

**CITY OF SHEFFIELD LAKE
LORAIN COUNTY, OHIO**

AUDIT REPORT

**FOR THE YEAR ENDED
DECEMBER 31, 2011**

James G. Zupka, CPA, Inc.
Certified Public Accountants



Dave Yost • Auditor of State

City Council
City of Sheffield Lake
609 Harris Road
Sheffield Lake, OH 44054

We have reviewed the *Independent Auditors Report* of the City of Sheffield Lake, Lorain County, prepared by James G. Zupka, CPA, Inc., for the audit period January 1, 2011 through December 31, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The City of Sheffield Lake is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

August 14, 2012

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**CITY OF SHEFFIELD LAKE
LORAIN COUNTY, OHIO
AUDIT REPORT
FOR THE YEAR ENDED DECEMBER 31, 2011**

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JAMES G. ZUPKA, C.P.A., INC.

Certified Public Accountants

5240 East 98th Street

Garfield Hts., Ohio 44125

Member American Institute of Certified Public Accountants

(216) 475 - 6136

Ohio Society of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Mayor and Members of City Council
City Sheffield Lake, Ohio

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sheffield Lake, Lorain County, Ohio, as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Sheffield, Ohio's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, and the aggregate remaining fund information of the City of Sheffield Lake, Ohio, as of December 31, 2011, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, the City implemented Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* and restated the December 31, 2010 fund balances of the governmental funds due to a change in fund structure. In addition, the City restated the December 31, 2010 net assets and fund balances of the governmental activities, business-type activities, Other Governmental funds, and the Storm Water Fund due to the reclassification and the recognition of special assessment revenue.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2012, on our consideration of the City of Sheffield Lake, Ohio'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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 12 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 to 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.


James G. Zupka, CPA, Inc.
Certified Public Accountants

June 15, 2012

CITY OF SHEFFIELD LAKE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
UNAUDITED

The management's discussion and analysis of the City of Sheffield Lake's (the City) financial performance presents a narrative overview and analysis of the City's financial activities for the year ended December 31, 2011. The intent of the discussion and analysis is to present the City's financial performance as a whole. Readers are encouraged to consider this information in conjunction with the basic financial statements and notes to financial statements for an enhanced understanding of the City's financial performance.

Financial Highlights

Key financial highlights for 2011 were as follows.

The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$ 20,884,703 (net assets). Of this amount, \$ 2,039,821 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.

Total net assets decreased by \$ 587,169. This was comprised of decreases of \$ 308,142, \$ 91,115 and \$ 187,912 in invested in capital assets, net of related debt, restricted net assets, and unrestricted net assets, respectively.

At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$ 1,898,490, a decrease of \$ 188,079 in comparison with the prior year. Approximately 21 percent of this amount, \$ 403,187, is available for spending at the City's discretion (unassigned fund balance).

At the end of the current fiscal year, unassigned fund balance for the General Fund was \$ 444,953 or 11 percent of total General Fund expenditures.

The City's total long-term obligations decreased by \$ 559,360 (6 percent) during the current year.

Overview of Financial Statements

This annual report includes the City's basic financial statements, which consist of government-wide financial statements and fund financial statements, and notes to the basic financial statements. The government-wide financial statements provide information about the City as a whole, providing an aggregate view of the City's finances. The fund financial statements provide an additional level of detail.

Government-wide Financial Statements

The government-wide financial statements provide a broad overview of the City's finances in a manner similar to a private-sector business. The *Statement of Net Assets* presents information on all the City's assets and liabilities, with the difference between total assets and total liabilities reported as net assets. Increases or decreases in net assets over time serve as a useful indicator of whether or not the financial position of the City is improving or deteriorating. The *Statement of Activities* presents information reflecting the City's financial activities and changes in net assets during the year. These two statements use the accrual basis of accounting, under which revenue is generally recognized when earned and expenses recognized when incurred, regardless of when cash is received or paid. These statements distinguish between governmental activities, which are those that are principally supported by taxes and intergovernmental revenues, and business-type activities, which are those that are intended to recover their costs through user fees and charges. The City's business-type activities consist of water system operations, sanitary sewer system operations and storm water system operations.

CITY OF SHEFFIELD LAKE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
UNAUDITED

Fund Financial Statements

Governmental fund financial statements focus on the City's most significant, or major funds. The City's major governmental funds are the General Fund and Shoreway Capital Project Fund. The remaining non-major funds are combined and reflected in one single column. Governmental fund financial statements focus on near-term inflows and outflows of spendable resources and on balances of spendable resources available at year end. This information can be useful in determining what financial resources are available to finance the City's activities. A 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, 2011 is presented. The City, similar to other local governments, uses fund accounting to ensure and demonstrate finance related legal requirements.

Fund Categories

The City's funds can be divided into three categories consisting of *governmental* funds, *proprietary* funds and *fiduciary* funds.

Governmental funds

Most of the City's activities are reported in governmental funds, which are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Governmental funds use the modified accrual method of accounting, which measures cash and other financial assets readily convertible to cash.

Proprietary funds

Proprietary funds are generally used to account for activities for which the City will charge customers and users. Proprietary funds of the City consist of enterprise funds which are used to account for those functions reported as business-type activities in the government-wide financial statements. The City's enterprise funds account for water system operations, sanitary sewer system operations and storm water system operations. Proprietary funds use the accrual basis of accounting.

Fiduciary funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City and are not included in the government-wide financial statements since the resources held are not available to support City programs. The City uses only agency funds included under the fiduciary funds category. Agency funds are reported on a full accrual basis, for which only a statement of assets and liabilities is presented.

Notes to the Basic Financial Statements

Notes to the basic financial statements provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. These should be read in connection with those financial statements.

CITY OF SHEFFIELD LAKE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
UNAUDITED

The City of Sheffield Lake as a Whole

Analysis of Net Assets

The *Statement of Net Assets* presents the City as a whole. Following is a summary of the City's net assets for 2011 compared to 2010.

| | Net Assets | | | | | |
|--|-------------------------|----------------------|--------------------------|---------------------|----------------------|----------------------|
| | Governmental Activities | | Business-type Activities | | Total | |
| | 2011 | Restated 2010 | 2011 | Restated 2010 | 2011 | Restated 2010 |
| Assets | | | | | | |
| Current and other assets | \$ 8,626,492 | \$ 8,747,078 | \$ 1,066,262 | \$ 1,278,523 | \$ 9,692,754 | \$ 10,025,601 |
| Capital assets, net | <u>14,286,607</u> | <u>14,928,901</u> | <u>6,770,497</u> | <u>6,951,728</u> | <u>21,057,104</u> | <u>21,880,629</u> |
| Total assets | <u>22,913,099</u> | <u>23,675,979</u> | <u>7,836,759</u> | <u>8,230,251</u> | <u>30,749,858</u> | <u>31,906,230</u> |
| Liabilities | | | | | | |
| Current liabilities | 4,897,555 | 4,918,129 | 88,930 | 128,199 | 4,986,485 | 5,046,328 |
| Long-term liabilities | <u>3,089,008</u> | <u>3,379,083</u> | <u>1,789,662</u> | <u>2,008,947</u> | <u>4,878,670</u> | <u>5,388,030</u> |
| Total liabilities | <u>7,986,563</u> | <u>8,297,212</u> | <u>1,878,592</u> | <u>2,137,146</u> | <u>9,865,155</u> | <u>10,434,358</u> |
| Net assets | | | | | | |
| Invested in capital assets, net of related debt | 11,768,986 | 12,118,135 | 5,030,479 | 4,989,472 | 16,799,465 | 17,107,607 |
| Restricted | 2,045,417 | 2,136,532 | - | - | 2,045,417 | 2,136,532 |
| Unrestricted | <u>1,112,133</u> | <u>1,124,100</u> | <u>927,688</u> | <u>1,103,633</u> | <u>2,039,821</u> | <u>2,227,733</u> |
| Total net assets | <u>\$ 14,926,536</u> | <u>\$ 15,378,767</u> | <u>\$ 5,958,167</u> | <u>\$ 6,093,105</u> | <u>\$ 20,884,703</u> | <u>\$ 21,471,872</u> |

Investment in capital assets (land, buildings and improvements, equipment and vehicles and infrastructure) less any related debt to acquire those assets still outstanding represents the largest portion of net assets. Capital assets are used to provide services to the City's citizens, however, are not available for future spending. Total assets decreased by \$ 1,156,372 to \$ 30,749,858. Current and other assets decreased by \$ 332,847 to \$ 9,692,754. Current liabilities decreased by \$ 59,843 to \$ 4,986,485 primarily due to a decrease of notes payable due within one year. Long-term liabilities decreased by \$ 509,360 to \$ 4,878,670. Total net assets decreased by \$ 587,169 to \$ 20,884,703 with governmental net assets comprising \$ 14,926,536 and business-type net assets comprising \$ 5,958,167 of that amount.

CITY OF SHEFFIELD LAKE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
UNAUDITED

Analysis of Changes in Net Assets

To understand what makes up changes in net assets, following are results of activities for the current year compared to the prior year.

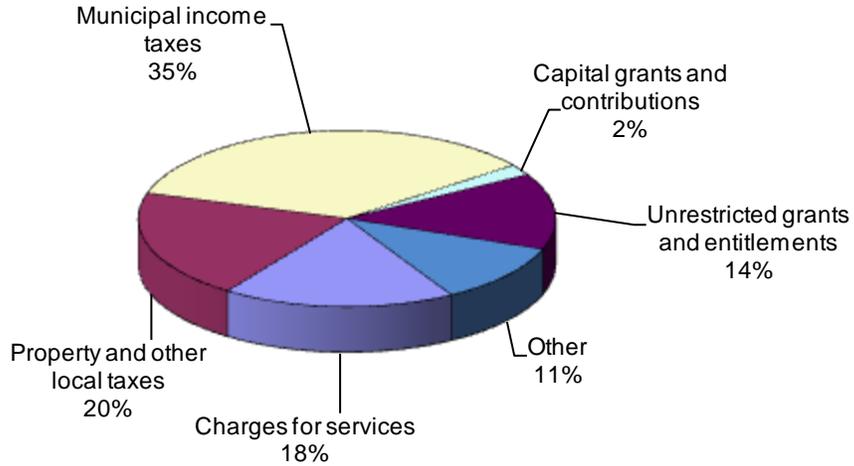
| | Change in Net Assets | | | | | |
|---|-------------------------|----------------------|--------------------------|---------------------|----------------------|----------------------|
| | Governmental Activities | | Business-type Activities | | Total | |
| | 2011 | Restated 2010 | 2011 | Restated 2010 | 2011 | Restated 2010 |
| Revenues | | | | | | |
| Program revenues | | | | | | |
| Charges for services | \$ 1,147,858 | \$ 1,156,507 | \$ 1,810,691 | \$ 1,919,133 | \$ 2,958,549 | \$ 3,075,640 |
| Capital grants and contributions | 115,000 | 220,237 | - | - | 115,000 | 220,237 |
| Total program revenues | <u>1,262,858</u> | <u>1,376,744</u> | <u>1,810,691</u> | <u>1,919,133</u> | <u>3,073,549</u> | <u>3,295,877</u> |
| General revenues | | | | | | |
| Property and other local taxes | 1,233,782 | 1,328,025 | - | - | 1,233,782 | 1,328,025 |
| Municipal income taxes | 2,173,575 | 1,782,353 | - | - | 2,173,575 | 1,782,353 |
| Grants and entitlements | 892,958 | 1,690,831 | - | - | 892,958 | 1,690,831 |
| Other | 680,880 | 557,370 | - | - | 680,880 | 557,370 |
| Total general revenues | <u>4,981,195</u> | <u>5,358,579</u> | <u>-</u> | <u>-</u> | <u>4,981,195</u> | <u>5,358,579</u> |
| Total revenues | <u>6,244,053</u> | <u>6,735,323</u> | <u>1,810,691</u> | <u>1,919,133</u> | <u>8,054,744</u> | <u>8,654,456</u> |
| Program expenses | | | | | | |
| Security of persons and property | 2,952,553 | 2,806,099 | - | - | 2,952,553 | 2,806,099 |
| Public health and welfare | 31,644 | 22,205 | - | - | 31,644 | 22,205 |
| Leisure time activities | 169,323 | 182,404 | - | - | 169,323 | 182,404 |
| Community environment | 126,069 | 139,827 | - | - | 126,069 | 139,827 |
| Basic utility services | 729,486 | 720,625 | - | - | 729,486 | 720,625 |
| Transportation | 1,349,647 | 1,501,187 | - | - | 1,349,647 | 1,501,187 |
| General government | 1,134,835 | 1,220,478 | - | - | 1,134,835 | 1,220,478 |
| Interest | 202,727 | 108,378 | - | - | 202,727 | 108,378 |
| Water | - | - | 694,764 | 589,293 | 694,764 | 589,293 |
| Sewer | - | - | 1,004,759 | 845,013 | 1,004,759 | 845,013 |
| Storm water | - | - | 246,106 | 299,360 | 246,106 | 299,360 |
| Total program expenses | <u>6,696,284</u> | <u>6,701,203</u> | <u>1,945,629</u> | <u>1,733,666</u> | <u>8,641,913</u> | <u>8,434,869</u> |
| Increase (decrease) in net assets | (452,231) | 34,120 | (134,938) | 185,467 | (587,169) | 219,587 |
| Net assets, beginning of year, restated | <u>15,378,767</u> | <u>15,344,647</u> | <u>6,093,105</u> | <u>5,907,638</u> | <u>21,471,872</u> | <u>21,252,285</u> |
| Net assets, end of year | <u>\$ 14,926,536</u> | <u>\$ 15,378,767</u> | <u>\$ 5,958,167</u> | <u>\$ 6,093,105</u> | <u>\$ 20,884,703</u> | <u>\$ 21,471,872</u> |

