u>	<u>354,268</u>	

(Continued)

CITY OF SYLVANIA, OHIO

**Statement of Net Position
Proprietary Funds
December 31, 2016**

	Business-Type Activities		
	Enterprise Funds		
	Water	Sewer	Resource Recovery
Noncurrent Liabilities:			
General Obligation Bonds Payable	2,285,000	0	0
OPWC Loans Payable	143,787	0	0
Net Pension Liability	805,264	643,507	98,980
Compensated Absences Payable	131,976	114,679	0
Total noncurrent liabilities	<u>3,366,027</u>	<u>758,186</u>	<u>98,980</u>
Total Liabilities	<u>3,840,762</u>	<u>942,796</u>	<u>99,712</u>
Deferred Inflows of Resources:			
Pension	<u>15,559</u>	<u>12,434</u>	<u>1,913</u>
NET POSITION			
Net Investment in Capital Assets	6,893,760	9,071,368	0
Unrestricted	<u>835,723</u>	<u>545,308</u>	<u>(59,052)</u>
Total Net Position	<u>\$ 7,729,483</u>	<u>\$ 9,616,676</u>	<u>\$ (59,052)</u>

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

<u>Total</u>	<u>Governmental Activities Internal Service Funds</u>
2,285,000	0
143,787	0
1,547,751	188,922
<u>246,655</u>	<u>32,666</u>
<u>4,223,193</u>	<u>221,588</u>
<u>4,883,270</u>	<u>575,856</u>
<u>29,906</u>	<u>3,650</u>
15,965,128	0
<u>1,321,979</u>	<u>(390,645)</u>
<u>\$ 17,287,107</u>	<u>\$ (390,645)</u>
<u>(56,194)</u>	
<u>\$ 17,230,913</u>	

CITY OF SYLVANIA, OHIO

**Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the Year Ended December 31, 2016**

	Business-Type Activities		
	Enterprise Funds		
	Water	Sewer	Resource Recovery
Operating Revenues:			
Charges for Services	\$ 5,093,563	\$ 1,969,949	\$ 81,838
Other Operating Revenues	82,415	1,077	0
Total Operating Revenues	<u>5,175,978</u>	<u>1,971,026</u>	<u>81,838</u>
Operating Expenses:			
Personal Services	955,999	721,341	112,034
Materials and Supplies	48,700	88,685	39,109
Contractual Services	3,473,866	1,262,505	47,473
Depreciation	395,947	504,323	0
Total Operating Expenses	<u>4,874,512</u>	<u>2,576,854</u>	<u>198,616</u>
Operating Income (Loss)	301,466	(605,828)	(116,778)
Non-Operating Revenue (Expenses):			
Interest Income	14,886	11,590	0
Interest and Fiscal Charges	(85,188)	0	0
Other Nonoperating Revenue	0	0	0
Total Non-Operating Revenues (Expenses)	<u>(70,302)</u>	<u>11,590</u>	<u>0</u>
Income (Loss) Before Transfers	231,164	(594,238)	(116,778)
Transfers:			
Transfers In	0	0	50,000
Total Transfers	<u>0</u>	<u>0</u>	<u>50,000</u>
Change in Net Position	231,164	(594,238)	(66,778)
Net Position Beginning of Year	7,498,319	10,210,914	7,726
Net Position End of Year	<u>\$ 7,729,483</u>	<u>\$ 9,616,676</u>	<u>\$ (59,052)</u>

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
\$ 7,145,350	\$ 2,506,109
83,492	0
7,228,842	2,506,109
1,789,374	2,449,489
176,494	9,353
4,783,844	336,442
900,270	0
7,649,982	2,795,284
(421,140)	(289,175)
26,476	0
(85,188)	0
0	54,380
(58,712)	54,380
(479,852)	(234,795)
50,000	0
50,000	0
(429,852)	(234,795)
17,716,959	(155,850)
17,287,107	\$ (390,645)
(429,852)	
(29,181)	
\$ (459,033)	

CITY OF SYLVANIA, OHIO

Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2016

	Business-Type Activities		
	Enterprise Funds		
	Water	Sewer	Resource Recovery
<u>Cash Flows from Operating Activities:</u>			
Cash Received from Customers	\$5,082,540	\$1,967,012	\$81,838
Cash Payments for Goods and Services	(3,477,880)	(1,212,190)	(93,630)
Cash Payments to Employees	(896,693)	(722,482)	(89,468)
Net Cash Provided (Used) by Operating Activities	<u>707,967</u>	<u>32,340</u>	<u>(101,260)</u>
<u>Cash Flows from Noncapital Financing Activities:</u>			
Transfers In from Other Funds	0	0	50,000
Miscellaneous Nonoperating Revenue	0	0	0
Net Cash Provided by Noncapital Financing Activities	<u>0</u>	<u>0</u>	<u>50,000</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>			
Acquisition and Construction of Assets	(287,496)	0	0
Principal Paid on General Obligation Bonds	(130,000)	0	0
Principal Paid on OPWC Loan	(13,915)	0	0
Interest Paid on All Debt	(85,594)	0	0
Net Cash Used by Capital and Related Financing Activities	<u>(517,005)</u>	<u>0</u>	<u>0</u>
<u>Cash Flows from Investing Activities:</u>			
Purchase of Investments	(245,239)	(87,605)	0
Receipts of Interest	8,904	6,934	0
Net Cash Used by Investing Activities	<u>(236,335)</u>	<u>(80,671)</u>	<u>0</u>
Net Decrease in Cash and Cash Equivalents	(45,373)	(48,331)	(51,260)
Cash and Cash Equivalents at Beginning of Year	<u>179,953</u>	<u>142,502</u>	<u>55,470</u>
Cash and Cash Equivalents at End of Year	<u>\$134,580</u>	<u>\$94,171</u>	<u>\$4,210</u>

