

City of Lyndhurst, Ohio

December 31, 2012



Dave Yost • Auditor of State

City Council
City of Lyndhurst
5301 Mayfield Road
Lyndhurst, Ohio 44124

We have reviewed the *Independent Auditor's Report* of the City of Lyndhurst, Cuyahoga County, prepared by Ciuni & Panichi, Inc., for the audit period January 1, 2012 through December 31, 2012. 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 Lyndhurst is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

July 1, 2013

City of Lyndhurst, Ohio

For The Year Ended December 31, 2012

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Independent Auditor's Report

Members of the City Council
Lyndhurst, Ohio

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

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

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

Members of the City Council
Lyndhurst, Ohio

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 11 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 14, 2013 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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* in considering the City's internal control over financial reporting and compliance.

Cini & Paricki, Inc.

Cleveland, Ohio
June 14, 2013

CITY OF LYNDHURST, OHIO

Management's Discussion and Analysis For the Year Ended December 31, 2012

Unaudited

The discussion and analysis of the City of Lyndhurst's (the City) financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2012. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the City's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2012 are as follows:

- ❑ In total, net position increased \$2,031,696, a 2.2% increase from 2011.
- ❑ General revenues accounted for approximately \$16.7 million in revenue or 78% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for 22% of total revenues of approximately \$21.3 million.
- ❑ The City had approximately \$19.3 million in expenses related to governmental activities; only approximately \$4.6 million of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily taxes) of approximately \$16.7 million and reserves were adequate to provide for these programs.
- ❑ Among major funds, the general fund had approximately \$15.4 million in revenues and approximately \$12.5 million in expenditures. The general fund's fund balance increased \$1,324,128 to \$6,235,153.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

These statements are as follows:

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

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

CITY OF LYNDHURST, OHIO

*Management's Discussion and Analysis
For the Year Ended December 31, 2012*

Unaudited

Government-wide Statements

The government-wide statements report information about the City as a whole using accepting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the City's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two government-wide statements report the City's net position and how it has changed. Net-position (the difference between the City's assets and liabilities) is one way to measure the City's financial health or position.

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

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

- Governmental Activities – The City's programs and services that are reported here include security of persons and property, public health and welfare services, leisure time activities, community environment, basic utility services, transportation and general government.
- Business-Type Activities – These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The City has no business-type activities.

Fund Financial Statements

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

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

CITY OF LYNDHURST, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2012***

Unaudited

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

The presentation of the City's major funds begins on page 14. The City's major funds are the General Fund, General Obligation Bond Retirement Fund, the Permanent Improvement Fund and the Capital Reserve Fund.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The following table provides a comparison of the City's net position as of December 31, 2012 and 2011:

	Governmental Activities	
	2012	2011
Current and other assets	\$31,116,115	\$28,090,941
Capital assets, Net	70,611,180	71,697,334
Total assets	101,727,295	99,788,275
Long-term debt liabilities	3,378,673	3,382,540
Other liabilities	1,773,709	5,499,883
Total liabilities	5,152,382	8,882,423
Property Tax Levy for the Next Fiscal Year	3,637,365	0
Net position		
Net Invested in Capital Assets	68,506,180	69,452,334
Restricted	7,715,009	14,174,413
Unrestricted	16,716,359	7,279,105
Total net position	\$92,937,548	\$90,905,852

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CITY OF LYNDHURST, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2012**

Unaudited

Changes in Net Position – The following table shows the changes in net position for the fiscal year 2012 and 2011:

	Governmental Activities	
	2012	2011
Revenues		
Program revenues:		
Charges for Services and Sales	\$2,579,385	\$2,542,732
Operating Grants and Contributions	1,308,332	1,270,482
Capital Grants and Contributions	685,713	706,237
General revenues:		
Property Taxes	4,749,772	4,919,422
Municipal Income Taxes	7,813,145	6,415,588
Other Local Taxes	130,038	144,493
Unrestricted Grants and Entitlements	3,792,301	4,063,931
Investment Earnings	15,156	16,154
Miscellaneous	246,568	118,943
Total revenues	21,320,410	20,197,982
Program Expenses		
Security of Persons and Property	7,769,933	8,127,370
Public Health and Welfare Services	53,764	56,532
Leisure Time Activities	1,543,350	688,798
Community Environment	709,496	465,723
Basic Utility Services	3,775,943	2,801,308
Transportation	1,409,816	3,043,461
General Government	3,958,427	4,175,399
Interest and Fiscal Charges	67,985	81,208
Total expenses	19,288,714	19,439,799
Total Change in Net Position	2,031,696	758,183
Net Position Beginning of Year	90,905,852	90,147,669
Net Position End of Year	\$92,937,548	\$90,905,852

Governmental Activities

Net Position of the City's governmental activities increased by \$2,031,696. Total revenues increased by 5.6% compared to 2011. The significant increase to revenues was a result of a substantial 21.8% increase to Municipal Income Tax collections. Municipal Income Tax is the predominant source of General revenue to the City. Increases to all categories of Municipal Income Tax collections were experienced in 2012. Most prevalent was an increase to Net Profit collections. The City remains guarded to this increase for the reason that most Net Profit filings are based on estimates which may later result in considerable refunds. However, individual and withholding collections were also up for 2012 indicating economic stability. The addition of a new spray ground which had a successful first year full season in 2012, accounted for the increase to charges for services and sales. Property Tax revenues experienced a 3.4% reduction somewhat as a result of a small decline in the current percentage of collections and declining values throughout the County. As a consequence of the national economy, investments earnings continued to decline.