CITY OF SHEFFIELD LAKE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
UNAUDITED

Governmental activities

Revenues by source of governmental activities for 2011 were comprised of:

Revenues by Source, Governmental Activities

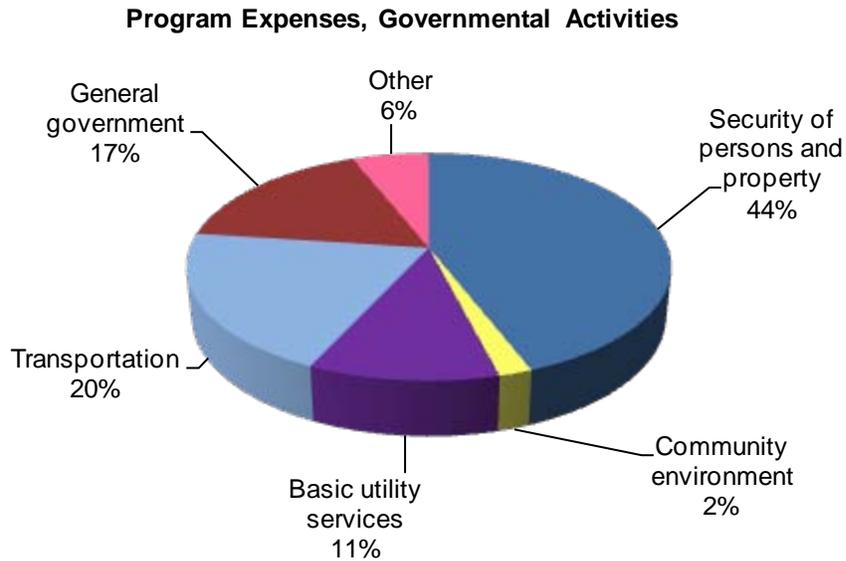


Revenues

For 2011, municipal income taxes, representing 35 percent of total revenue, was the largest portion of revenue for governmental activities. Property and other local taxes, charges for services, and grants and entitlements, represented the next three largest sources of revenue at 20 percent, 18 percent, and 14 percent respectively. Other revenue represented 11 percent of total revenue.

CITY OF SHEFFIELD LAKE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
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Program expenses of governmental activities for 2011 were comprised of:



Program expenses

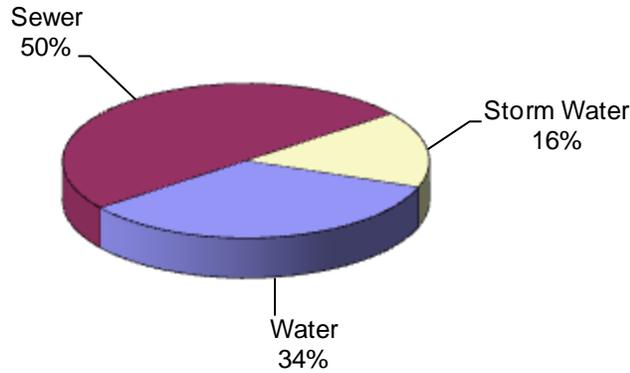
Program expenses amounted to \$ 6,696,284 in 2011, of which \$ 1,262,858 was supported by program revenue. Security of persons and property, which includes police, fire and paramedic services, represented \$ 2,952,553 or 44 percent of total program expenses. Community environment represented \$ 126,069 or 2 percent. Basic utilities services of \$ 729,486 or 11 percent includes refuse collections. Transportation, which includes street maintenance and snow removal, represented \$ 1,349,647 or 20 percent of program expenses. General government represented \$ 1,134,835 or 17 percent of program expenses. General government expenses include legislative and administrative services such as council, mayor, finance, law and computer services departments, utilities and maintenance of buildings. Other expenses include public health and welfare, leisure time activities, including recreation activities and maintenance of the City's park system, and interest amounted to \$ 403,694 or 6 percent.

CITY OF SHEFFIELD LAKE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
UNAUDITED

Business-type activities

Revenues for business-type activities for 2011 were comprised of:

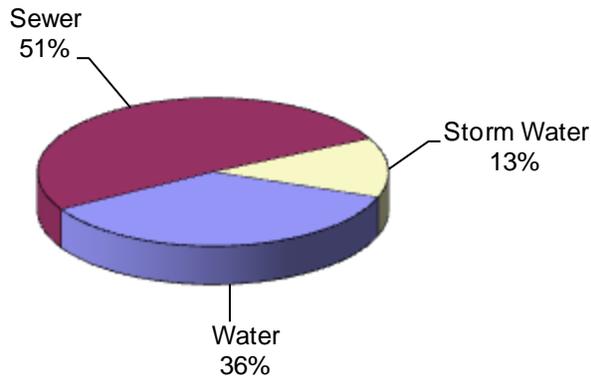
Revenue, Business-type Activities



Revenues

Charges for services represented 100 percent of total revenues for business-type activities in 2011.

Expenses, Business-type Activities



Expenses

Water operations expenses amounted to \$ 694,764 or 36 percent. Sanitary sewer operations expenses amounted to \$ 1,004,759 or 51 percent of total program expenses and storm water operation expenses amounted to \$ 246,106 or 13 percent for business-type activities. Water operations, sanitary sewer operations and storm water operations have historically been self-supporting through user fees and charges.

CITY OF SHEFFIELD LAKE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
UNAUDITED

The City's Funds

The City's governmental funds financial information begins at page 16. Total governmental assets decreased by \$ 130,586 while total governmental liabilities increased by \$ 57,493 resulting in a decrease in governmental total fund balances of \$ 188,079 to \$ 1,898,490 at year-end 2011. Total governmental funds revenues decreased by \$ 621,469 in 2011, while total expenditures decreased by \$ 363,188. Total other financing sources (uses) decreased by \$ 355,450. The City's major governmental funds in 2011 consisted of the General Fund and Shoreway Capital Projects Fund. General Fund revenues were \$ 206,793 or 5 percent lower in 2011 than 2010. General Fund total expenditures increased by \$ 261,824 or 7 percent. Other financing sources (uses) changed to (\$ 76,847) in 2011 from \$ 2,613 in 2010. Accordingly, the General Fund balance decreased by \$ 143,049 to \$ 606,428 at year-end 2011.

The City's proprietary funds information begins at page 21. Water Fund and Sewer Fund net assets decreased by (\$ 72,726), and (\$ 101,763), respectively. Storm Water Fund net assets increased by \$ 39,551. The City's proprietary funds have historically been self-sufficient.

Budgetary Highlights

The City prepares its budget in accordance with Ohio law on the basis of cash receipts, disbursements and encumbrances. The City's original budget and amendments are enacted by City Council upon recommendation of Council's Finance Committee. Budgetary expenditure modifications at the legal level of control may only be made by ordinance of City Council. The City's final budget differs from the original budget due to various amendments during the year to reflect changes in unanticipated revenue receipts.

The General Fund is the City's most significant budgeted fund. Original budgeted receipts (excluding other sources) for the General Fund were \$ 3,389,044 and final budgeted receipts were \$ 3,436,892. Original appropriations (excluding other uses) were \$ 3,790,960. The City actually expended \$ 3,620,530 which was \$ 139,433 less than final appropriations.

The City historically spends less than appropriated. For 2011, actual expenditures were 96 percent of final appropriations.

CITY OF SHEFFIELD LAKE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
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Capital Assets

Capital assets, net of depreciation, at December 31, consisted of:

| | Governmental Activities | | Business type Activities | | Total | |
|----------------------------|-------------------------|----------------------|--------------------------|---------------------|----------------------|----------------------|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Land | \$ 484,539 | \$ 484,539 | \$ 153,910 | \$ 153,910 | \$ 638,449 | \$ 638,449 |
| Buildings and improvements | 2,447,186 | 2,366,659 | 116,733 | 119,448 | 2,563,919 | 2,486,107 |
| Equipment and vehicles | 630,553 | 617,540 | 274,278 | 278,560 | 904,831 | 896,100 |
| Infrastructure | 10,724,329 | 11,460,163 | 6,225,576 | 6,399,810 | 16,949,905 | 17,859,973 |
| | <u>\$ 14,286,607</u> | <u>\$ 14,928,901</u> | <u>\$ 6,770,497</u> | <u>\$ 6,951,728</u> | <u>\$ 21,057,104</u> | <u>\$ 21,880,629</u> |

Capital assets are major assets that benefit more than one fiscal year. The City's capitalization threshold is \$ 5,000, that is, asset cost must equal \$ 5,000 or more to be capitalized. Infrastructure assets are long-lived capital assets that are normally stationary in nature with a useful life significantly greater than most capital assets. The City's governmental infrastructure includes streets, bridges, culverts, and sidewalks.

The City's total capital assets, net of depreciation, under governmental activities were \$ 14,286,607 at December 31, 2011, which was \$ 642,294 lower than the previous year. Business-type capital assets, net of depreciation, decreased by \$ 181,231 to \$ 6,770,497, primarily due to depreciation expense.

For more information about the City's capital assets, see Note 9 to the Basic Financial Statements.