CITY OF SYLVANIA, OHIO

Totals	Governmental Activities Internal Service Funds
\$7,131,390	\$2,507,375
(4,783,700)	(341,421)
(1,708,643)	(2,440,251)
639,047	(274,297)
50,000	0
0	270,242
50,000	270,242
(287,496)	0
(130,000)	0
(13,915)	0
(85,594)	0
(517,005)	0
(332,844)	0
15,838	0
(317,006)	0
(144,964)	(4,055)
377,925	110,954
\$232,961	\$106,899

(Continued)

CITY OF SYLVANIA, OHIO

Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2016

	Business-Type Activities		
	Enterprise Funds		
	Water	Sewer	Resource Recovery
<u>Reconciliation of Operating Income (Loss) to Net Cash</u>			
<u>Provided (Used) by Operating Activities:</u>			
Operating Income (Loss)	\$301,466	(\$605,828)	(\$116,778)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	395,947	504,323	0
Changes in Assets, Liabilities and Deferred Inflows/Outflows:			
Decrease (Increase) in Accounts Receivable	(93,438)	(4,014)	0
Decrease (Increase) in Inventory	(2,968)	2,483	0
Increase in Prepaid Items	(1,477)	(6,972)	(508)
Increase in Deferred Outflows of Resources	(198,318)	(201,500)	(25,165)
Increase (Decrease) in Accounts Payable	49,131	143,489	(6,540)
Increase (Decrease) in Accrued Wages and Benefits	27	787	574
Increase in Claims Payable	0	0	0
Increase in Net Pension Liability	248,664	185,059	46,373
Increase in Deferred Inflows of Resources	5,781	4,069	784
Increase in Compensated Absences	3,152	10,444	0
Total Adjustments	<u>406,501</u>	<u>638,168</u>	<u>15,518</u>
Net Cash Provided (Used) by Operating Activities	<u>\$707,967</u>	<u>\$32,340</u>	<u>(\$101,260)</u>

Schedule of Noncash Investing, Capital and Financing Activities:

During 2016 the fair value of investments decreased by \$3,488 and \$2,441 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>
(\$421,140)	(\$289,175)
900,270	0
(97,452)	1,266
(485)	0
(8,957)	(1,043)
(424,983)	(45,917)
186,080	5,417
1,388	(787)
0	9,600
480,096	39,798
10,634	1,303
13,596	5,241
<u>1,060,187</u>	<u>14,878</u>
<u>\$639,047</u>	<u>(\$274,297)</u>

CITY OF SYLVANIA, OHIO

Statement of Fiduciary Net Position
December 31, 2016

	<u>Agency</u>
Assets:	
Cash and Cash Equivalents	<u>\$ 136,600</u>
Total Assets	<u>136,600</u>
Liabilities:	
Due to Others	<u>136,600</u>
Total Liabilities	<u>\$ 136,600</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, 2016

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, 2016 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, 2016

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, 2016

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.

Resource Recovery Fund - This fund is used to account for the operation of the City's resource recovery.

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, 2016

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, 2016

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, 2016

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, 2016, but which are not intended to finance 2016 operations and delinquent property taxes, whose availability is indeterminate, are recorded as deferred inflow of resources as further described in Note 5.

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. For the City, deferred outflows of resources are reported on the government-wide statement of net position for deferred loss on debt refunding and pension and explained in note 10.

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. Deferred inflows of resources related to pension are reported on the government-wide statement of net position. (See note 10)

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.

CITY OF SYLVANIA, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Budgetary Process (Continued)

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.

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 2016.

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," 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, 2016

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, 2016**

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)	\$811,750	\$82,936
Increase (Decrease):		
Accrued Revenues at December 31, 2016 received during 2017	(1,021,937)	(35)
Accrued Revenues at December 31, 2015 received during 2016	1,311,044	0
Accrued Expenditures at December 31, 2016 paid during 2017	381,682	34,261
Accrued Expenditures at December 31, 2015 paid during 2016	(365,873)	(35,069)
2015 Prepays for 2016	41,527	763
2016 Prepays for 2017	(46,223)	(789)
Outstanding Encumbrances	(18,335)	(21,708)
Budget Basis	\$1,093,635	\$60,359

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 4, "Cash, Cash Equivalents and Investments."

CITY OF SYLVANIA, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

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. The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. During fiscal year 2016, investments were limited to Certificates of Deposit, FNMA, FHLMC, FHLB, FFCB, Freddie MAC, STAR Ohio, Sylvania Township Notes and the Toledo Community Foundation, Inc. Mutual Funds. See Note 4, "Cash, Cash Equivalents and Investments."