CITY OF LYNDHURST, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2012**

Unaudited

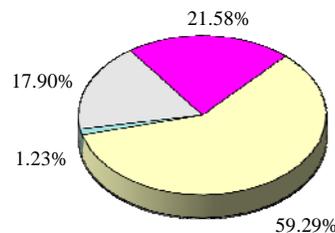
Significant decreases in most program expenditures is by design and is a direct result of years of planned modifications to most departments with a long term goal of cost reduction. These modifications included capital purchases, pension buyouts, benefit reallocation, and staffing revisions. Delaying a joint street improvement with a border community modified the street improvement program. This coupled with a smaller sidewalk program, a change in depreciating scheduled life for concrete programs, and a late winter snow removal season helped to formulate the 53.7% decrease in transportation program expenses for 2012. The increase in basic utilities services supports the City's decision to accelerate funding for the tree removal program with the onset of the emerald ash borer. Overall, suppressing program expenditures and maintaining the objective to provide high level services to the community remained in focus for 2012.

The City also receives an income tax, which is based on 1.5% of all salaries, wages, commissions and other compensation earned from residents living within the City and from nonresidents for work done or services performed or rendered in the City. Residents who work outside the City and are subject to a municipal income tax receive a 50% credit against the income tax liability due to Lyndhurst.

Property taxes and income taxes made up 22% and 37%, respectively of revenues for governmental activities for the City in fiscal year 2012. The City's reliance upon tax revenues is demonstrated by the following graph indicating approximately 59.29% of total revenues from general tax revenues:

Revenue Sources	2012	Percent of Total
General Shared Revenues	\$3,792,301	17.90%
Program Revenues	4,573,430	21.58%
General Tax Revenues	12,562,917	59.29%
General Other	261,724	1.23%
Total Revenue	\$21,190,372	100.00%

2012



FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The City's governmental funds reported a combined fund balance of \$18,040,566, which is an increase from last year's balance of \$16,729,983. The schedule below indicates the fund balance and the total change in fund balance by fund type as of December 31, 2012 and 2011:

	Fund Balance December 31, 2012	Fund Balance December 31, 2011	Increase (Decrease)
General	\$6,235,153	\$4,911,025	\$1,324,128
General Obligation Bond Retirement	1,361,207	836,547	524,660
Permanent Improvement	3,311,410	2,851,025	460,385
Capital Reserve	3,094,000	3,090,120	3,880
Other Governmental	4,038,796	5,041,266	(1,002,470)
Total	\$18,040,566	\$16,729,983	\$1,310,583

CITY OF LYNDHURST, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2012**

Unaudited

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

	2012	2011	Increase
	<u>Revenues</u>	<u>Revenues</u>	<u>(Decrease)</u>
Taxes	\$9,616,687	\$9,169,212	\$447,475
Intergovernmental Revenue	3,455,857	3,597,723	(141,866)
Charges for Services	611,088	661,201	(50,113)
Licenses and Permits	46,877	38,675	8,202
Fines and Forfeitures	1,395,985	1,388,852	7,133
All Other Revenue	238,568	238,795	(227)
Total	<u>\$15,365,062</u>	<u>\$15,094,458</u>	<u>\$270,604</u>

General Fund revenues in 2012 increased 1.8% compared to revenues in fiscal year 2011. The most significant factor contributing to this increase was an increase in municipal income taxes that helped to buffer the more the declines in property tax, estate tax, and state shared revenues.

	2012	2011	Increase
	<u>Expenditures</u>	<u>Expenditures</u>	<u>(Decrease)</u>
Security of Persons and Property	\$6,398,092	\$6,767,633	(\$369,541)
Public Health and Welfare Services	53,764	56,532	(2,768)
Leisure Time Activities	901,374	939,935	(38,561)
Community Environment	430,508	453,613	(23,105)
Basic Utility Services	1,114,570	1,055,582	58,988
General Government	3,582,712	3,830,687	(247,975)
Debt Service:			
Principal Retirement	<u>0</u>	<u>94</u>	<u>(94)</u>
Total	<u>\$12,481,020</u>	<u>\$13,104,076</u>	<u>(\$623,056)</u>

General Fund expenditures decreased by \$623,056 or 4.7% compared to the prior year. The majority of the decrease was due to controlled staffing and benefits levels within the safety programs. Additionally, controls on General Fund expenditures continued into 2012. Inasmuch as professional services, fuel, and benefits experienced increases; the City moved towards its long-term goal to reduce spending utilizing benefit and staffing options to control labor costs. Each ancillary facet of a cost component is analyzed for future decision making that can further reduce costs while maintaining or enhancing City services.

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

During the course of fiscal year 2012 the City amended its General Fund budget several times, none significant.