Debt

Outstanding long-term obligations of the City at December 31, consisted of:

| | Governmental Activities | | Business type Activities | | Total | |
|----------------------------------|-------------------------|---------------------|--------------------------|---------------------|---------------------|---------------------|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Notes payable | \$ 4,226,905 | \$ 4,480,905 | \$ 90,000 | \$ 120,000 | \$ 4,316,905 | \$ 4,600,905 |
| Highway improvement note payable | 114,161 | 133,188 | - | - | 114,161 | 133,188 |
| OPWC loans | 324,232 | 342,293 | 245,018 | 267,256 | 569,250 | 609,549 |
| General obligation bonds | 960,000 | 1,075,000 | 1,391,409 | 1,560,050 | 2,351,409 | 2,635,050 |
| Capital leases | 87,323 | 24,380 | - | - | 87,323 | 24,380 |
| Accrued leave benefits | 571,387 | 568,317 | 63,235 | 61,641 | 634,622 | 629,958 |
| | <u>\$ 6,284,008</u> | <u>\$ 6,624,083</u> | <u>\$ 1,789,662</u> | <u>\$ 2,008,947</u> | <u>\$ 8,073,670</u> | <u>\$ 8,633,030</u> |

As of December 31, 2011, the City had \$ 8,073,670 of total long-term obligations with \$ 4,142,774 due within one year.

The general obligation bonds include various purposes including road improvements, city hall improvement, storm water improvements and construction. Sources for debt service payments include property tax collections and transfers from various funds. The City's general obligation bonds under governmental activities will be fully paid by 2018. The OPWC loans consist of several no interest loans with terms between eight and twenty years, used primarily for street reconstruction, which are repaid from the City's capital projects, street funds and sanitary sewer capital improvement funds.

The State of Ohio statute limits the amount of general obligation debt, including both voted and unvoted debt, but excluding certain exempt debt, that may be issued to 10 ½ percent of the total tax valuation of all property within the City.

For more information about the City's debt, see Notes 10 and 11 to the Basic Financial Statements.

CITY OF SHEFFIELD LAKE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
UNAUDITED

Economic Factors and Next Year's Budget

The US economy, having yet to rebound from the downturn of the last few years, has left Northeast Ohio's economy compromised as well. With recent and forecasted cuts in local government revenue from the State level, the City remains cautious with the current 2012 budget as well as projected 2013 revenues and expenditures. Our administration continues to work closely with our legislative body in accomplishing a conservative approach to everyday operations while limiting interruption of services. The City continues to monitor revenue receipts very closely for 2012 and will make any necessary adjustments with respect to situations and conditions.

In 2011 the City completed the installation of solar panels on our Community Center building which has solidified our commitment to renewable energy alternatives. Sheffield Lake continues to lead Lorain County with sound ecological technology for present and future generations.

Requests for Information

This financial report is designed to provide our citizens, taxpayers and creditors with a general overview of the City's finances and show the City's accountability for the money it receives and spends. If you have any questions about this report or need additional financial information, contact the Finance Department, City of Sheffield Lake, 609 Harris Rd., Sheffield Lake, Ohio 44054; telephone (440) 949-7141.

CITY OF SHEFFIELD LAKE, OHIO
STATEMENT OF NET ASSETS
DECEMBER 31, 2011

| | Governmental Activities | Business-Type Activities | Total |
|---|----------------------------|-----------------------------|----------------------|
| Assets | | | |
| Equity in pooled cash | \$ 1,102,342 | \$ 669,785 | \$ 1,772,127 |
| Accounts and other receivable | 203,010 | 220,896 | 423,906 |
| Due from other governments | 483,188 | - | 483,188 |
| Inventories and supplies | 17,105 | - | 17,105 |
| Prepaid expenses | 21,900 | 2,400 | 24,300 |
| Income taxes receivable | 1,427,200 | - | 1,427,200 |
| Property taxes receivable | 1,423,600 | - | 1,423,600 |
| Special assessments receivable | - | 123,576 | 123,576 |
| Property held for resale | 3,948,147 | - | 3,948,147 |
| Deferred bond issuance costs | - | 49,605 | 49,605 |
| Capital assets | | | |
| Nondepreciable capital assets | 484,539 | 153,910 | 638,449 |
| Depreciable capital assets, net | 13,802,068 | 6,616,587 | 20,418,655 |
| Total assets | 22,913,099 | 7,836,759 | 30,749,858 |
| Liabilities | | | |
| Accounts and contracts payable | 171,044 | 40,005 | 211,049 |
| Accrued wages and benefits | 41,858 | 8,061 | 49,919 |
| Accrued interest payable | 19,396 | 3,626 | 23,022 |
| Due to other governments | 171,157 | 37,238 | 208,395 |
| Deferred revenue | 1,299,100 | - | 1,299,100 |
| Notes payable | 3,195,000 | - | 3,195,000 |
| Long term liabilities | | | |
| Due within one year | 669,142 | 278,632 | 947,774 |
| Due in more than one year | 2,419,866 | 1,511,030 | 3,930,896 |
| Total liabilities | 7,986,563 | 1,878,592 | 9,865,155 |
| Net assets | | | |
| Invested in capital assets, net of related debt | 11,768,986 | 5,030,479 | 16,799,465 |
| Restricted for: | | | |
| Debt service | 64,622 | - | 64,622 |
| Capital projects | 746,178 | - | 746,178 |
| Highways and streets | 924,429 | - | 924,429 |
| Public safety | 146,809 | - | 146,809 |
| Recreation | 5,377 | - | 5,377 |
| Community environment | 132,830 | - | 132,830 |
| Other purposes | 25,172 | - | 25,172 |
| Unrestricted | 1,112,133 | 927,688 | 2,039,821 |
| Total net assets | \$ 14,926,536 | \$ 5,958,167 | \$ 20,884,703 |

See accompanying notes to the basic financial statements.

CITY OF SHEFFIELD LAKE, OHIO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

| Functions/Programs | Expenses | Program Revenues | |
|----------------------------------|---------------------|--------------------------------|----------------------------------|
| | | Charges for Services and Sales | Capital Grants and Contributions |
| Governmental activities | | | |
| Security of persons and property | \$ 2,952,553 | \$ 413 | \$ - |
| Public health and welfare | 31,644 | - | - |
| Leisure time activities | 169,323 | 25,805 | 74,500 |
| Community environment | 126,069 | - | 40,500 |
| Basic utility services | 729,486 | 678,465 | - |
| Transportation | 1,349,647 | 6,720 | - |
| General government | 1,134,835 | 436,455 | - |
| Interest | 202,727 | - | - |
| Total governmental activities | <u>6,696,284</u> | <u>1,147,858</u> | <u>115,000</u> |
| Business-type activities: | | | |
| Water | 694,764 | 622,038 | - |
| Sewer | 1,004,759 | 902,996 | - |
| Storm Water | 246,106 | 285,657 | - |
| Total business-type activities | <u>1,945,629</u> | <u>1,810,691</u> | <u>-</u> |
| Total | <u>\$ 8,641,913</u> | <u>\$ 2,958,549</u> | <u>\$ 115,000</u> |

General revenues

- Property taxes levied for:
 - General purpose
 - Debt service
 - Other
- Municipal income taxes levied for:
 - General purpose
 - Roads
- Grants and entitlements not restricted to sp
- Investment earnings
- Miscellaneous

Total general revenues

Change in net assets

- Net assets at beginning of year, restated
- Net assets at end of year

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and Changes in Net Assets

| Governmental Activities | Business-Type Activities | Total |
|----------------------------|-----------------------------|----------------|
| \$ (2,952,140) | \$ - | \$ (2,952,140) |
| (31,644) | - | (31,644) |
| (69,018) | - | (69,018) |
| (85,569) | - | (85,569) |
| (51,021) | - | (51,021) |
| (1,342,927) | - | (1,342,927) |
| (698,380) | - | (698,380) |
| (202,727) | - | (202,727) |
| (5,433,426) | - | (5,433,426) |
| - | (72,726) | (72,726) |
| - | (101,763) | (101,763) |
| - | 39,551 | 39,551 |
| - | (134,938) | (134,938) |
| (5,433,426) | (134,938) | (5,568,364) |
| 333,857 | - | 333,857 |
| 75,473 | - | 75,473 |
| 824,452 | - | 824,452 |
| 1,745,415 | - | 1,745,415 |
| 428,160 | - | 428,160 |
| 892,958 | - | 892,958 |
| 1,811 | - | 1,811 |
| 679,069 | - | 679,069 |
| 4,981,195 | - | 4,981,195 |
| (452,231) | (134,938) | (587,169) |
| 15,378,767 | 6,093,105 | 21,471,872 |
| \$ 14,926,536 | \$ 5,958,167 | \$ 20,884,703 |

CITY OF SHEFFIELD LAKE, OHIO
BALANCE SHEET – GOVERNMENTAL FUNDS
DECEMBER 31, 2011

| | General | Shoreway Capital Project | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|--------------------------------|--------------------------------|--------------------------------|
| Assets | | | | |
| Equity in pooled cash | \$ 570,508 | \$ - | \$ 531,834 | \$ 1,102,342 |
| Income taxes receivables | 1,141,760 | - | 285,440 | 1,427,200 |
| Property taxes receivable | 384,900 | - | 1,038,700 | 1,423,600 |
| Due from other governments | 154,490 | - | 328,698 | 483,188 |
| Accounts and other receivable | 203,010 | - | - | 203,010 |
| Inventories and supplies | 3,811 | - | 13,294 | 17,105 |
| Prepaid expenses | 20,200 | - | 1,700 | 21,900 |
| Property held for resale | - | 3,948,147 | - | 3,948,147 |
| Total assets | \$ 2,478,679 | \$ 3,948,147 | \$ 2,199,666 | \$ 8,626,492 |
| Liabilities and fund balances | | | | |
| Liabilities | | | | |
| Accounts and contracts payable | \$ 150,562 | \$ - | \$ 20,482 | \$ 171,044 |
| Accrued wages and benefits | 38,231 | - | 3,627 | 41,858 |
| Accrued interest payable | - | 7,320 | - | 7,320 |
| Due to other governments | 106,760 | - | 64,397 | 171,157 |
| Deferred revenue | 1,569,093 | - | 1,564,925 | 3,134,018 |
| Notes payable | - | 3,195,000 | - | 3,195,000 |
| Accrued leave benefits | 7,605 | - | - | 7,605 |
| Total liabilities | 1,872,251 | 3,202,320 | 1,653,431 | 6,728,002 |
| Fund balances | | | | |
| Nonspendable | 24,011 | - | 14,994 | 39,005 |
| Restricted | - | 745,827 | 573,007 | 1,318,834 |
| Assigned | 330,281 | - | - | 330,281 |
| Unassigned (deficit) | 252,136 | - | (41,766) | 210,370 |
| Total fund balances | 606,428 | 745,827 | 546,235 | 1,898,490 |
| Total liabilities and fund balances | \$ 2,478,679 | \$ 3,948,147 | \$ 2,199,666 | \$ 8,626,492 |

See accompanying notes to the basic financial statements.

CITY OF SHEFFIELD LAKE, OHIO
 RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
 TO NET ASSETS OF GOVERNMENTAL ACTIVITIES

DECEMBER 31, 2011

| | | |
|--|-------------|---------------|
| Total governmental funds balances | | \$ 1,898,490 |
| Amount reported for governmental activities in the statement of net assets are different because: | | |
| Capital assets used in governmental activities are not financial resources and therefore not reported in the funds. | | 14,286,607 |
| Other long term assets are not available to pay for current period expenditures and therefore are deferred in the funds: | | |
| Property and other local taxes | 124,500 | |
| Accounts and other receivables | 87,203 | |
| Municipal income tax | 1,178,125 | |
| Intergovernmental | 445,090 | |
| Total | | 1,834,918 |
| In the statement of activities, interest is accrued on outstanding long-term obligations, whereas in governmental funds, an interest expenditure is reported when due. | | (12,076) |
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds: | | |
| Notes payable | (1,146,066) | |
| OPWC loans payable | (324,232) | |
| General obligation bonds | (960,000) | |
| Capital leases | (87,323) | |
| Accrued leave benefits | (563,782) | |
| | | (3,081,403) |
| Net assets of governmental activities | | \$ 14,926,536 |

See accompanying notes to the basic financial statements.