Interest revenue credited to the General Fund during fiscal year 2016 amounted to \$77,667, which includes \$61,313 assigned from other City funds.

During 2016, the City invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The City measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For 2016, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

I. Inventory

Inventory is stated at cost (first-in, first-out) in the governmental funds and at cost 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, 2016, 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, 2016

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, 2016***

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:

Description	Governmental and Business-Type Activities Estimated Lives (in years)
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:

Obligation	Fund
General Obligation Bonds	General Obligation Debt Service Fund Court Capital Improvement Fund Water Fund
OPWC Loan Payable	General Obligation Debt Service Fund Water 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, 2016

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, 2016

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, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Pensions

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

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, 2016***

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 2016.

U. Fair Value

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

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CITY OF SYLVANIA, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

NOTE 2 – CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2016, the City has implemented GASB Statement No. 72, “Fair Value Measurement and Application”, GASB Statement No. 73 “Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68”, GASB Statement No. 76, “The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments”, GASB Statement No. 77 “Tax Abatement Disclosures” and GASB Statement No. 79, “Certain External Investment Pools and Pool Participants”.

GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurement. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The implementation of GASB Statement No. 72 did not have an effect on the financial statements of the City.

GASB Statement No. 73 improves the usefulness of information about pensions included in the general purposes external financial reports of state and local governments for making decisions and assessing accountability. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the City.

GASB Statement No. 76 identifies - in the context of the current governmental financial reporting environment - the hierarchy of generally accepted accounting principles (GAAP). This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the City.

GASB Statement No. 77 requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. These changes were incorporated in the City's 2016 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 79 establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The implementation of GASB Statement No. 79 did not have an effect on the financial statements of the City.

CITY OF SYLVANIA, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2016**

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	46,223	789	0	0	8,337	55,349
Supplies Inventory	391,185	0	0	0	95,235	486,420
Total Nonspendable	<u>437,408</u>	<u>789</u>	<u>0</u>	<u>0</u>	<u>104,635</u>	<u>542,832</u>
Restricted:						
Police Pension	0	0	0	0	43,138	43,138
City Services	0	565,918	0	0	0	565,918
Street Construction and Maintenance	0	0	0	0	379,147	379,147
City Permissive Tax	0	0	0	0	450,548	450,548
State Highway Improvement	0	0	0	0	207,144	207,144
Law Enforcement	0	0	0	0	150,671	150,671
Indigent Driver	0	0	0	0	216,989	216,989
Federal Equitable Sharing	0	0	0	0	100,268	100,268
Indigent Support	0	0	0	0	27,430	27,430
Court Capital Improvement	0	0	0	0	66,958	66,958
Total Restricted	<u>0</u>	<u>565,918</u>	<u>0</u>	<u>0</u>	<u>1,642,293</u>	<u>2,208,211</u>
Committed:						
Capital Improvements	0	0	0	11,111,321	0	11,111,321
War Memorial	0	0	0	0	150	150
Parks/Recreation	0	0	0	0	64,753	64,753
Total Committed	<u>0</u>	<u>0</u>	<u>0</u>	<u>11,111,321</u>	<u>64,903</u>	<u>11,176,224</u>
Assigned:						
Police Community Affairs	0	0	0	0	73,274	73,274
Encumbrances for Purchase Orders	15,469	0	0	0	0	15,469
Debt Service	0	0	520,506	0	0	520,506
Total Assigned	<u>15,469</u>	<u>0</u>	<u>520,506</u>	<u>0</u>	<u>73,274</u>	<u>609,249</u>
Unassigned	4,954,560	0	0	0	0	4,954,560
Total Fund Balances	<u>\$5,407,437</u>	<u>\$566,707</u>	<u>\$520,506</u>	<u>\$11,111,321</u>	<u>\$1,885,105</u>	<u>\$19,491,076</u>

CITY OF SYLVANIA, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

NOTE 4 - 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.

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CITY OF SYLVANIA, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

NOTE 4 - 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, 2016**

NOTE 4 - 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 \$6,760,895 and the bank balance was \$7,390,534. Federal depository insurance covered \$1,000,000 of the bank balance and \$6,390,534 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	<u>\$6,390,534</u>
Total Balance	<u><u>\$6,390,534</u></u>

B. Investments

The City's investments at December 31, 2016 are summarized below:

	<u>Fair Value</u>	<u>Fair Value Hierarchy</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)	\$64,501	N/A	\$64,501	\$0	\$0	\$0
STAR Ohio	77,470	N/A	77,470	0	0	0
Sylvania Township Bonds	505,000	Level 2	70,000	155,000	150,000	130,000
Negotiable CD's	6,013,532	Level 2	500,471	4,483,037	1,030,024	0
FNMA	3,163,391	Level 2	1,465,616	702,065	995,710	0
FHLMC	1,635,669	Level 2	857,318	480,685	297,666	0
FHLB	1,411,291	Level 2	401,329	765,057	244,905	0
FFCB	676,588	Level 2	676,588	0	0	0
Freddie MAC	397,599	Level 2	0	0	397,599	0
Total Investments	<u>\$13,945,041</u>		<u>\$4,113,293</u>	<u>\$6,585,844</u>	<u>\$3,115,904</u>	<u>\$130,000</u>