For the General Fund, final budget basis revenue of approximately \$12.5 million changed slightly over the original budget estimates of \$12.2 million. The General Fund had an adequate fund balance to cover expenditures.

CITY OF LYNDHURST, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2012**

Unaudited

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2012 the City had \$70,611,180 net of accumulated depreciation invested in land, improvements, infrastructure, buildings and machinery and equipment. The following table shows fiscal year 2012 and 2011 balances (net of accumulated depreciation):

	Governmental Activities		Increase (Decrease)
	2012	2011	
Land	\$421,379	\$421,379	\$0
Construction in Progress	633,682	0	633,682
Buildings	10,373,375	10,373,375	0
Improvements Other than Buildings	2,817,124	2,781,173	35,951
Machinery and Equipment	9,600,348	9,501,009	99,339
Infrastructure	113,087,039	113,141,715	(54,676)
Less: Accumulated Depreciation	(66,321,767)	(64,521,317)	(1,800,450)
Totals	<u>\$70,611,180</u>	<u>\$71,697,334</u>	<u>(\$1,086,154)</u>

The primary decrease to capital assets occurred as a result of the 2012 change in accounting policies for the estimated useful lives of streets and machinery and equipment. The City had completed all outstanding projects for 2011 thereby any incomplete projects reported in 2012 resulted in an increase to construction in progress. Accumulated depreciation outpaced actual increases in capital assets as the City's costs for improving infrastructure continues to decline. Most of the decline is due to the timeliness and the way in which the City specs and bids out its road and sewer projects. The efficiency instituted throughout the bid process has proven to save the City multiple dollars in capital costs. Additionally, a substantial amount of the sewer projects scheduled for 2012 were for repairs and maintenance. Annual investments into these programs are crucial and have been a focal point of capital budgets for more than a decade. As examples of the citywide objective to reduce operating costs capital funds were appropriated for a park project (the spray ground) which broke ground in 2010 and experienced a first full year season of operation in 2012. The spray ground is an alternative amenity to a city pool. It is anticipated that the influx of capital for this project will provide an enhancement to the community while achieving the objective to reduce operational costs associated with City parks and recreation. Capital investments assist the City in maintaining a strong financial grasp during the tumultuous economic decline. The expenditures for many of the road improvements are substantially lower as interest rates, materials, and more efficient labor practices assist in driving down the costs. The 2011 completion of a lower level Municipal Court annex, repurposing the existing municipal center facility has provided for the ongoing needs of the Municipal Court while relieving the taxpayers of the debt potential for new construction as well as the potential for multiple maintenance and operation costs that would be borne by an ancillary building. The annex operated at full capacity in 2012 and is expected to serve the Court's needs well into the future without additional municipal operating costs. As a result of the added capacity to the municipal complex a new energy efficient roof and chiller unit were installed and funded from an energy grant with energy cost savings experienced in 2012. Continued upgrades to the dispatch center equipment, and digitizing the 911 emergency phone system as well as the Municipal campus phone system in 2012 assisted safety forces in providing services and support at existing labor levels. The acquisition of three (3) new police cruisers and one (1) new fire chase vehicle also assisted safety forces. These steady technological upgrades and improvements will contribute to the safety forces ability to quickly retrieve and send data necessary to maintain the safety and security of the community.

CITY OF LYNDHURST, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2012**

Unaudited

The addition of a new five ton dump snow removal unit will assist service crews in providing safe roadways with alternative cost effective methods for de-icing. The City continues its strong commitment to long term enhancements to both its capital assets and infrastructure. Additional information on the City's capital assets can be found in Note 9.

Debt

At December 31, 2012, the City had approximately \$1.3 million in bonds outstanding, \$195,000 due within one year. The following table summarizes the City's debt outstanding as of December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Governmental Activities:		
General Obligation Bonds	\$1,305,000	\$1,495,000
Long-Term Notes	800,000	750,000
Compensated Absences	<u>1,273,673</u>	<u>1,137,540</u>
Total Governmental Activities	<u>\$3,378,673</u>	<u>\$3,382,540</u>

State statutes limit the amount of unvoted general obligation debt the City may issue. The aggregate amount of the City's unvoted debt is also subject to overlapping debt restrictions with other political subdivisions. The actual aggregate amount of the City's unvoted debt, when added to that of other political subdivisions within the county in which Lyndhurst lies, is limited to 11.5 mills. At December 31, 2012, the City's outstanding debt was below the legal limit. Additional information on the City's long-term debt can be found in Note 13.