CITY OF SHEFFIELD LAKE, OHIO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

| | General | Shoreway Capital Project | Other Governmental Funds | Total Governmental Funds |
|---|-------------------|--------------------------------|--------------------------------|--------------------------------|
| Revenues | | | | |
| Property and other local taxes | \$ 339,557 | \$ - | \$ 907,625 | \$ 1,247,182 |
| Municipal income taxes | 1,642,517 | - | 402,435 | 2,044,952 |
| Intergovernmental revenue | 406,245 | - | 672,261 | 1,078,506 |
| Special assessments | - | - | 974 | 974 |
| Charges for services | 983,047 | - | - | 983,047 |
| Fines, licenses, and permits | 171,904 | - | 763 | 172,667 |
| Interest | 1,744 | - | 67 | 1,811 |
| Miscellaneous | 608,797 | - | 25,013 | 633,810 |
| Total revenues | 4,153,811 | - | 2,009,138 | 6,162,949 |
| Expenditures | | | | |
| Current | | | | |
| Security of persons and property | 1,996,449 | - | 1,000,556 | 2,997,005 |
| Public health and welfare | 31,644 | - | - | 31,644 |
| Leisure time activities | 109,551 | - | - | 109,551 |
| Community environment | 94,138 | - | 10,485 | 104,623 |
| Basic utility services | 683,570 | - | - | 683,570 |
| Transportation | - | - | 641,923 | 641,923 |
| General government | 1,145,907 | - | 17,385 | 1,163,292 |
| Capital outlay | 74,550 | - | 45,000 | 119,550 |
| Debt service | | | | |
| Note principal | - | - | 653,027 | 653,027 |
| Bond principal | 35,000 | - | 80,000 | 115,000 |
| OPWC loan principal | 2,358 | - | 15,703 | 18,061 |
| Capital lease principal | 27,447 | - | - | 27,447 |
| Interest and fiscal charges | 19,399 | 98,408 | 88,918 | 206,725 |
| Total expenditures | 4,220,013 | 98,408 | 2,552,997 | 6,871,418 |
| Deficiency of revenues over expenditures | (66,202) | (98,408) | (543,859) | (708,469) |
| Other financing sources (uses) | | | | |
| Transfers-in | - | 150,169 | 17,068 | 167,237 |
| Note proceeds | - | - | 430,000 | 430,000 |
| Capital lease proceeds | 90,390 | - | - | 90,390 |
| Transfers-out | (167,237) | - | - | (167,237) |
| Total other financing sources (uses) | (76,847) | 150,169 | 447,068 | 520,390 |
| Net change in fund balance | (143,049) | 51,761 | (96,791) | (188,079) |
| Fund balances, beginning of year, restated | 749,477 | 694,066 | 643,026 | 2,086,569 |
| Fund balances, end of year | \$ 606,428 | \$ 745,827 | \$ 546,235 | \$ 1,898,490 |

See accompanying notes to the basic financial statements.

CITY OF SHEFFIELD LAKE, 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, 2011

| | | |
|---|--------------------------------|---------------------|
| Net change in fund balances - total governmental funds | | \$ (188,079) |
| 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 useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded net capital outlay in the current period. | | |
| | Capital outlay, net | 282,020 |
| | Depreciation expense | <u>(924,314)</u> |
| | | (642,294) |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds: | | |
| | Municipal income tax | 128,623 |
| | Property and other local taxes | (13,400) |
| | Miscellaneous | 37,403 |
| | Intergovernmental revenue | <u>(71,522)</u> |
| | | 81,104 |
| Debt proceeds are an other financing source in the funds, but increase long-term liabilities in the Statement of Net Assets. | | |
| | | (520,390) |
| Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. | | |
| | Note principal paid | 653,027 |
| | OPWC loan principal paid | 18,061 |
| | Bond principal paid | 115,000 |
| | Capital lease principal paid | <u>27,447</u> |
| | | 813,535 |
| In the statement of activities, interest is accrued on outstanding debt, whereas in governmental funds, an interest expenditure is reported when due. | | |
| | | 3,998 |
| Some expenses reported in the statement of activities, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. | | |
| | Accrued leave benefits | <u>(105)</u> |
| Change in net assets of governmental activities | | <u>\$ (452,231)</u> |

See accompanying notes to the basic financial statements.

CITY OF SHEFFIELD LAKE, OHIO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2011

| | General Fund | | | Variance with Final Budget Positive (Negative) |
|--|-------------------|-------------------|-------------------|---|
| | Budget Amounts | | Actual | |
| | Original | Final | | |
| Revenues | | | | |
| Property and other local taxes | \$ 337,446 | \$ 339,557 | \$ 339,557 | - |
| Municipal income taxes | 1,562,500 | 1,614,775 | 1,614,775 | - |
| Intergovernmental revenue | 452,105 | 406,245 | 406,245 | - |
| Charges for services | 304,150 | 295,123 | 295,123 | - |
| Fines, licenses, and permits | 223,500 | 171,854 | 171,904 | 50 |
| Interest | 4,500 | 1,741 | 1,744 | 3 |
| Miscellaneous | 504,843 | 607,597 | 608,797 | 1,200 |
| Total revenues | 3,389,044 | 3,436,892 | 3,438,145 | 1,253 |
| Expenditures | | | | |
| Current | | | | |
| Security of persons and property | 1,949,075 | 1,957,314 | 1,902,225 | 55,089 |
| Public health and welfare | 58,300 | 44,000 | 32,944 | 11,056 |
| Leisure time activities | 137,236 | 120,236 | 111,812 | 8,424 |
| Community environment | 103,420 | 94,520 | 92,789 | 1,731 |
| General government | 1,439,997 | 1,263,242 | 1,200,439 | 62,803 |
| Capital outlay | 20,330 | 74,880 | 74,550 | 330 |
| Debt service | | | | |
| Principal | 47,974 | 45,000 | 45,000 | - |
| Bond principal | 27,270 | 35,000 | 35,000 | - |
| OPWC loan principal | 2,358 | 2,358 | 2,358 | - |
| Interest and fiscal charges | 5,000 | 123,413 | 123,413 | - |
| Total expenditures | 3,790,960 | 3,759,963 | 3,620,530 | 139,433 |
| Excess (deficiency) of revenues over expenditures | (401,916) | (323,071) | (182,385) | 140,686 |
| Other financing sources (uses) | | | | |
| Transfers-in | 10,000 | - | - | - |
| Note issuance | 297,000 | - | - | - |
| Transfers-out | (22,000) | (22,200) | (17,068) | 5,132 |
| Total other financing sources (uses) | 285,000 | (22,200) | (17,068) | 5,132 |
| Net change in fund balance | (116,916) | (345,271) | (199,453) | 145,818 |
| Prior year encumbrances | 49,539 | 49,539 | 49,539 | - |
| Fund balances, beginning of year | 548,365 | 548,365 | 548,365 | - |
| Fund balances, end of year | \$ 480,988 | \$ 252,633 | \$ 398,451 | \$ 145,818 |

See accompanying notes to the basic financial statements.

CITY OF SHEFFIELD LAKE, OHIO
STATEMENT OF FUND NET ASSETS -
PROPRIETARY FUNDS
DECEMBER 31, 2011

| | Business-Type Activities - Enterprise Funds | | | |
|---|---|---------------------|---------------------|---------------------|
| | Water | Sewer | Storm Water | Total |
| Assets | | | | |
| Current assets | | | | |
| Equity in pooled cash | \$ 163,531 | \$ 393,710 | \$ 112,544 | \$ 669,785 |
| Accounts and other receivable | 67,548 | 108,259 | 45,089 | 220,896 |
| Prepaid expenses | 1,900 | 500 | - | 2,400 |
| Total current assets | <u>232,979</u> | <u>502,469</u> | <u>157,633</u> | <u>893,081</u> |
| Noncurrent assets | | | | |
| Special assessments receivable | - | - | 123,576 | 123,576 |
| Deferred bond issuance costs | - | - | 49,605 | 49,605 |
| Nondepreciable capital assets | - | 33,500 | 120,410 | 153,910 |
| Depreciable capital assets, net | 520,897 | 557,189 | 5,538,501 | 6,616,587 |
| Total noncurrent assets | <u>520,897</u> | <u>590,689</u> | <u>5,832,092</u> | <u>6,943,678</u> |
| Total assets | <u>753,876</u> | <u>1,093,158</u> | <u>5,989,725</u> | <u>7,836,759</u> |
| Liabilities | | | | |
| Current | | | | |
| Accounts and contracts payable | 32,639 | 7,366 | - | 40,005 |
| Accrued wages and benefits | 3,878 | 3,218 | 965 | 8,061 |
| Accrued interest payable | 810 | - | 2,816 | 3,626 |
| Due to other governments | 17,340 | 17,248 | 2,650 | 37,238 |
| Notes payable | 90,000 | - | - | 90,000 |
| OPWC loans payable | - | - | 22,238 | 22,238 |
| General obligation bonds payable | - | - | 165,000 | 165,000 |
| Accrued leave benefits | 558 | 836 | - | 1,394 |
| Total current liabilities | <u>145,225</u> | <u>28,668</u> | <u>193,669</u> | <u>367,562</u> |
| Long-term liabilities | | | | |
| OPWC loans payable | - | - | 222,780 | 222,780 |
| General obligation bonds payable | - | - | 1,226,409 | 1,226,409 |
| Accrued leave benefits | 24,383 | 36,576 | 882 | 61,841 |
| Total long-term liabilities | <u>24,383</u> | <u>36,576</u> | <u>1,450,071</u> | <u>1,511,030</u> |
| Total liabilities | <u>169,608</u> | <u>65,244</u> | <u>1,643,740</u> | <u>1,878,592</u> |
| Net assets | | | | |
| Investment in capital assets, net of related debt | 430,897 | 590,689 | 4,008,893 | 5,030,479 |
| Unrestricted | 153,371 | 437,225 | 337,092 | 927,688 |
| Total net assets | <u>\$ 584,268</u> | <u>\$ 1,027,914</u> | <u>\$ 4,345,985</u> | <u>\$ 5,958,167</u> |

See accompanying notes to the basic financial statements.

CITY OF SHEFFIELD LAKE, OHIO
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

| | Business-Type Activities - Enterprise Funds | | | Total |
|---|---|---------------------|---------------------|---------------------|
| | Water | Sewer | Storm Water | |
| Operating revenues | | | | |
| Charges for services | \$ 622,038 | \$ 902,996 | \$ 284,174 | \$ 1,809,208 |
| Miscellaneous | - | - | 1,483 | 1,483 |
| Total operating revenues | <u>622,038</u> | <u>902,996</u> | <u>285,657</u> | <u>1,810,691</u> |
| Operating expenses | | | | |
| Personal services | 275,690 | 267,575 | 40,641 | 583,906 |
| Contractual services | 358,485 | 632,633 | 8,645 | 999,763 |
| Supplies and materials | 27,282 | 57,371 | 2,701 | 87,354 |
| Other operating | 12,671 | 5,779 | - | 18,450 |
| Depreciation | 17,220 | 41,401 | 152,620 | 211,241 |
| Total operating expenses | <u>691,348</u> | <u>1,004,759</u> | <u>204,607</u> | <u>1,900,714</u> |
| Operating income (loss) | <u>(69,310)</u> | <u>(101,763)</u> | <u>81,050</u> | <u>(90,023)</u> |
| Nonoperating revenues (expenses) | | | | |
| Interest and fiscal charges | (3,416) | - | (41,499) | (44,915) |
| Net nonoperating revenues (expenses) | <u>(3,416)</u> | <u>-</u> | <u>(41,499)</u> | <u>(44,915)</u> |
| Change in net assets | (72,726) | (101,763) | 39,551 | (134,938) |
| Net assets, beginning of year, restated | <u>656,994</u> | <u>1,129,677</u> | <u>4,306,434</u> | <u>6,093,105</u> |
| Net assets, end of year | <u>\$ 584,268</u> | <u>\$ 1,027,914</u> | <u>\$ 4,345,985</u> | <u>\$ 5,958,167</u> |

See accompanying notes to the basic financial statements.