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, 2016

NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

B. Investments (Continued)

Credit Risk – The City’s investments in FNMA, FHLMC, FHLB, FFCB and Freddie MAC 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, FFCB and Freddie MAC securities in the amounts of \$6,013,532, \$3,163,391, \$1,635,669, \$1,411,291, \$676,588 and \$397,599, 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, 43% are Negotiable CD’s, 23% are FNMA, 12% are FHLMC, 10% are FHLB, 5% are FFCB and 2% are Freddie MAC. 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 | 50% 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, 2016

NOTE 5 - 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 2016 were levied after October 1, 2015 on assessed values as of January 1, 2015, 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 2012 and the equalization adjustment was completed in 2015. 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, 2016 was \$5.10 per \$1,000 of assessed value. The assessed value upon which the 2016 receipts were based was \$389,846,470. This amount constitutes \$384,657,820 in real property assessed value and \$5,188,650 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, 2016***

NOTE 5 - 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.

CITY OF SYLVANIA, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

NOTE 6 – TAX ABATEMENT DISCLOSURES

As of December 31, 2016, the City of Sylvania provides tax incentives under a Community Reinvestment Area (CRA).

Income Tax Abatements

The City of Sylvania created the Economic Development Grant for the purpose of maintaining Sylvania's competitiveness as a site for location of new businesses and the expansion of existing businesses. Pursuant to Ohio Revised Code Chapter 718 and City ordinance, the City provides an incentive to the company based upon the company's gross annual payroll, the amount of income tax generated annually and the number of jobs created or retained by the business. The abatement is administered as a refund based upon the company's payroll taxes. The City currently has three income tax abatements in place.

Real Estate Tax Abatements

Pursuant to Ohio Revised Code Chapter 5709, the City established a Community Reinvestment area in 1994. The City of Sylvania authorizes incentives through the passage of public ordinances, based upon each businesses investment criteria, and through a contractual application process with each business, including proof that the improvements have been made. The abatement equals an agreed upon percentage of the additional property tax resulting from the increase in assessed value as a result of the improvements. The amount of the abatement is deducted from the recipient's property tax bill. The establishment of the CRA gives the City the ability to maintain and expand businesses located in the City and create new jobs by abating or reducing assessed valuation of properties, resulting in abated taxes, from new or improved business real estate for office and industrial uses. The City currently has one real estate abatement in place.

Below is the information relevant to the disclosure of those programs for the year ended December 31, 2016.

Tax Abatement	Total Amount of Taxes Abated (Incentives Abated For the Year 2016 In Actual Dollars)
<i>Root Learning (2007 - 2016)</i>	
- Gross Dollar amount of income taxes abated during 2016	\$61,447
<i>Interrupt, LLC (2012 - 2018)</i>	
- Gross Dollar amount of income taxes abated during 2016	7,270
<i>Northern Ohio Investment Company (2015 - 2019)</i>	
- Gross Dollar amount of income taxes abated during 2016	4,682
<i>Gubbio Properties, LLC (2016 - 2025)</i>	
- Gross Dollar amount of property taxes abated during 2016	0
Total	<u>\$73,399</u>

CITY OF SYLVANIA, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2016***

NOTE 7 - RECEIVABLES

Receivables at December 31, 2016 consisted of taxes, intergovernmental receivables, special assessments, accounts receivable and interest.

NOTE 8 - TRANSFERS

Following is a summary of transfers in and out for all funds for 2016:

	Transfers In:			Total
	G.O. Debt Service Fund	Other Governmental Funds	Resource Recovery Fund	
Transfers Out:				
General Fund	\$1,450,000	\$450,139	\$50,000	\$1,950,139
	<u>\$1,450,000</u>	<u>\$450,139</u>	<u>\$50,000</u>	<u>\$1,950,139</u>

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.

Transfers from the General Fund to the Debt Service Fund are to retire bonds issued for building construction that house these operations.

CITY OF SYLVANIA, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2016**

NOTE 9 - CAPITAL ASSETS

A. Governmental Activities Capital Assets

Summary by category of changes in governmental activities capital assets at December 31, 2016:

Historical Cost:

Class	December 31, 2015	Additions	Disposals	December 31, 2016
<i>Capital assets not being depreciated:</i>				
Land	\$10,190,738	\$0	\$0	\$10,190,738
Construction in Progress	695,261	0	(695,261)	0
<i>Capital assets being depreciated:</i>				
Land Improvements	3,349,060	0	0	3,349,060
Buildings	9,799,569	0	0	9,799,569
Machinery and Equipment	5,337,351	83,304	(134,742)	5,285,913
Infrastructure	32,671,759	1,818,688	0	34,490,447
Total Cost	<u>\$62,043,738</u>	<u>\$1,901,992</u>	<u>(\$830,003)</u>	<u>\$63,115,727</u>

Accumulated Depreciation:

Class	December 31, 2015	Additions	Disposals	December 31, 2016
Land Improvements	(\$1,447,123)	\$0	\$0	(\$1,447,123)
Buildings	(5,591,956)	(472,801)	0	(6,064,757)
Machinery and Equipment	(4,682,582)	(180,920)	134,742	(4,728,760)
Infrastructure	(13,650,897)	(810,146)	0	(14,461,043)
Total Depreciation	<u>(\$25,372,558)</u>	<u>(\$1,463,867) *</u>	<u>\$134,742</u>	<u>(\$26,701,683)</u>
<i>Net Value:</i>	<u>\$36,671,180</u>			<u>\$36,414,044</u>

* Depreciation expenses were charged to governmental functions as follows:

Security of Persons and Property	\$52,305
Leisure Time Activities	16,694
Community Environment	2,107
Transportation	1,168,085
General Government	224,676
Total Depreciation Expense	<u>\$1,463,867</u>

CITY OF SYLVANIA, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2016**

NOTE 9 - CAPITAL ASSETS (continued)

B. Business-Type Activities Capital Assets

Summary by Category at December 31, 2016:

Historical Cost:

Class	December 31, 2015	Additions	Disposals	December 31, 2016
<i>Capital assets being depreciated:</i>				
Buildings	619,633	0	0	619,633
Machinery and Equipment	1,536,702	0	0	1,536,702
Improvements	40,325,983	271,200	0	40,597,183
Total Cost	<u>\$42,482,318</u>	<u>\$271,200</u>	<u>\$0</u>	<u>\$42,753,518</u>

Accumulated Depreciation:

Class	December 31, 2015	Additions	Disposals	December 31, 2016
Buildings	(\$569,133)	(\$2,134)	\$0	(\$571,267)
Machinery and Equipment	(1,110,971)	(200,897)	0	(1,311,868)
Improvements	(21,634,952)	(697,239)	0	(22,332,191)
Total Depreciation	<u>(\$23,315,056)</u>	<u>(\$900,270)</u>	<u>\$0</u>	<u>(\$24,215,326)</u>
<i>Net Value:</i>	<u>\$19,167,262</u>			<u>\$18,538,192</u>

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CITY OF SYLVANIA, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

NOTE 10 – DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

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

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

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

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

Plan Description – Ohio Public Employees Retirement System (OPERS)

Plan Description - City employees, other than full-time police and firefighters, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan and the combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. City employees) may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS’ traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

CITY OF SYLVANIA, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2016**

NOTE 10 – DEFINED BENEFIT PENSION PLANS (Continued)

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

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

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

CITY OF SYLVANIA, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2016**

NOTE 10 – DEFINED BENEFIT PENSION PLANS (Continued)

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

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

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

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

	<u>State and Local</u>
2016 Statutory Maximum Contribution Rates	
Employer	14.0 %
Employee	10.0 %
2016 Actual Contribution Rates	
Employer:	
Pension	12.0 %
Post-employment Health Care Benefits	<u>2.0</u>
Total Employer	<u>14.0 %</u>
Employee	<u>10.0 %</u>

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$638,286 for 2016.

CITY OF SYLVANIA, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

NOTE 10 – DEFINED BENEFIT PENSION PLANS (Continued)

Plan Description – Ohio Police & Fire Pension Fund (OPF)

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

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

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

The annual pension benefit for normal service retirement is equal to a percentage of the allowable average annual salary. The percentage equals 2.5 percent for each of the first 20 years of service credit, 2.0 percent for each of the next five years of service credit and 1.5 percent for each year of service credit in excess of 25 years. The maximum pension of 72 percent of the allowable average annual salary is paid after 33 years of service credit.

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

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

CITY OF SYLVANIA, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2016**

NOTE 10 – DEFINED BENEFIT PENSION PLANS (Continued)

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

	<u>Police</u>	<u>Firefighters</u>
2016 Statutory Maximum Contribution Rates		
Employer	19.50 %	24.00 %
Employee:		
January 1, 2016 through December 31, 2016	12.25 %	12.25 %
2016 Actual Contribution Rates		
Employer:		
Pension	19.00 %	23.50 %
Post-employment Health Care Benefits	<u>0.50</u>	<u>0.50</u>
Total Employer	<u>19.50 %</u>	<u>24.00 %</u>
Employee:		
January 1, 2016 through December 31, 2016	12.25 %	12.25 %

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OPF was \$493,502 for 2016.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability for OPERS was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OPF's total pension liability was measured as of December 31, 2015, and was determined by rolling forward the total pension liability as of January 1, 2015, to December 31, 2015. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Proportionate Share of Net Pension Liability	\$7,210,585	\$7,237,495	\$14,448,080
Proportionate Share of Net Pension Liability - 2016	0.041629%	0.112505%	
Proportionate Share of Net Pension Liability - 2015	<u>0.041953%</u>	<u>0.115183%</u>	
Percentage Change	<u>-0.000324%</u>	<u>-0.002678%</u>	
Pension Expense	\$979,806	\$852,707	\$1,832,513

CITY OF SYLVANIA, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2016**

NOTE 10 – DEFINED BENEFIT PENSION PLANS (Continued)