ECONOMIC FACTORS

The TRW Corporation, once a major employer in the City of Lyndhurst, was purchased by Northrop Grumman in late 2002. Upon the exit of TRW and in an effort to stabilize the city's economy, Legacy Village (a premier retail district) was erected and continues to trend the economic tax base of the City in a positive fashion. The footprint of Legacy Village combined with the presence of the Cleveland Clinic provide for an exclusive plan that was expected to take shape within the next few years. Due to the general state of the economy on both a Federal and State level, much of the anticipated impact to these changes for 2012 was stalled while investors slowed the pace of their financial influx but not their commitment to the plan. The Cleveland Clinic has added another estimated twenty three (23) new employees to the existing site. Expectations are that the Lyndhurst site will continue to pilot wellness programs for the Cleveland Clinic with potential for future expansions. A most recent event adding to the future development of this southeast quadrant of the City is the sale of the Acacia Country Club (Acacia CC). Acacia CC, is a 160-acre property located in the City of Lyndhurst and adjacent to Legacy Village. The shareholders voted in 2008 to dissolve the club and sell this unique property. Acacia CC continues to be a vital element to the City's future vision and as such the land has been zoned as part of a mixed-use overlay district. The mixed-use overlay district was designed to encourage economic, residential and recreational development that is compatible with the existing and proposed character of the City. In September of 2012 the shareholders voted to sell the land to a national nonprofit organization to preserve the land in its natural state. That sale further lead to the transfer of the property to the Cleveland Metroparks and has since been converted into a public park. Inasmuch as the sale no longer affords the City the ability to develop the property for enhancements to its tax base, the property does provide an added value to the Community and has sparked the further residential development of the adjoining property.

CITY OF LYNDHURST, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2012***

Unaudited

The City does continue to experience small bursts in new housing developments associated with the Legacy Village lifestyle center. Despite the sharp increase in sub prime mortgage delinquencies four new home permits were issued in 2012 with a total estimated value of eight hundred and forty thousand (\$840,000) dollars. Rivercreek development plans for a remaining 16 of 33 single family and duplex units stalled in 2012 with anticipation that building will rebound in 2013 as a result of the Metro Parks acquisition of the adjoining one hundred sixty (160) plus acres. Eagle Point Vintage Development has submitted plans on 53 sub lots at the Acacia Country Club Estates. Included are 11 duplex lots which would result in 22 homes. Additionally, 39 free-standing cluster homes and 2 sets of 2 manor homes on 17-acres of land abutting the Acacia CC perimeter are also part of the plans. Estimated values of these duplexes, homes and manors are in the \$400,000 - \$800,000 range. It can be projected that the values may increase as interests intensify for property near or abutting the Metro Park. Currently under construction in Eagle Point is a single home with plans submitted for three others.

Coupled with the residential outlook, a first term opening of Lincoln Hall, a \$12 million, 45,000 square foot expansion to the private Hawken School facility, took place in 2007. The opening of this new facility continues to draw a new and vital cultural and knowledge based interest to Lyndhurst. The final Phase of the Hawken School facility is scheduled out through 2013 and includes an upgrade to the lower school with interior and exterior alterations totaling an estimated \$4 million.

Most importantly was the level of continued improvement to existing commercial developments and the estimated three million dollar (\$3,000,000) remediation development of a new Key Bank. The remediation program at the site of the new Key Bank continues on through 2013. Twenty five permits were issued for commercial alterations in 2012 with an estimated \$7.39 million in scheduled improvements and enhancements. Most recently three (3) new retailers have taken occupancy in Legacy Village. With the additions of Solara Hair Salon, Spruce and the Granite City Brewery the withholding tax for Legacy continues to trend upward. This strong level of improvement confirms a long-term pattern of continued commercial dedication within the City of Lyndhurst. This commitment coupled with the engagement to new residential development will assist the City through the current wave of Federal and State economic downturns.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information contact the Finance Department by calling 440-442-5777 or writing to City of Lyndhurst Finance Department, 5301 Mayfield Road, Lyndhurst, Ohio 44124.

CITY OF LYNDHURST, OHIO

Statement of Net Position
December 31, 2012

	Governmental Activities
Assets:	
Cash and Cash Equivalents	\$ 13,519,219
Investments	3,505,218
Receivables:	
Taxes	11,442,808
Accounts	473,569
Intergovernmental	869,042
Special Assessments	1,056,127
Inventory of Supplies at Cost	137,352
Prepaid Items	112,780
Capital Assets:	
Capital Assets Not Being Depreciated	1,055,061
Capital Assets Being Depreciated, Net	<u>69,556,119</u>
Total Assets	<u>101,727,295</u>
Liabilities:	
Accounts Payable	913,046
Accrued Wages and Benefits	815,986
Retainage Payable	33,676
Accrued Interest Payable	11,001
Long-Term Liabilities:	
Due Within One Year	1,174,602
Due in More Than One Year	<u>2,204,071</u>
Total Liabilities	<u>5,152,382</u>
Deferred Inflows of Resources:	
Property Tax Levy for the Next Fiscal Year	<u>3,637,365</u>
Net Position:	
Net Investment in Capital Assets	68,506,180
Restricted For:	
Capital Projects	1,740,389
Debt Service	2,419,063
Other Purposes	3,555,557
Unrestricted	<u>16,716,359</u>
Total Net Position	<u>\$ 92,937,548</u>