CITY OF SHEFFIELD LAKE, OHIO
STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

| | Business-Type Activities - Enterprise Funds | | | |
|---|---|-------------------|-------------------|-------------------|
| | Water | Sewer | Storm Water | Total |
| Cash flows from operating activities: | | | | |
| Receipts from customers and users | \$ 627,342 | \$ 907,554 | \$ 293,236 | \$ 1,828,132 |
| Cash paid to suppliers for materials and supplies | (26,518) | (56,951) | (2,701) | (86,170) |
| Cash paid for employee services and benefits | (275,066) | (270,427) | (43,790) | (589,283) |
| Cash paid for contractual services | (353,199) | (670,423) | (8,645) | (1,032,267) |
| Other operating revenues | - | - | 1,483 | 1,483 |
| Other operating expenses | (13,056) | (5,933) | - | (18,989) |
| Net cash provided by (used in) operating activities | <u>(40,497)</u> | <u>(96,180)</u> | <u>239,583</u> | <u>102,906</u> |
| Cash flows from capital and related financing activities: | | | | |
| Issuance of notes | 90,000 | - | - | 90,000 |
| Special assessments | - | - | 9,829 | 9,829 |
| Note principal payment | (120,000) | - | - | (120,000) |
| OPWC loans payments | - | - | (22,238) | (22,238) |
| Bond principal payments | - | - | (170,000) | (170,000) |
| Payment of interest and fiscal charges | (4,436) | - | (34,461) | (38,897) |
| Acquisition of fixed assets | (18,575) | (11,435) | - | (30,010) |
| Net cash (used in) capital and related financing activities | <u>(53,011)</u> | <u>(11,435)</u> | <u>(216,870)</u> | <u>(281,316)</u> |
| Net increase (decrease) in cash and equivalents | (93,508) | (107,615) | 22,713 | (178,410) |
| Equity in pooled cash and equivalents, beginning of year, restated | <u>257,039</u> | <u>501,325</u> | <u>89,831</u> | <u>848,195</u> |
| Equity in pooled cash and equivalents, end of year | <u>\$ 163,531</u> | <u>\$ 393,710</u> | <u>\$ 112,544</u> | <u>\$ 669,785</u> |

(Continued)

See accompanying notes to the basic financial statements.

CITY OF SHEFFIELD LAKE, OHIO
STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Concluded)

| | Business-Type Activities - Enterprise Funds | | | |
|---|---|--------------------|-------------------|-------------------|
| | Water | Sewer | Storm Water | Total |
| Reconciliation of operating income to net cash provided by (used in) operating activities: | | | | |
| Operating income (loss) | \$ (69,310) | \$ (101,763) | \$ 81,050 | \$ (90,023) |
| Adjustments: | | | | |
| Depreciation | 17,220 | 41,401 | 152,620 | 211,241 |
| Changes in net assets (increase) decrease and liabilities increase (decrease) | | | | |
| Accounts and other receivable | 5,304 | 4,558 | 9,062 | 18,924 |
| Prepaid expenses | (700) | 100 | - | (600) |
| Accounts and contracts payable | 26,394 | 525 | - | 26,919 |
| Accrued wages and benefits | 46 | (2,530) | (557) | (3,041) |
| Due to other governments | (19,846) | (39,064) | (3,198) | (62,108) |
| Accrued leave benefits | 395 | 593 | 606 | 1,594 |
| Net cash provided by (used in) operating activities | <u>\$ (40,497)</u> | <u>\$ (96,180)</u> | <u>\$ 239,583</u> | <u>\$ 102,906</u> |

See accompanying notes to the basic financial statements.

CITY OF SHEFFIELD LAKE, OHIO
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
DECEMBER 31, 2011

| | <u>Agency Funds</u> |
|--|-------------------------|
| Assets | |
| Equity in pooled cash | \$ 37,987 |
| Cash and investments w ith fiscal agents | 5,924 |
| Property taxes receivable | 328,700 |
| Due from other governments | <u>16,700</u> |
| Total assets | <u>\$ 389,311</u> |
| Liabilities | |
| Due to others | \$ 43,911 |
| Due to other governments | <u>345,400</u> |
| Total liabilities | <u>\$ 389,311</u> |

See accompanying notes to the basic financial statements.

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CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 1 DESCRIPTION OF THE CITY AND REPORTING ENTITY

The City of Sheffield Lake, Ohio was founded in 1815. The voters originally adopted the Sheffield Lake Charter in November 1961, in order to secure the benefits of municipal home rule. Under the Ohio Constitution, the City may exercise all powers of local self-government to the extent not in conflict with applicable general laws. The City, under its charter, operates with an elected Council/Mayor form of government. The responsibilities for the major financial functions of the City are divided among the Mayor, Council, Finance Director, and Treasurer. The City's fiscal year corresponds with the calendar year.

A reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the financial statements of the City are not misleading. The primary government of the City consists of all funds, agencies, departments, boards and offices that are not legally separate from the City. The primary government includes the City departments and agencies that provide the following services: police protection, fire fighting and prevention, street maintenance and repairs, sanitation, building inspection, parks and recreation, water and sewer, and mayor's court.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organizations' governing board and 1) the City is able to significantly influence the programs or services performed or provided by the organization, or 2) the City is legally entitled to or can otherwise access the organizations' resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of or provide financial support to the organization; or the City is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the City in that the City approves the budget, the issuance of debt or the levying of taxes. The City does not have any component units, therefore the financial statements are that of the primary government.

The City is associated with the Lorain County General Health District, a jointly governed organization, which provides health services to the members of the Health District. The City does not have any financial interest in or responsibility for the Health District. The County Auditor serves as fiscal agent. See Note 20.

The City is a member of the Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed with an aggregation program for the purchase of electricity. See Note 20.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Sheffield Lake have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its business-type activities and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. The most significant of the City's accounting policies are described below.

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. BASIS OF PRESENTATION

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

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

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

Fund Financial Statements

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

B. FUND ACCOUNTING

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

Governmental Funds

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

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. FUND ACCOUNTING (continued)

General Fund - The General fund accounts for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the City for any purpose provided it is expended or transferred according to the charter of the City and/or the general laws of Ohio.

Shoreway Capital Project Fund – This fund accounts for the cleaning up, remediation of and redevelopment of the Shoreway Shopping Center.

Proprietary Funds

Proprietary fund reporting focuses on changes in net assets, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service. The City has no internal service funds.

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

Water Fund - The Water fund accounts for the operation of the City's drinking water distribution system.

Sewer Fund – The Sewer fund accounts for the operation of the City's sewer collection system.

Storm Water Fund – The Storm Water fund accounts for the operation of the City's storm water system.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City has no trust funds. Agency funds are purely custodial in nature (assets equal liabilities) and thus do not involve measurement of results of operations. The City's agency funds account for assets of the Domonkas Library, mayor's court collections, and deposits from citizens, contractors and developers.

C. MEASUREMENT FOCUS

Government-wide Financial Statements

The government-wide financial statements are prepared using the flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the Statement of Net Assets. The Statement of Activities presents increases (i.e. revenues) and decreases (i.e. expenses) in net assets.

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. MEASUREMENT FOCUS (continued)

Fund Financial Statements

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

Amounts reported as program revenues include: charges to customers for goods, services, or privileges provided; operating grants and contributions; and capital grants and contributions including special assessments. Internally dedicated resources are reported as general revenues rather than program revenues, as are taxes.

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in accordance with the proprietary fund's principle on going operations. The principle operating revenue of the City's water fund, sewer fund and storm water fund are charges for services. These funds also recognize fees intended to recover the cost of connecting new customers to the City's water and sewer utility systems as operating revenue. Operating expenses for the enterprise funds include the cost of services, administrative expenses and overhead and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenue and expenses.

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

D. BASIS OF ACCOUNTING

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

Revenues - Exchange and Non-exchange Transactions

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

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. BASIS OF ACCOUNTING (continued)

Revenues - Exchange and Non-exchange Transactions (continued)

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

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

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of December 31, 2011, but which were levied to finance year 2012 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

E. BUDGETARY PROCESS

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations ordinance, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or decreased tax rates. The certificate of estimated resources establishes a limit on the amount Council may appropriate. The appropriations ordinance is Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Council.

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. BUDGETARY PROCESS (continued)

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time the final appropriations were enacted by Council.

The appropriations ordinance is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation ordinance for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriations amounts passed by Council during the year.

F. CASH AND CASH EQUIVALENTS

The City pools its cash for investment and administration purposes. Deposit and investment procedures are restricted by the provisions of the Ohio Revised Code. For purposes of the statement of cash flows, the City considers all investments to be cash equivalents.

G. INVESTMENTS

Nonparticipating interest-earning investment contracts are stated at cost. Money market investments and participating interest earning investment contracts with a remaining maturity of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value.

During the year, the City invested funds in the State Treasury Assets Reserve (STAR Ohio). STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within Ohio to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of The Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2011.

H. INVENTORIES

Inventories are valued at the lower of cost (first-in, first-out) or market. The costs of inventory items are recognized as expenditures when purchased in the governmental funds and recognized as expenses when used in the enterprise funds.

I. CAPITAL ASSETS

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

CITY OF SHEFFIELD LAKE, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. CAPITAL ASSETS (continued)

Capital assets are recorded at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of five thousand dollars. The City's infrastructure consists of streets, bridges, culverts, curbs, sidewalks, storm sewers, and water and sanitary sewer systems. Improvements are capitalized; whereas the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

| <u>Description</u> | <u>Estimated Lives</u> |
|----------------------------|----------------------------|
| Buildings and improvements | 30 to 50 years |
| Infrastructure | 10 to 50 years |
| Equipment and vehicles | 3 to 20 years |

L. PROPERTY HELD FOR RESALE

Property held for resale is recorded at the lower of cost or fair market value.

K. INTERFUND BALANCES

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as "interfund receivables/payables". Interfund loans, which do not represent available expendable resources should be offset by an equal amount in nonspendable fund balance unless the proceeds from their collection are restricted, committed or assigned. Interfund balance amounts are eliminated in the statement of net assets, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

L. UNPAID COMPENSATED ABSENCES

Vacation benefits are accrued as a liability as the benefits are earned if the employee's rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability is based on an estimate of the amount of accumulated sick leave that will be paid as a termination benefit.

M. ACCRUED LIABILITIES AND LONG-TERM LIABILITIES

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. All payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

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

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

N. NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are 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 government-wide statement of net assets for the governmental activities reports \$ 2,045,417 of restricted net assets, none of which is restricted by enabling legislation. The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

O. FUND BALANCE

Fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned.

Restricted - Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions.

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

Assigned - Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by the City Council.

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

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

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

P. OPERATING REVENUES AND EXPENSES

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 primarily for water, sanitary sewer and storm water services. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund.

Q. CONTRIBUTIONS OF CAPITAL

Contributions of capital in proprietary fund financial statements arise from outside contributions of capital assets, tap-in fees to the extent they exceed the cost of the connection to the system, or from grants or outside contributions of resources restricted to capital acquisition and construction.

R. INTERFUND ACTIVITY

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

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.

S. 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 Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the current year.

T. USE OF ESTIMATES

The preparation of the 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.