At December 31, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Deferred Outflows of Resources			
Net difference between projected and actual earnings on pension plan investments	\$2,119,460	\$1,183,966	\$3,303,426
Change in Proportionate Share	0	(5,979)	(5,979)
City contributions subsequent to the measurement date	<u>638,286</u>	<u>493,502</u>	<u>1,131,788</u>
Total Deferred Outflows of Resources	<u><u>\$2,757,746</u></u>	<u><u>\$1,671,489</u></u>	<u><u>\$4,429,235</u></u>
Deferred Inflows of Resources			
Differences between expected and actual experience	\$140,010	\$20,323	\$160,333
Change in Proportionate Share	<u>(688)</u>	<u>0</u>	<u>(688)</u>
Total Deferred Inflows of Resources	<u><u>\$139,322</u></u>	<u><u>\$20,323</u></u>	<u><u>\$159,645</u></u>

\$1,131,788 reported as deferred outflows of resources related to pension resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Year Ending December 31:			
2017	\$463,548	\$306,281	\$769,829
2018	497,438	306,281	803,719
2019	539,522	306,281	845,803
2020	479,630	243,483	723,113
2021	0	(3,916)	(3,916)
2022	<u>0</u>	<u>(746)</u>	<u>(746)</u>
Total	<u><u>\$1,980,138</u></u>	<u><u>\$1,157,664</u></u>	<u><u>\$3,137,802</u></u>

Actuarial Assumptions - OPERS

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

CITY OF SYLVANIA, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

NOTE 10 – DEFINED BENEFIT PENSION PLANS (Continued)

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage Inflation	3.75 percent
Future Salary Increases, including inflation COLA or Ad Hoc COLA	4.25 to 10.05 percent including wage inflation Pre 1/7/2013 Retirees 3 percent, simple Post 1/7/2013 Retirees 3 percent, simple through 2018, then 2.80% Simple
Investment Rate of Return	8 percent
Actuarial Cost Method	Individual Entry Age

Mortality rates were based on the RP-2000 Mortality Table projected 20 years using Projection Scale AA. For males, 105 percent of the combined healthy male mortality rates were used. For females, 100 percent of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males 120 percent of the disabled female mortality rates were used set forward two years. For females, 100 percent of the disabled female mortality rates were used.

The most recent experience study was completed for the five year period ended December 31, 2010.

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

During 2015, OPERS managed investments in four investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan and the VEBA Trust. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money weighted rate of return, net of investments expense, for the Defined Benefit portfolio is 0.4 percent for 2015.

CITY OF SYLVANIA, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2016**

NOTE 10 – DEFINED BENEFIT PENSION PLANS (Continued)

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2015 and the long-term expected real rates of return:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u>
Fixed Income	23.00 %	2.31 %
Domestic Equities	20.70	5.84
Real Estate	10.00	4.25
Private Equity	10.00	9.25
International Equities	18.30	7.40
Other investments	18.00	4.59
Total	100.00 %	5.27 %

Discount Rate The discount rate used to measure the total pension liability was 8 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the City’s proportionate share of the net pension liability calculated using the current period discount rate assumption of 8 percent, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (7 percent) or one-percentage-point higher (9 percent) than the current rate:

	<u>1% Decrease (7.00%)</u>	<u>Current Discount Rate (8.00%)</u>	<u>1% Increase (9.00%)</u>
City's proportionate share of the net pension liability	\$11,488,224	\$7,210,585	\$3,602,533

CITY OF SYLVANIA, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

NOTE 10 – DEFINED BENEFIT PENSION PLANS (Continued)

Actuarial Assumptions – OPF

OPF's total pension liability as of December 31, 2015 is based on the results of an actuarial valuation date of January 1, 2015, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OPF's actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2015, are presented below:

Valuation Date	January 1, 2015
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.25 percent
Projected Salary Increases	4.25 percent to 11 percent
Payroll Increases	3.75 percent
Inflation Assumptions	3.25 percent
Cost of Living Adjustments	2.60 percent and 3.00 percent

Rates of death are based on the RP2000 Combined Table, age-adjusted as follows. For active members, set back six years. For disability retirements, set forward five years for police and three years for firefighters. For service retirements, set back zero years for police and two years for firefighters. For beneficiaries, set back zero years. The rates are applied on a fully generational basis, with a base year of 2009, using mortality improvement Scale AA.

The most recent experience study was completed January 1, 2012.

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

Best estimates of the long-term expected geometric real rates of return for each major asset class included in OPF's target asset allocation as of December 31, 2015 are summarized below:

CITY OF SYLVANIA, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2016**

NOTE 10 – DEFINED BENEFIT PENSION PLANS (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash and Cash Equivalents	0.00 %	0.00 %
Domestic Equity	16.00	4.47
Non-US Equity	16.00	4.47
Core Fixed Income *	20.00	1.62
Global Inflation Protected *	20.00	1.33
High Yield	15.00	3.39
Real Estate	12.00	3.93
Private Markets	8.00	6.98
Timber	5.00	4.92
Master Limited Partnerships	8.00	7.03
Total	<u>120.00 %</u>	

* levered 2x

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

Discount Rate The total pension liability was calculated using the discount rate of 8.25 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the longer-term assumed investment rate of return 8.25 percent. Based on those assumptions, the plan’s fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, a long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the City’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 8.25 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.25 percent), or one percentage point higher (9.25 percent) than the current rate.