See accompanying notes to the basic financial statements

CITY OF LYNDHURST, OHIO

Statement of Activities
For the Year Ended December 31, 2012

		Program Revenues			Net (Expense)
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position
Governmental Activities:					Governmental Activities
Current:					
Security of Persons and Property	\$ 7,769,933	\$ 739,194	\$ 44,453	\$ 38,133	\$ (6,948,153)
Public Health and Welfare Services	53,764	0	0	0	(53,764)
Leisure Time Activities	1,543,350	209,153	0	0	(1,334,197)
Community Environment	709,496	85,067	214,156	0	(410,273)
Basic Utility Services	3,775,943	29,035	416,823	647,580	(2,682,505)
Transportation	1,409,816	19,735	632,900	0	(757,181)
General Government	3,958,427	1,497,201	0	0	(2,461,226)
Interest and Fiscal Charges	67,985	0	0	0	(67,985)
Total Governmental Activities	\$ 19,288,714	\$ 2,579,385	\$ 1,308,332	\$ 685,713	(14,715,284)
General Revenues					
Property Taxes					4,749,772
Municipal Income Taxes					7,813,145
Other Local Taxes					130,038
Grants and Entitlements not Restricted to Specific Programs					3,792,301
Investment Earnings					15,156
Miscellaneous					246,568
Total General Revenues					16,746,980
Change in Net Position					2,031,696
Net Position Beginning of Year					90,905,852
Net Position End of Year					\$ 92,937,548

See accompanying notes to the basic financial statements

CITY OF LYNDHURST, OHIO

Balance Sheet
Governmental Funds
December 31, 2012

	General	General Obligation Bond Retirement	Permanent Improvement
	<u>General</u>	<u>Retirement</u>	<u>Improvement</u>
Assets:			
Cash and Cash Equivalents	\$ 3,366,492	\$ 1,013,972	\$ 2,429,410
Investments	1,123,667	347,235	831,955
Receivables:			
Taxes	8,987,339	2,096,529	0
Accounts	383,221	0	84,822
Intergovernmental	324,535	80,430	58,163
Special Assessments	47,484	26	0
Inventory of Supplies, at Cost	34,179	0	0
Prepaid Items	110,197	0	2,583
Total Assets	<u>\$ 14,377,114</u>	<u>\$ 3,538,192</u>	<u>\$ 3,406,933</u>
Liabilities:			
Accounts Payable	\$ 194,770	\$ 0	\$ 37,360
Accrued Wages and Benefits Payable	520,312	0	0
Retainage Payable	33,676	0	0
Total Liabilities	<u>748,758</u>	<u>0</u>	<u>37,360</u>
Deferred Inflows of Resources:			
Unavailable Amounts	5,053,932	1,068,857	58,163
Property Tax for Next Fiscal Year	2,339,271	1,108,128	0
Total Deferred Inflows of Resources	<u>7,393,203</u>	<u>2,176,985</u>	<u>58,163</u>
Fund Balances:			
Nonspendable	144,376	0	2,583
Restricted	0	1,361,207	0
Committed	0	0	3,308,827
Assigned	320,355	0	0
Unassigned	5,770,422	0	0
Total Fund Balances	<u>6,235,153</u>	<u>1,361,207</u>	<u>3,311,410</u>
Total Liabilities and Fund Balances	<u>\$ 14,377,114</u>	<u>\$ 3,538,192</u>	<u>\$ 3,406,933</u>

See accompanying notes to the basic financial statements

CITY OF LYNDHURST, OHIO

<u>Capital Reserve</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 2,304,739	\$ 4,404,606	\$ 13,519,219
789,261	413,100	3,505,218
0	358,940	11,442,808
0	5,526	473,569
0	405,914	869,042
0	1,008,617	1,056,127
0	103,173	137,352
0	0	112,780
<u>\$ 3,094,000</u>	<u>\$ 6,699,876</u>	<u>\$ 31,116,115</u>
\$ 0	\$ 680,916	\$ 913,046
0	295,674	815,986
0	0	33,676
<u>0</u>	<u>976,590</u>	<u>1,762,708</u>
0	1,494,524	7,675,476
0	189,966	3,637,365
<u>0</u>	<u>1,684,490</u>	<u>11,312,841</u>
0	103,173	250,132
0	3,900,610	5,261,817
3,094,000	35,013	6,437,840
0	0	320,355
0	0	5,770,422
<u>3,094,000</u>	<u>4,038,796</u>	<u>18,040,566</u>
<u>\$ 3,094,000</u>	<u>\$ 6,699,876</u>	<u>\$ 31,116,115</u>

CITY OF LYNDHURST, OHIO

***Reconciliation Of Total Governmental Fund Balances
To Net Position Of Governmental Activities
December 31, 2012***

Total Governmental Fund Balances	\$ 18,040,566
 <i>Amounts reported for governmental activities in the statement of net position are different because</i>	
Capital Assets used in governmental activities are not resources and therefore are not reported in the funds.	70,611,180
Other long-term assets are not available to pay for current- period expenditures and therefore are unavailable in the funds.	7,675,476
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(3,389,674)</u>
<i>Net Position of Governmental Activities</i>	<u><u>\$ 92,937,548</u></u>