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 3 PRIOR PERIOD ADJUSTMENT AND CHANGE IN ACCOUNTING PRINCIPLES

A. PRIOR PERIOD ADJUSTMENT

During the year, the City reclassified prior year collections of special assessments of \$ 75,744 from the debt service fund type to the proprietary fund type, which assessments are now being used to pay principal and interest of a debt obligation in the Storm Water Fund (an Enterprise Fund). Further, the opening balance of net assets of the Storm Water Fund has been increased to reflect the recognition of revenue related to the recording of the special assessment receivable.

The prior period adjustment had the following effect on net assets on the Statement of Activities:

| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Total</u> |
|--|------------------------------------|-------------------------------------|----------------------|
| Net assets at 12/31/10, as previously reported | \$ 15,454,511 | \$ 5,883,956 | \$ 21,338,467 |
| Reclassify collection of special assessments | (75,744) | 75,744 | - |
| Correction for special assessment revenue | - | 133,405 | 133,405 |
| Net assets at 12/31/10, as restated | <u>\$ 15,378,767</u> | <u>\$ 6,093,105</u> | <u>\$ 21,471,872</u> |

The prior period adjustment had the following effect on fund balances on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances and on net assets on the Proprietary Funds Statement of Revenues, Expenses and Changes in Fund Net Assets:

| | <u>As Previously Reported</u> | | <u>Restated</u> |
|--|---|--|---|
| | <u>Other Governmental Funds</u> | <u>Roads - Income Tax Fund</u> | <u>Other Governmental Funds</u> |
| Fund balance at 12/31/10, as previously reported | \$ 478,222 | \$ - | \$ 478,222 |
| Fund reported as a major fund in 2010 but is not a major fund in 2011 | - | 354,657 | 354,657 |
| Reclassify to Storm Water Fund | - | - | (75,744) |
| Fund balance, as restated at 12/31/10 | <u>\$ 478,222</u> | <u>\$ 354,657</u> | <u>\$ 757,135</u> ♦ |

♦ See NOTE 3 B for restatement due to implementation of GASB 54.

| | <u>Storm Water Fund</u> |
|--|-----------------------------|
| Net assets balance at 12/31/10, as previously reported | \$ 4,097,285 |
| Reclassify from Other Governmental Funds | 75,744 |
| Correction for special assessment revenue | 133,405 |
| As restated at 12/31/10 | <u>\$ 4,306,434</u> |

CITY OF SHEFFIELD LAKE, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 3 PRIOR PERIOD ADJUSTMENT AND CHANGE IN ACCOUNTING PRINCIPLES (continued)

B. CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2011, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions and Governmental Fund Type Definitions", and GASB Statement No. 59, "Financial Instruments Omnibus".

GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of this statement resulted in the reclassification of certain funds and restatement of the City's financial statements.

GASB Statement No. 59 updates and improves guidance for financial reporting and disclosure requirements of certain financial instruments and external investment pools. The implementation of GASB Statement No. 59 did not have an effect on the financial statements of the City.

The implementation of GASB Statement No. 54 had the following effect on fund balances of the major and nonmajor funds as they were previously reported:

| | <u>General Fund</u> | <u>Shoreway Capital Project Fund</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--------------------------|---------------------|--|---|---|
| Fund balance at 12/31/10 | | | | |
| As previously reported | \$ 635,368 | \$ 694,066 | \$ 757,135 ♦ | \$ 2,086,569 |
| Change in fund structure | 114,109 | - | (114,109) | - |
| As restated at 12/31/10 | <u>\$ 749,477</u> | <u>\$ 694,066</u> | <u>\$ 643,026</u> | <u>\$ 2,086,569</u> |

♦ As previously reported for Other Governmental Funds reflect the prior period adjustment to reclassify a certain debt service fund to the proprietary fund type. See NOTE 3 A.

NOTE 4 COMPLIANCE AND ACCOUNTABILITY

Not apparent in the basic financial statements, the following funds also had deficit fund balances:

| | |
|-----------------------|-------------|
| Special Revenue Funds | |
| Police Pension Fund | \$ (20,883) |
| Fire Pension Fund | \$ (20,883) |

These deficits result from reflecting expenditures in accordance with the modified accrual basis of accounting, which are larger than amounts recognized on the budget basis. The City in accordance with its budget basis, will appropriate such expenditures from resources of the subsequent year.

CITY OF SHEFFIELD LAKE, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 5 BUDGETARY BASIS OF ACCOUNTING

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

Revenues are recorded when received (budget basis) rather than when susceptible to accrual (GAAP basis).

Expenditures are recorded when paid or encumbered (budget basis), rather than when the liability is incurred (GAAP basis).

Proceeds from and principal payments on short-term note obligations are reported on the operating statement (budget basis) rather than balance sheet transactions (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund.

| | Net Change in Fund Balance |
|----------------------------------|-------------------------------|
| | General Fund |
| Budget basis | \$ (199,453) |
| Adjustments, increase (decrease) | |
| Revenue accruals | 127,591 |
| Expenditure accruals | (109,510) |
| Funds budgeted elsewhere ** | (5,105) |
| Encumbrances | 43,428 |
| GAAP basis, as reported | \$ (143,049) |

** As part of Governmental Accounting Standards Board Statement No. 54, "Fund Balance Reporting", the Refuse Fund is legally budgeted in a separate special revenue fund but is considered part of the General Fund on a GAAP basis.

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 6 – FUND BALANCES

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

| | General Fund | Shoreway Capital Project Fund | Other Governmental Funds | Total |
|---------------------------------|-------------------|-------------------------------------|--------------------------------|---------------------|
| Nonspendable | | | | |
| Inventories and supplies | \$ 3,811 | \$ - | \$ 13,294 | \$ 17,105 |
| Prepaid expenses | 20,200 | | 1,700 | 21,900 |
| Total nonspendable | 24,011 | - | 14,994 | 39,005 |
| Restricted for: | | | | |
| Shoreway capital project | - | 745,827 | - | 745,827 |
| Debt service | - | - | 52,422 | 52,422 |
| Capital projects | - | - | 351 | 351 |
| Highways and streets | - | - | 437,750 | 437,750 |
| Public safety | - | - | 28,609 | 28,609 |
| Recreation | - | - | 4,877 | 4,877 |
| Community environment | - | - | 23,826 | 23,826 |
| Other | - | - | 25,172 | 25,172 |
| Total restricted | - | 745,827 | 573,007 | 1,318,834 |
| Assigned for | | | | |
| Encumbrances | 28,460 | - | - | 28,460 |
| Fiscal year 2012 appropriations | 192,817 | - | - | 192,817 |
| Refuse services | 109,004 | - | - | 109,004 |
| Total assigned | 330,281 | - | - | 330,281 |
| Unassigned (deficit) | 252,136 | - | (41,766) | 210,370 |
| Total fund balances | \$ 606,428 | \$ 745,827 | \$ 546,235 | \$ 1,898,490 |

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 7 - DEPOSITS AND INVESTMENTS

A. LEGAL REQUIREMENTS

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

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

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

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

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

Interim monies may be invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio).

CITY OF SHEFFIELD LAKE, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 7 - DEPOSITS AND INVESTMENTS (continued)

A. LEGAL REQUIREMENTS (continued)

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

B. DEPOSITS

Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits may not be returned. The City does not have a deposit policy for custodial credit risk. At fiscal year end, the carrying amount of the City's deposits was \$ 481,931 and the bank balance was \$ 533,432. Of the bank balance, \$ 375,106 was covered by federal depository insurance and \$ 158,326 by collateral held by third party trustees in accordance with the Ohio Revised Code, in collateral pools securing all public funds on deposit with specific depository institutions, which amount is considered uncollateralized as defined by the Government Accounting Standards Board.

C. INVESTMENTS

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. As of December 31, 2011, the City had the following investments:

| | | |
|-----------|-------------------|---------------------|
| | <u>Maturities</u> | <u>Fair Value</u> |
| STAR Ohio | <u>n/a</u> | <u>\$ 1,334,107</u> |

D. INTEREST RATE RISK

The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date.

E. CREDIT RISK

The City follows the Ohio Revised Code that limits its investment choices. As of December 31, 2011, the City's investments in Star Ohio were rated AAAM by Standard & Poor's.

F. CONCENTRATION OF CREDIT RISK

The City places no limit on the amount that may be invested in any one issuer.

NOTE 8 RECEIVABLES

Receivables at December 31, 2011, consisted primarily of municipal income taxes, property and other taxes, intergovernmental receivables arising from entitlements, shared revenues, interest, and accounts (billings for utility service).

No allowances for doubtful accounts have been recorded because uncollectible amounts are expected to be insignificant.

CITY OF SHEFFIELD LAKE, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 8 RECEIVABLES (continued)

A. PROPERTY TAXES

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2011 for real and public utility property taxes represents collections of the 2010 taxes. Property tax payments received during 2011 for tangible personal property (other than public utility property) is for 2011 taxes.

2011 real property taxes are levied after October 1, 2011, on the assessed value as of January 1, 2011, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2011 real property taxes are collected in and intended to finance 2012.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2011 public utility property taxes became a lien December 31, 2010, are levied after October 1, 2011, and are collected in 2012 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2011 was \$ 18.61 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2011 property tax receipts were based are as follows:

| | |
|----------------------------------|------------------------------|
| Property valuation consisted of: | |
| Real property | |
| Residential/agricultural | \$ 143,301,340 |
| Commercial/industrial | 14,942,240 |
| Tangible personal property | |
| Public utilities | <u>1,662,640</u> |
| Total valuation | <u><u>\$ 159,906,220</u></u> |

Real property taxes are payable annually or semi-annually. If paid annually, the payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City of Sheffield Lake. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2011 and for which there is an enforceable legal claim. In the governmental funds, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2011 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, delinquent property taxes have been recorded as revenue while the remainder of the receivable is deferred.

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 8 RECEIVABLES (continued)

B. INCOME TAXES

The City levies an income tax of 1.25% on substantially all income earned within the City. In addition, residents are required to pay City income tax on income earned outside the City with a certain credit for income taxes paid to other municipalities. Employers within the City are required to withhold income tax on employee compensation and remit at least quarterly. Corporations and other individual taxpayers are also required to pay their estimated taxes at least quarterly and file a final return annually.

Of the income taxes collected, 80% is credited to the General Fund and 20% is credited to the Roads – Income Tax Fund, a special revenue fund. This distribution was determined by a 2004 vote of the people.