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
City's proportionate share of the net pension liability	\$9,545,287	\$7,237,495	\$5,282,569

CITY OF SYLVANIA, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

NOTE 11 – POST-EMPLOYMENT 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.

In March 2016, OPERS received two favorable rulings from the Internal Revenue Service (IRS) allowing OPERS to consolidate all health care assets into the OPERS 115 Health Care Trust. Transition to the new health care trust structure was completed July 1, 2016. As of December 31, 2016, OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage. OPERS funds a Retiree Medical Account (RMA) for participants in the Member-Directed Plan. At retirement or refund, participants can be reimbursed for qualified medical expenses from their vested RMA balance.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 20 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. Please see the Plan Statement in the OPERS 2015 CAFR for details.

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/financial/reports.shtml#CAFR>, 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 2016, 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.

CITY OF SYLVANIA, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

NOTE 11 – POST-EMPLOYMENT BENEFITS (Continued)

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

Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 2.0% during calendar year 2016. As recommended by OPERS’ actuary, the portion of employer contributions allocated to health care beginning January 1, 2017 decreased to 1.0% for both plans. The Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited to the RMA for participants in the Member-Directed Plan for 2016 was 4.0%.

The City's contributions for health care to the OPERS for the years ending December 31, 2016, 2015, and 2014 were \$106,381, \$110,277 and \$159,906, respectively, which were equal to the required contributions for each year.

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.

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% and 24.0% of covered payroll for police and fire employers, respectively. The ORC states that the employer contribution may not exceed 19.5% of covered payroll for police employer units and 24.0% of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

CITY OF SYLVANIA, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2016***

NOTE 11 – POST-EMPLOYMENT BENEFITS (Continued)

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

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 2016, 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, 2016, 2015, and 2014 were \$12,987, \$12,702 and \$10,692 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, 2016***

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, 2016, the City's accumulated, unpaid compensated absences amounted to \$1,402,171, of which \$1,136,698 is recorded as a liability of the Governmental Activities and \$265,473 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, 2016**

NOTE 13 - LONG-TERM DEBT

Long-term debt and other long-term obligations of the City at December 31, 2016 were as follows:

		Balance December 31, 2015	Additions	(Reductions)	Balance December 31, 2016	Amount Due Within One Year
Governmental Activities:						
Ohio Public Works Commission Loan:						
0.000% Northbrook Pavement Improvements	2016	\$0	\$229,403	\$0	\$229,403	\$11,470
General Obligation Bonds:						
3.0-5.05% Senior Center/Field House	2002	335,000	0	(40,000)	295,000	45,000
3.5-4.00% Various Improvements	2008	5,785,000	0	(355,000)	5,430,000	370,000
2-4.00% Various Improvements	2011	6,385,000	0	(450,000)	5,935,000	460,000
3-4.00% Various Improvements	2011	3,035,000	0	(155,000)	2,880,000	155,000
2-2.125% Street Improvement	2012	2,750,000	0	(295,000)	2,455,000	300,000
Premium		66,788	0	(7,421)	59,367	7,421
Total General Obligation Bonds		18,356,788	0	(1,302,421)	17,054,367	1,337,421
Compensated Absences		1,108,996	1,136,698	(1,108,996)	1,136,698	105,830
Net Pension Liability		9,959,301	3,110,444	(169,416)	12,900,329	0
Total Governmental Activities Long-Term Debt		\$29,425,085	\$4,476,545	(\$2,580,833)	\$31,320,797	\$1,454,721
Business-Type Activities:						
General Obligation Bond:						
2-4.00% Water Tower Bond	2011	\$2,550,000	\$0	(\$130,000)	\$2,420,000	\$135,000
Ohio Public Works Commission Loan (OPWC):						
Water Tower	2013	166,979	0	(13,915)	153,064	9,277
Compensated Absences		251,877	265,473	(251,877)	265,473	18,818
Net Pension Liability		1,067,655	488,484	(8,388)	1,547,751	0
Total Business-Type Long-Term Debt		\$4,036,511	\$753,957	(\$404,180)	\$4,386,288	\$163,095

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CITY OF SYLVANIA, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2016**

NOTE 13 - LONG-TERM DEBT (Continued)

A summary of the City's future long-term debt funding requirements, including principal and interest payments as of December 31, 2016, follows:

Years	General Obligation Bonds		OPWC Loan Payable		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$1,465,000	\$633,230	\$20,747	\$0	\$1,485,747	\$633,230
2018	1,490,000	597,119	32,217	0	1,522,217	597,119
2019	1,365,000	557,652	32,217	0	1,397,217	557,652
2020	1,400,000	520,521	32,217	0	1,432,217	520,521
2021	1,415,000	479,421	32,217	0	1,447,217	479,421
2022-2026	6,925,000	1,725,749	161,083	0	7,086,083	1,725,749
2027-2031	5,355,000	575,650	57,853	0	5,412,853	575,650
2032-2033	0	0	13,916	0	13,916	0
Totals	\$19,415,000	\$5,089,342	\$382,467	\$0	\$19,797,467	\$5,089,342

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, 2016***

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 three 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 \$2,206,109. The claims liability of \$332,000 reported in the Self Insurance Fund at December 31, 2016 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 2015 and 2016 were:

Fiscal Year	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year End
2015	\$347,400	\$1,768,981	(\$1,793,981)	\$322,400
2016	322,400	2,252,805	(2,243,205)	332,000

CITY OF SYLVANIA, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2016

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, 2016, the balance outstanding on the debt obligation is \$3,800,000.