See accompanying notes to the basic financial statements

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CITY OF LYNDHURST, OHIO

**Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2012**

	General	General Obligation Bond Retirement	Permanent Improvement
Revenues:			
Property Taxes	\$ 2,788,435	\$ 561,781	\$ 0
Municipal Income Tax	6,828,252	0	0
Other Local Taxes	0	0	67,086
Intergovernmental Revenues	3,455,857	217,323	900
Charges for Services	611,088	0	0
Licenses and Permits	46,877	0	0
Investment Earnings	0	1,497	3,700
Special Assessments	0	26	0
Fines and Forfeitures	1,395,985	0	0
All Other Revenue	238,568	0	168,969
Total Revenue	<u>15,365,062</u>	<u>780,627</u>	<u>240,655</u>
Expenditures:			
Current:			
Security of Persons and Property	6,398,092	0	328,940
Public Health and Welfare Services	53,764	0	0
Leisure Time Activities	901,374	0	398,503
Community Development	430,508	0	0
Basic Utility Services	1,114,570	0	0
Transportation	0	0	5,919
General Government	3,582,712	4,245	4,800
Debt Service:			
Principal Retirement	0	190,000	0
Interest & Fiscal Charges	0	61,722	0
Total Expenditures	<u>12,481,020</u>	<u>255,967</u>	<u>738,162</u>
Excess (Deficiency) of Revenues Over Expenditures	2,884,042	524,660	(497,507)
Other Financing Sources (Uses):			
Sale of Capital Assets	0	0	37,344
General Obligation Notes Issued	0	0	0
Transfers In	0	0	920,548
Transfers Out	(1,550,548)	0	0
Total Other Financing Sources (Uses)	<u>(1,550,548)</u>	<u>0</u>	<u>957,892</u>
Net Change in Fund Balances	1,333,494	524,660	460,385
Fund Balances at Beginning of Year	4,911,025	836,547	2,851,025
Increase (Decrease) in Inventory Reserve	(9,366)	0	0
Fund Balances End of Year	<u>\$ 6,235,153</u>	<u>\$ 1,361,207</u>	<u>\$ 3,311,410</u>

See accompanying notes to the basic financial statements

CITY OF LYNDHURST, OHIO

<u>Capital Reserve</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 0	\$ 983,164	\$ 4,333,380
0	0	6,828,252
0	62,952	130,038
0	644,904	4,318,984
0	0	611,088
0	0	46,877
3,880	6,079	15,156
0	1,027,004	1,027,030
0	283,046	1,679,031
0	23,380	430,917
<u>3,880</u>	<u>3,030,529</u>	<u>19,420,753</u>
0	997,000	7,724,032
0	0	53,764
0	0	1,299,877
0	213,237	643,745
0	1,659,862	2,774,432
0	1,438,675	1,444,594
0	459,489	4,051,246
0	750,000	940,000
0	7,074	68,796
<u>0</u>	<u>5,525,337</u>	<u>19,000,486</u>
3,880	(2,494,808)	420,267
0	59,724	97,068
0	800,000	800,000
0	634,311	1,554,859
0	(4,311)	(1,554,859)
<u>0</u>	<u>1,489,724</u>	<u>897,068</u>
3,880	(1,005,084)	1,317,335
3,090,120	5,041,266	16,729,983
0	2,614	(6,752)
<u>\$ 3,094,000</u>	<u>\$ 4,038,796</u>	<u>\$ 18,040,566</u>

CITY OF LYNDHURST, OHIO

***Reconciliation Of The Statement Of Revenues, Expenditures
And Changes In Fund Balances Of Governmental Funds
To The Statement Of Activities
For The Year Ended December 31, 2012***

Net Change in Fund Balances - Total Governmental Funds \$ 1,317,335

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period. (2,867,304)

Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the amount of the gain on the disposal of capital assets net of proceeds received. 1,781,150

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 1,802,589

The issuance of long-term debt provides current financial resources to governmental funds, but has no effect on net position. In addition, repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 140,000

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. 811

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. (142,885)

Change in Net Position of Governmental Activities \$ 2,031,696

See accompanying notes to the basic financial statements

CITY OF LYNDHURST, OHIO

**Statement of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For The Year Ended December 31, 2012**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Property Taxes	\$ 2,733,472	\$ 2,733,472	\$ 2,788,435	\$ 54,963
Municipal Income Tax	6,223,500	6,423,500	6,900,014	476,514
Intergovernmental Revenue	1,100,677	1,200,677	2,694,982	1,494,305
Charges for Services	594,501	594,501	595,561	1,060
Licenses and Permits	31,500	31,500	47,402	15,902
Fines and Forfeitures	1,334,000	1,334,000	1,399,060	65,060
All Other Revenues	202,923	202,923	213,247	10,324
Total Revenues	12,220,573	12,520,573	14,638,701	2,118,128
Expenditures:				
Current:				
Security of Persons and Property	6,817,326	6,948,039	6,492,953	455,086
Public Health and Welfare Services	53,764	53,764	53,764	0
Leisure Time Activities	731,312	749,124	681,647	67,477
Community Environment	486,017	493,435	456,850	36,585
Basic Utility Services	1,507,906	1,548,187	1,203,279	344,908
General Government	4,253,887	4,310,370	3,770,322	540,048
Total Expenditures	13,850,212	14,102,919	12,658,815	1,444,104
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,629,639)	(1,582,346)	1,979,886	3,562,232
Other Financing Sources (Uses):				
Transfers Out	(1,772,548)	(1,772,548)	(1,772,548)	0
Total Other Financing Sources (Uses):	(1,772,548)	(1,772,548)	(1,772,548)	0
Net Change In Fund Balance	(3,402,187)	(3,354,894)	207,338	3,562,232
Fund Balance at Beginning of Year	3,450,559	3,450,559	3,450,559	0
Prior Year Encumbrances	333,039	333,039	333,039	0
Fund Balance at End of Year	\$ 381,411	\$ 428,704	\$ 3,990,936	\$ 3,562,232