C. INTERGOVERNMENTAL RECEIVABLES

A summary of the principal items of governmental activities and agency funds intergovernmental receivables follows:

| | <u>Amount</u> |
|-----------------------------|-------------------|
| Local government assistance | \$ 121,600 |
| Gasoline tax | 225,270 |
| Permissive tax | 50,828 |
| Homestead and rollback | 88,800 |
| Estate tax | 13,390 |
| | <u>\$ 499,888</u> |

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 9 CAPITAL ASSETS

A summary of changes in capital assets during 2011 follows:

| | Balance January 1 | Additions | Disposals | Balance December 31 |
|---|----------------------|---------------------|---------------|------------------------|
| <u>Governmental activities</u> | | | | |
| Capital assets, not being depreciated | | | | |
| Land | \$ 484,539 | \$ - | \$ - | \$ 484,539 |
| Total capital assets, not being depreciated | <u>484,539</u> | <u>-</u> | <u>-</u> | <u>484,539</u> |
| Capital assets, being depreciated | | | | |
| Buildings and improvements | 3,543,202 | 155,670 | - | 3,698,872 |
| Equipment and vehicles | 2,067,206 | 126,350 | 11,500 | 2,182,056 |
| Infrastructure | 38,263,896 | - | - | 38,263,896 |
| Total capital assets being depreciated | <u>43,874,304</u> | <u>282,020</u> | <u>11,500</u> | <u>44,144,824</u> |
| Less accumulated depreciation | | | | |
| Buildings and improvements | 1,176,543 | 75,143 | - | 1,251,686 |
| Equipment and vehicles | 1,449,666 | 113,337 | 11,500 | 1,551,503 |
| Infrastructure | 26,803,733 | 735,834 | - | 27,539,567 |
| Total accumulated depreciation | <u>29,429,942</u> | <u>924,314</u> | <u>11,500</u> | <u>30,342,756</u> |
| Total capital assets being depreciated, net | <u>14,444,362</u> | <u>(642,294)</u> | <u>-</u> | <u>13,802,068</u> |
| Total governmental capital assets, net | <u>\$ 14,928,901</u> | <u>\$ (642,294)</u> | <u>\$ -</u> | <u>\$ 14,286,607</u> |
| <u>Business-type activities</u> | | | | |
| Capital assets, not being depreciated | | | | |
| Land | \$ 153,910 | \$ - | \$ - | \$ 153,910 |
| Total capital assets, not being depreciated | <u>153,910</u> | <u>-</u> | <u>-</u> | <u>153,910</u> |
| Capital assets, being depreciated | | | | |
| Buildings and improvements | 150,818 | - | - | 150,818 |
| Equipment and vehicles | 596,683 | 30,010 | - | 626,693 |
| Infrastructure | 11,880,736 | - | - | 11,880,736 |
| Total capital assets being depreciated | <u>12,628,237</u> | <u>30,010</u> | <u>-</u> | <u>12,658,247</u> |
| Less accumulated depreciation | | | | |
| Buildings and improvements | 31,370 | 2,715 | - | 34,085 |
| Equipment and vehicles | 318,123 | 34,292 | - | 352,415 |
| Infrastructure | 5,480,926 | 174,234 | - | 5,655,160 |
| Total accumulated depreciation | <u>5,830,419</u> | <u>211,241</u> | <u>-</u> | <u>6,041,660</u> |
| Total capital assets being depreciated, net | <u>6,797,818</u> | <u>(181,231)</u> | <u>-</u> | <u>6,616,587</u> |
| Total business-type capital assets, net | <u>\$ 6,951,728</u> | <u>\$ (181,231)</u> | <u>\$ -</u> | <u>\$ 6,770,497</u> |

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 9 CAPITAL ASSETS (continued)

Depreciation expense was charged to governmental functions as follows:

| | |
|----------------------------------|-------------------|
| Security of persons and property | \$ 62,692 |
| Leisure time activities | 59,772 |
| Basic utility services | 45,916 |
| Transportation | 736,375 |
| General government | 19,559 |
| | <u>\$ 924,314</u> |

NOTE 10 NOTES PAYABLE

Short-term notes payable during the year consisted of the following general obligation bond anticipation notes:

| | Balance, 12/31/10 | Additions | Reductions | Balance, 12/31/11 |
|-------------------------------------|----------------------|---------------------|---------------------|----------------------|
| Governmental activities | | | | |
| Short-term notes payable | | | | |
| Bond anticipation notes | | | | |
| Shoreway Capital Project fund | | | | |
| 3.25% issued 11/29/10, due 11/28/11 | \$ 3,245,000 | \$ - | \$ 3,245,000 | \$ - |
| Shoreway Capital Project fund | | | | |
| 2.25% issued 11/23/11, due 11/14/12 | - | 3,195,000 | - | 3,195,000 |
| | <u>\$ 3,245,000</u> | <u>\$ 3,195,000</u> | <u>\$ 3,245,000</u> | <u>\$ 3,195,000</u> |

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 11 LONG-TERM DEBT

The original issue date, interest rate, original issue amount and date of maturity of each of the City's bonds, long-term loans and notes follow:

| <u>Debt Issue</u> | <u>Original Issue Date</u> | <u>Maturity Date</u> | <u>Interest Rate</u> | <u>Original Issue Amount</u> |
|---------------------------------|--------------------------------|--------------------------|--------------------------|----------------------------------|
| <u>Governmental activities</u> | | | | |
| General obligation bonds | | | | |
| Building improvements | 1996 | 2016 | 6.20% | \$ 200,000 |
| Street improvements | 2003 | 2018 | 3.60 - 5.00% | 1,200,000 |
| Street improvements | 1998 | 2018 | 5.00 - 5.20% | 500,000 |
| Tax anticipation note | 2007 | 2027 | 4.78% | 800,000 |
| Bond anticipation note | 2011 | 2012 | 1.80% | 160,000 |
| Bond anticipation note | 2011 | 2012 | 1.80% | 270,000 |
| Highway improvement note | 2006 | 2017 | 0.00% | 175,908 |
| Ohio Public Works loan | 2001 | 2017 | 0.00% | 35,371 |
| Ohio Public Works loan | 2004 | 2013 | 0.00% | 28,566 |
| Ohio Public Works loan | 2007 | 2028 | 0.00% | 99,190 |
| Ohio Public Works loan | 2007 | 2028 | 0.00% | 25,264 |
| Ohio Public Works loan | 2010 | 2030 | 0.00% | 100,000 |
| Ohio Public Works loan | 2010 | 2030 | 0.00% | 118,172 |
| <u>Business-type activities</u> | | | | |
| General obligation bonds | | | | |
| Storm water improvements | 2011 | 2021 | 1.00 - 3.70% | 1,575,000 |
| Bond anticipation note | 2011 | 2012 | 1.80% | 90,000 |
| Ohio Public Works loan | 2000 | 2009 | 0.00% | 30,000 |
| Ohio Public Works loan | 2000 | 2020 | 0.00% | 124,842 |
| Ohio Public Works loan | 2003 | 2024 | 0.00% | 140,949 |
| Ohio Public Works loan | 2003 | 2024 | 0.00% | 81,187 |
| Ohio Public Works loan | 2003 | 2024 | 0.00% | 97,793 |

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 11 LONG-TERM DEBT (continued)

Changes in the City's long-term obligations during 2011 were as follows:

| | Outstanding 12/31/10 | Additions | Reductions | Outstanding 12/31/11 | Due in One Year |
|---------------------------------|-------------------------|-------------------|-------------------|-------------------------|--------------------|
| <u>Governmental activities</u> | | | | | |
| General obligation bonds | | | | | |
| Building improvement (1996) | | | | | |
| 6.20% through 2016 | \$ 85,000 | \$ - | \$ 10,000 | \$ 75,000 | \$ 15,000 |
| Street improvement (2003) | | | | | |
| 3.60% - 5.00% | | | | | |
| through 2018 | 735,000 | - | 80,000 | 655,000 | 80,000 |
| Street improvement (1998) | | | | | |
| 5.00% - 5.20% | | | | | |
| through 2018 | 255,000 | - | 25,000 | 230,000 | 30,000 |
| | <u>1,075,000</u> | <u>-</u> | <u>115,000</u> | <u>960,000</u> | <u>125,000</u> |
| Tax anticipation note | 641,905 | - | 40,000 | 601,905 | 40,000 |
| Bond anticipation notes | 594,000 | 430,000 | 594,000 | 430,000 | 430,000 |
| Highway improvement note | 133,188 | - | 19,027 | 114,161 | 19,027 |
| OPWC loans | 342,293 | - | 18,061 | 324,232 | 23,060 |
| Capital leases | 24,380 | 90,390 | 27,447 | 87,323 | 24,450 |
| Accrued leave benefits | 568,317 | 7,710 | 4,640 | 571,387 | 7,605 |
| Total governmental activities | <u>\$ 3,379,083</u> | <u>\$ 528,100</u> | <u>\$ 818,175</u> | <u>\$ 3,089,008</u> | <u>\$ 669,142</u> |
| <u>Business-type activities</u> | | | | | |
| General obligation bonds | | | | | |
| Storm water improvement | | | | | |
| 1.00% - 3.70% | | | | | |
| through 2021 | \$ 1,575,000 | \$ - | \$ 170,000 | \$ 1,405,000 | \$ 165,000 |
| Less deferred amount on | | | | | |
| refundings | (14,950) | - | (1,359) | (13,591) | - |
| Bond anticipation notes | 120,000 | 90,000 | 120,000 | 90,000 | 90,000 |
| OPWC loans | 267,256 | - | 22,238 | 245,018 | 22,238 |
| Accrued leave benefits | 61,641 | 1,594 | - | 63,235 | 1,394 |
| Total business-type activities | <u>\$ 2,008,947</u> | <u>\$ 91,594</u> | <u>\$ 310,879</u> | <u>\$ 1,789,662</u> | <u>\$ 278,632</u> |

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 11 LONG-TERM DEBT (continued)

General obligation bonds are direct obligations of the City for which its full faith and credit are pledged for payment. The general obligation bonds are paid from the General Fund and the Roads-Income Tax Fund. The storm water bonds are paid from Storm Water Fund revenues.

Long-term notes payable are paid from the Roads-Income Tax Fund, the Debt Service Fund, the Capital Improvements Fund, Shoreway Capital Project Fund and the Water Fund.

OPWC loan payments are paid from the General Fund and from the respective special revenue, capital project and enterprise funds.

Compensated absences will be paid from the funds from which employees' wages are paid.

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2011, excluding accrued leave benefits, are as follows:

| Year | Governmental Activities | | | | |
|-----------|--------------------------|-------------------|-------------------------|-----------------|--------------------------|
| | General Obligation Bonds | | Bond Anticipation Notes | | Highway Improvement Note |
| | Principal | Interest | Principal | Interest | Principal |
| 2012 | \$ 125,000 | \$ 48,093 | \$ 430,000 | \$ 7,804 | \$ 19,027 |
| 2013 | 130,000 | 42,163 | - | - | 19,027 |
| 2014 | 135,000 | 36,014 | - | - | 19,027 |
| 2015 | 140,000 | 29,084 | - | - | 19,027 |
| 2016 | 150,000 | 21,874 | - | - | 19,027 |
| 2017-2021 | 280,000 | 21,480 | - | - | 19,026 |
| 2022-2026 | - | - | - | - | - |
| 2027-2030 | - | - | - | - | - |
| | <u>\$ 960,000</u> | <u>\$ 198,708</u> | <u>\$ 430,000</u> | <u>\$ 7,804</u> | <u>\$ 114,161</u> |

| Year | Governmental Activities | | | | |
|-----------|-------------------------|-------------------|-------------------|---------------------|-------------------|
| | Tax Anticipation Note | | OPWC Loans | Total | |
| | Principal | Interest | Principal | Principal | Interest |
| 2012 | \$ 40,000 | \$ 28,771 | \$ 23,060 | \$ 637,087 | \$ 84,668 |
| 2013 | 40,000 | 26,859 | 19,490 | 208,517 | 69,022 |
| 2014 | 40,000 | 24,947 | 19,489 | 213,516 | 60,961 |
| 2015 | 40,000 | 23,035 | 19,489 | 218,516 | 52,119 |
| 2016 | 40,000 | 21,123 | 19,491 | 228,518 | 42,997 |
| 2017-2021 | 200,000 | 76,935 | 85,655 | 584,681 | 98,415 |
| 2022-2026 | 200,000 | 29,135 | 85,655 | 285,655 | 29,135 |
| 2027-2030 | 1,905 | 30 | 51,903 | 53,808 | 30 |
| | <u>\$ 601,905</u> | <u>\$ 230,835</u> | <u>\$ 324,232</u> | <u>\$ 2,430,298</u> | <u>\$ 437,347</u> |