CITY OF SYLVANIA, OHIO

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF SYLVANIA, OHIO

Schedule of City's Proportionate Share of the Net Pension Liability Last Three Years

Ohio Public Employees Retirement System

Year	<u>2013</u>	<u>2014</u>	<u>2015</u>
City's proportion of the net pension liability	0.041953%	0.041953%	0.041629%
City's proportionate share of the net pension liability	\$4,945,711	\$5,060,001	\$7,210,585
City's covered-employee payroll	\$5,792,592	\$5,242,517	\$5,235,567
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	85.38%	96.52%	137.72%
Plan fiduciary net position as a percentage of the total pension liability	86.36%	86.45%	81.08%

Source: Finance Director's Office and the Ohio Public Employees Retirement System

Ohio Police and Fire Pension Fund

Year	<u>2013</u>	<u>2014</u>	<u>2015</u>
City's proportion of the net pension liability	0.1151829%	0.1151829%	0.112505%
City's proportionate share of the net pension liability	\$5,609,769	\$5,966,955	\$7,237,495
City's covered-employee payroll	\$2,438,326	\$2,536,605	\$2,540,321
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	230.07%	235.23%	284.90%
Plan fiduciary net position as a percentage of the total pension liability	73.00%	72.20%	66.77%

Source: Finance Director's Office and the Ohio Police and Fire Pension Fund

Notes: The City implemented GASB Statement 68 in 2015.

Information prior to 2013 is not available.

The schedule is reported as of the measurement date of the Net Pension Liability.

CITY OF SYLVANIA, OHIO

***Schedule of City Contributions
Last Four Years***

Ohio Public Employees Retirement System

Year	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Contractually required contribution	\$753,037	\$629,102	\$628,268	\$638,286
Contributions in relation to the contractually required contribution	<u>753,037</u>	<u>629,102</u>	<u>628,268</u>	<u>638,286</u>
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City's covered-employee payroll	\$5,792,592	\$5,242,517	\$5,235,567	\$5,319,050
Contributions as a percentage of covered-employee payroll	13.00%	12.00%	12.00%	12.00%

Source: Finance Director's Office and the Ohio Public Employees Retirement System

Ohio Police and Fire Pension Fund

Year	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Contractually required contribution	\$416,466	\$481,955	\$482,661	\$493,502
Contributions in relation to the contractually required contribution	<u>416,466</u>	<u>481,955</u>	<u>482,661</u>	<u>493,502</u>
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City's covered-employee payroll	\$2,438,326	\$2,536,605	\$2,540,321	\$2,597,379
Contributions as a percentage of covered-employee payroll	17.08%	19.00%	19.00%	19.00%

Source: Finance Director's Office and the Ohio Police and Fire Pension Fund

Notes: The City implemented GASB Statement 68 in 2015.

Information prior to 2013 is not available.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*****INDEPENDENT AUDITORS' REPORT**

To the City Council
City of Sylvania, Ohio:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Sylvania, Ohio ("the City") as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 27, 2017, wherein we qualified our opinions on the General Fund and Capital Improvement Fund for prior audit findings for adjustment which were not made.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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 deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the schedule of findings and responses as item 2016-001 that we consider to be a material weakness.

Compliance and Other Matters

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

City's Response to the Finding

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
June 27, 2017

2016-001 Material Weakness/Prior Audit Findings for Adjustment

The Auditor of State of Ohio issued a finding for adjustment in the 2014 financial statement audit against the General Fund and in favor of the Capital Improvement Fund for \$7,411,732 as a result of the Auditor of State of Ohio's determination that transfers made from the Capital Improvement Fund to the General Fund in 2013 and 2014 were improper. The finding referenced the following sections of Ohio Revised Code:

Ohio Revised 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 Revised Code § 5705.14.

Ohio Revised 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 \$7,411,732 from the Capital Improvement Fund 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 Revised 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.

In addition, the Auditor of State of Ohio recommended 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.

The City has not made an adjustment to their financial statements or books and records in connection with this finding for adjustment.

Views of Responsible Officials: The City objected to the Finding for Adjustment for the following reasons:

- *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.*

Views of Responsible Officials (continued):

- *The City'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 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's Financial and Debt policy. 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.

City of Sylvania, Ohio
Schedule of Prior Audit Findings
Year Ended December 31, 2016

2015-001 Finding for Adjustment/Material Weakness

A finding for adjustment and material weakness against Ohio Revised Code § 5705.14 and § 5705.14(B) for making improper transfers from the Capital Improvement Fund to the General Fund in 2013 and 2014 totaling \$7,411,732.

Status: The City did not make similar transfers during 2016 or 2015. However, the finding for adjustment has not been made by the City and was repeated as Finding 2016-001.