See accompanying notes to the basic financial statements

CITY OF LYNDHURST, OHIO

***Statement of Assets and Liabilities
Fiduciary Funds
December 31, 2012***

	<u>Agency</u>
Assets:	
Cash and Cash Equivalents	\$ 775,086
Total Assets	<u>\$ 775,086</u>
Liabilities:	
Intergovernmental Payable	\$ 156,872
Due to Others	<u>618,214</u>
Total Liabilities	<u>\$ 775,086</u>

See accompanying notes to the basic financial statements

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Lyndhurst, Ohio (the City) was incorporated on January 16, 1951 and is a home rule municipal corporation created under the laws of the State of Ohio. The City operates a Mayor-Council form of government.

The accompanying basic financial statements of the City are presented as of December 31, 2012 and for the year then ended and have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to local governments. The Governmental Accounting Standards Board (the "GASB") is the standard-setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification).

A. Reporting Entity

A legally separate organization is a component unit of the primary government if (1) the primary government is financially accountable for the organization, (2) the nature and significance of the relationship between the primary government and the organization are such that the exclusion would cause the reporting entity's basic financial statements to be misleading or incomplete, or (3) the organization is closely related to or financially integrated with the primary government. Component units may also include organizations for which the City approves the budget, the issuance of debt, or the levying of taxes.

Based on the foregoing, the City's financial reporting entity has no component units but includes all funds, agencies, boards and commissions that are part of the primary government, which includes the following services: fire and police protection, emergency medical response, parks, recreation, planning, zoning, street construction and maintenance, refuse collection and other governmental services.

The City is associated with two organizations, one is defined as a joint venture and one is defined as a jointly governed organization. The joint venture organization is the Community Partnership on Aging. The jointly governed organization is the Northeast Ohio Public Energy Council. These organizations are presented in Notes 15 and 16 of the notes to the basic financial statements.

B. Basis of Presentation - Fund Accounting

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

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

Governmental Funds

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

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

General Obligation Bond Retirement Fund - This fund is used for the accumulation of resources for, and the payment of, principal and interest on general obligation debt.

Permanent Improvement Fund - This fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Capital Reserve Fund - This fund is used to account for financial resources set aside by other capital projects funds to be used for the acquisition or construction of major capital facilities.

Fiduciary Funds

Agency Funds - These funds are used to account for assets held by a government unit as an agent for individuals, private organizations, other governmental units and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City has two agency funds. The funds are the Municipal Court Fund, which accounts for monies that flow through the municipal court office and the Payroll Agency Fund, which accounts for monies withheld from payroll for both employee and employer taxes as well as other payroll deductions.

C. Basis of Presentation – Financial Statements

Government-wide Financial Statements – The Statement of Net position and the Statement of Activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities. The City has no activities considered business-type activities.

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

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation – Financial Statements (Continued)

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

Fund Financial Statements – Fund financial statements report detailed information about the City. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

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

D. Basis of Accounting

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

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

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting (Continued)

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. Revenue from property taxes is recognized in the period in which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied and the revenue is available. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis.

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

The City reports deferred revenue on its combined balance sheet. Deferred revenues arise when potential revenue does not meet both the measurable and available criteria for recognition in the current period. In the subsequent periods when both revenue recognition criteria are met, the liability for deferred revenue is removed from the balance sheet and revenue is recognized. Property taxes which are measurable at December 31, 2011, but which are not intended to finance 2011 operations or are recorded as deferred revenue as further described in Note 6.

E. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriation ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation ordinance are subject to amendment throughout the year. All funds, other than agency funds, are legally required to be budgeted and appropriated; however, only the General Fund is required to be reported. Budgetary modifications above the major object level by fund may only be made by ordinance of the City Council.

1. Tax Budget

The Mayor submits an annual tax budget for the following fiscal year to City Council by July 15 for consideration and passage. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year for the period January 1 to December 31 of the following year.

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

2. Estimated Resources

The County Budget Commission reviews estimated revenue and determines if the budget substantiates a need to levy all or part of previously authorized taxes. The Budget Commission then certifies its actions to the City by September 1 of each year. As part of the certification process, the City receives an official certificate of estimated resources stating the projected receipts by fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year do not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include any unencumbered fund balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or if actual receipts exceed current estimates. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 2012.

3. Appropriations

A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 through March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 through December 31. The appropriation ordinance establishes spending controls at the fund, department and object level, and may be modified during the year by ordinance of the City Council. Total fund appropriations may not exceed the current estimated resources as certified by the County Budget Commission. Expenditures may not legally exceed budgeted appropriations at the object level. Administrative control is maintained through the establishment of more detailed line-item budgets. The budgetary figures which appear in the "Combined Statement of Revenues, Expenditures, and Changes in Fund Balances--Budget and Actual—General Fund" are provided on the budgetary basis to provide a comparison of actual results to the final budget, including all amendments and modifications.