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 11 LONG-TERM DEBT (continued)

| Year | Business-Type Activities | | | |
|-----------|--------------------------|-------------------|-------------------------|-----------------|
| | General Obligation Bonds | | Bond Anticipation Notes | |
| | Principal | Interest | Principal | Interest |
| 2012 | \$ 165,000 | \$ 33,796 | \$ 90,000 | \$ 1,633 |
| 2013 | 165,000 | 31,650 | - | - |
| 2014 | 170,000 | 29,176 | - | - |
| 2015 | 170,000 | 26,116 | - | - |
| 2016 | 175,000 | 22,546 | - | - |
| 2017-2021 | 560,000 | 59,662 | - | - |
| 2022-2026 | - | - | - | - |
| | <u>\$ 1,405,000</u> | <u>\$ 202,946</u> | <u>\$ 90,000</u> | <u>\$ 1,633</u> |

| Year | Total | | |
|-----------|-------------------|--------------------------|-------------------|
| | OPWC Loans | Business-Type Activities | |
| | Principal | Principal | Interest |
| 2012 | \$ 22,238 | \$ 277,238 | \$ 35,429 |
| 2013 | 22,238 | 187,238 | 31,650 |
| 2014 | 22,240 | 192,240 | 29,176 |
| 2015 | 22,239 | 192,239 | 26,116 |
| 2016 | 22,239 | 197,239 | 22,546 |
| 2017-2021 | 101,831 | 661,831 | 59,662 |
| 2022-2026 | 31,993 | 31,993 | - |
| | <u>\$ 245,018</u> | <u>\$ 1,740,018</u> | <u>\$ 204,579</u> |

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 12 CAPITAL LEASES

The City is obligated under certain leases accounted for as a capital leases. The leased assets are included in capital assets and the related obligations are included under long-term debt. At December 31, 2011, assets under capital lease totaled \$ 129,416 in governmental activities, with related accumulated depreciation of \$ 26,087. The leases are in effect until 2015. The following is the schedule of future minimum lease payments under the capital lease together with the net present value of the minimum lease payments as of December 31, 2011.

| Year Ending December 31, | Governmental Activities |
|---|----------------------------|
| 2012 | \$ 28,602 |
| 2013 | 28,602 |
| 2014 | 19,944 |
| 2015 | 19,944 |
| Total minimum lease payments | 97,092 |
| Less amount representing interest | (9,769) |
| Net present value of minimum lease payments | \$ 87,323 |

NOTE 13 OPERATING LEASES

The City is obligated under leases accounted for as operating leases. Total lease expense for the year ended December 31, 2011 was \$ 6,855. The following is a schedule of future minimum lease payments required under operating leases that have initial or remaining noncancellable lease terms in excess of one year as of December 31, 2011.

| Year ending December 31 | Amount |
|----------------------------|----------|
| 2012 | \$ 2,764 |
| 2013 | 1,740 |
| 2014 | 1,305 |
| Total minimum payments | \$ 5,809 |

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 14 DEFINED BENEFIT PENSION PLANS

A. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM

Ohio Public Employees Retirement System (OPERS) administers three separate pension plans as described below:

1. The Traditional Pension Plan—a cost sharing, multiple-employer defined benefit pension plan.
2. The Member-Directed Plan—a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings.
3. The Combined Plan—a cost sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

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

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2011, member and employer contribution rates were consistent across all three plans. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Pension Plan. The 2011 member contribution rates were 10.0 percent for members in state and local classifications. Public safety and law enforcement members contributed 11.0 percent and 11.6 percent, respectively.

The 2011 employer contribution rate for state and local employers was 14.0 percent of covered payroll. The law enforcement and public safety division employer contribution rate was 18.10 percent of covered payroll.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2011, 2010, and 2009, were \$ 138,299, \$ 133,715, and \$ 121,703, respectively. For 2011, \$ 127,620 (92.3 percent) has been contributed. The balance was subsequently contributed in 2012. The full amount has been contributed for 2010 and 2009.

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 14 DEFINED BENEFIT PENSION PLANS (continued)

B. OHIO POLICE AND FIRE PENSION FUND

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

Plan members are required to contribute 10 percent of their annual covered salary, while employers are required to contribute 19.5 percent and 24 percent respectively for police officers and firefighters.

The City's contributions to OP&F for police and firefighters pensions, respectively, were \$ 79,503 and \$ 139,582 for the year ended December 31, 2011 and \$ 71,648 and \$ 139,570 for the year ended December 31, 2010, and \$ 87,262 and \$ 162,665 for the year ended December 31, 2009. The full amount has been contributed for 2010 and 2009. For 2011, \$ 59,459 (74.8 percent) and \$ 100,153 (71.8 percent) has been contributed for police and firefighters pensions, respectively. The balance was subsequently paid in 2012.

NOTE 15 – POSTEMPLOYMENT BENEFITS

A. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM

Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan - a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan - a defined contribution plan; and the Combined Plan - a cost sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

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

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

The Ohio Revised Code 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 Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing OPERS, 277 East Town Street, Columbus OH 43215-4642, or by calling 614-222-5601 or 800- 222-7377.

The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care 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.

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 15 – POSTEMPLOYMENT BENEFITS (continued)

A. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (continued)

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2011, state and local employers contributed at a rate of 14.00 percent of covered payroll and public safety and law enforcement employer units contributed at 18.10 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active members do not make contributions to the OPEB Plan.

OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 4.0 percent during calendar year 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent during calendar year 2011. The portion of employer contributions allocated to health care for the calendar year beginning January 1, 2012 remained the same, but they are subject to change based on Board action. Employers will be notified if the portion allocated to health care changes during calendar year 2012. The OPERS Board of Trustees is also authorized to establish rules for the retiree, or their surviving beneficiaries, to pay a portion of the health care benefits provided. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City contributions to fund postemployment benefits for the years ended December 31, 2011, 2010, and 2009, were \$ 55,320, \$ 76,141, and \$ 88,013, respectively. For 2011, \$ 51,048 (92.3 percent) has been contributed. The balance was subsequently contributed in 2012. The full amount has been contributed for 2010 and 2009.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates for state and local employers increased on January 1 of each year from 2006 to 2008. Rates for law and public safety employers increased over a six year period beginning on January 1, 2006, with a final rate increase on January 1, 2011. These rate increases allowed additional funds to be allocated to the health care plan.

B. OHIO POLICE AND FIRE PENSION FUND

The City contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored health care program, a cost-sharing multiple-employer defined postemployment health care plan administered by OP&F. OP&F provides healthcare 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 meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

The Ohio Revised Code allows, but does not mandate OP&F to provide OPEB benefits. Authority for the OP&F Board of Trustees to provide health care coverage to eligible participants and to establish and amend benefits are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information for the Plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 15 – POSTEMPLOYMENT BENEFITS (continued)

B. OHIO POLICE AND FIRE PENSION FUND (continued)

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

OP&F maintains funds for health care in two separate accounts. One 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 the year ended December 31, 2011, the employer contribution allocated to the health care plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

The OP&F Board of Trustees 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 actual contributions to fund postemployment health care benefits for police and firefighters were \$ 42,090 and \$ 57,980 for the year ended December 31, 2011, \$ 37,932 and \$ 54,614 for the year ended December 31, 2010, and \$ 46,200 and \$ 63,600 for the year ended December 31, 2009. The full amount has been contributed for 2010 and 2009. For 2011, \$ 31,478 (74.8 percent) and \$ 41,602 (71.8 percent) has been contributed for police and firefighters, respectively. The balance was subsequently paid in 2011.

NOTE 16 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. These risks are covered by commercial insurance purchased from independent third parties. For the past several years, settled claims from these risks have not exceeded coverage.

NOTE 17 FEDERAL GRANTS AND ENTITLEMENTS

For the year ended December 31, 2011, the City recognized federal grants and entitlements. These programs generally require compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2011.

CITY OF SHEFFIELD LAKE, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 18 CONTINGENCIES

The City is defendant in certain lawsuits, the outcome of which cannot be determined. It is the opinion of the City's management that any judgment against the City would not have a material adverse effect on the City's financial position.

NOTE 19 INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2011 were made to account for payment of short term anticipation notes and consisted of the following:

| | Transferred from: |
|-------------------------------|----------------------|
| | General Fund |
| <u>Transferred to:</u> | |
| Shoreway Capital Project Fund | \$ 150,169 |
| Non-major governmental funds | 17,068 |
| | \$ 167,237 |

NOTE 20 JOINTLY GOVERNED ORGANIZATIONS

A. LORAIN COUNTY GENERAL HEALTH DISTRICT

The Lorain County General Health District, a jointly governed organization, provides health care services to the citizens within the Health District. The Health District is governed by the Board of Health which represents the area served by the Health District and oversees the operation of the Health District. The Board of Health members are appointed to staggered four year terms. One member is appointed by the City of North Ridgeville, one member is jointly appointed by the Cities of Avon and Sheffield Lake and one member is appointed jointly by the Cities of Amherst and Oberlin. The remaining four members are appointed by the various mayors of villages, chairmen of the township trustees and the County Commissioners. Financial information can be obtained by contacting the Health Commissioner, 9880 S. Murray Ridge Road, Elyria, Ohio 44035.

B. NORTHEAST OHIO PUBLIC ENERGY COUNCIL

The City is a member of the Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed with an aggregation program for the purchase of electricity. NOPEC is currently comprised of over 100 communities who have been authorized by ballot to purchase electricity on behalf of their citizens. The intent of NOPEC is to provide electricity at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity to the citizens of its member communities.

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each county then elect one person to serve on the eight member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. The City did not contribute to NOPEC during 2009. Financial information can be obtained by contacting the Joseph Migliorini, Board Chairman, 31320 Solon Road, Suite 20, Solon, Ohio 44139.

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 21 SUBSEQUENT EVENTS

On June 12, 2012, the City issued \$ 355,000 of bond anticipation notes for the purpose of retiring notes issued to pay costs of various capital improvements.

JAMES G. ZUPKA, C.P.A., INC.

Certified Public Accountants

5240 East 98th Street

Garfield Hts., Ohio 44125

Member American Institute of Certified Public Accountants

(216) 475 - 6136

Ohio Society of Certified Public Accountants

**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**

To the Mayor and Members of City Council
City Sheffield Lake, Ohio

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sheffield Lake, Lorain County, Ohio, as of and for the year ended December 31, 2011, which collectively comprise the City of Sheffield Lake, Ohio's financial statements and have issued our report thereon dated June 15, 2012, wherein we noted that the City implemented Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* and restated the December 31, 2010 fund balances of the governmental funds due to a change in fund structure. In addition, the City restated the December 31, 2010 net assets and fund balances of the governmental activities, business-type activities, Other Governmental funds, and the Storm Water Fund due to the reclassification and the recognition of special assessment revenue. We conducted our audit in accordance with 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.

Internal Control Over Financial Reporting

Management of the City of Sheffield Lake, Ohio, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Sheffield Lake, Ohio's internal control over financial reporting as a basis for designing our auditing procedures 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 of Sheffield Lake, Ohio's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Sheffield Lake, Ohio's internal control over financial reporting.

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 City's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Sheffield Lake, Ohio's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant 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*.

We noted certain matters that we reported to management of the City of Sheffield Lake, Ohio, in a separate letter dated June 15, 2012.

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


James G. Zupka, CPA, Inc.
Certified Public Accountants

June 15, 2012

**CITY OF SHEFFIELD LAKE
LORAIN COUNTY, OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS AND RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011**

Management letter recommendations as of December 31, 2010, have been corrected, repeated, or procedures instituted to prevent occurrences in this audit period.

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Dave Yost • Auditor of State

City Council
City of Sheffield Lake
609 Harris Road
Sheffield Lake, OH 44054

We have reviewed the *Independent Auditors Report* of the City of Sheffield Lake, Lorain County, prepared by James G. Zupka, CPA, Inc., for the audit period January 1, 2011 through December 31, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The City of Sheffield Lake is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

August 14, 2012