4. Encumbrances

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

CITY OF LYNDHURST, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2012***

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

5. Lapsing of Appropriations

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

6. Budgetary Basis of Accounting

The City's budgetary process accounts for certain transactions on a basis other than generally accepted accounting principles (GAAP). The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recorded. Under the budgetary basis, revenues and expenditures are recognized on a cash basis. Utilizing the cash basis, revenues are recorded when received in cash and expenditures when paid. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting.

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
GAAP Basis (as reported)	\$1,333,494
Increase (Decrease):	
Accrued Revenues at December 31, 2012 received during 2013	(2,349,376)
Accrued Revenues at December 31, 2011 received during 2012	1,651,698
Accrued Expenditures at December 31, 2012 paid during 2013	748,758
Accrued Expenditures at December 31, 2011 paid during 2012	(787,054)
2011 Prepays for 2012	99,983
2012 Prepays for 2013	(110,197)
2011 Municipal Court Cash	88,325
2012 Municipal Court Cash	(85,250)
Outstanding Encumbrances	(370,131)
Perspective Difference:	
Activity of Funds Reclassified for GAAP Reporting Purposes	(12,912)
Budgetary Basis	\$207,338

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits, the State Treasury Asset Reserve (STAR Ohio) and short-term certificates of deposit. The certificates of deposit are considered cash equivalents because they are highly liquid investments with original maturity dates of three months or less.

The City pools its cash for investment and resource management purposes. Each fund's equity in pooled cash and cash equivalents represents the balance on hand as if each fund maintained its own cash and cash equivalent account. See Note 5, "Cash, Cash Equivalents and Investments."

G. Investments

Investment procedures and interest allocations are restricted by provisions of the Ohio Constitution and the Ohio Revised Code. In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", the City records all its investments at fair value except for nonparticipating investment contracts (certificates of deposit) which are reported at cost. The City allocates interest among the various funds based upon applicable legal and administrative requirements. See Note 5, "Cash, Cash Equivalents and Investments."

The City has invested funds in the STAR Ohio during 2012. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 2012.

H. Inventory

Inventory is stated at cost (first-in, first-out) in the governmental funds. The cost of inventory items are recorded as expenditures in the governmental funds when purchased.

I. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2012, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

CITY OF LYNDHURST, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2012***

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Capital Assets and Depreciation

1. Property, Plant and Equipment - Governmental Activities

Capital assets are defined by the City as assets with an initial, individual cost of more than \$1,000.

Governmental activities capital assets are those not directly related to the business type funds. These generally are acquired or constructed for governmental activities and are recorded as expenditures in the governmental funds and are capitalized at cost (or estimated historical cost for assets not purchased in recent years). These assets are reported in the Governmental Activities column of the Government-wide Statement of Net Position, but they are not reported in the Fund Financial Statements.

2. Depreciation

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

Description	Estimated Lives (in years)
Buildings	15 - 50
Improvements other than Buildings	25
Infrastructure	10 - 65
Machinery, Equipment, Furniture and Fixtures	3 - 20

During 2012, the City changed the useful life of concrete street improvements from 30 to 25 years. Certain machinery and equipment useful lives were increased to 15 or 20 years.

K. Long-Term Debt

Long-term debt is being repaid from the following funds:

Obligation	Fund
General Obligation Bonds	General Obligation Bond Retirement Fund
Compensated Absences	General Fund Street Construction, Maintenance and Repair Fund
Long-Term Note	General Obligation Bond Retirement Fund

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Compensated Absences

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

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

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

M. Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2012

N. Fund Balances

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

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

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

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

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

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

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

O. Pensions

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

CITY OF LYNDHURST, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2012***

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Interfund Activity

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

Q. Estimates

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

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Council and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2012.

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CITY OF LYNDHURST, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2012***

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

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

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

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

Delinquent Income Tax Revenue	\$3,239,017
Delinquent Property Tax Revenue	2,007,703
Unrestricted Grants and Entitlements	1,074,996
Charges for Services	297,633
Special Assessment Revenue	1,056,127
	<u>\$7,675,476</u>

Long-Term liabilities not reported in the funds:

General Obligation Bonds Payable	(\$1,305,000)
Accrued Interest on Long-Term Debt	(11,001)
Long-Term Notes Payable	(800,000)
Compensated Absences Payable	(1,273,673)
	<u>(\$3,389,674)</u>

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CITY OF LYNDHURST, OHIO

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2012*

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

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

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

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

Capital Outlay	\$2,385,588
Depreciation Expense	<u>(5,252,892)</u>
	(\$2,867,304)

Governmental revenues not reported in the funds:

Increase in Delinquent Income Tax Revenue	\$984,893
Increase in Delinquent Property Tax	416,392
Increase in Unrestricted Grants and Entitlements	276,427
Increase in Charges for Services	123,685
Increase in Special Assessment Revenue	<u>1,192</u>
	\$1,802,589

Expenses not requiring the use of current financial resources:

Increase in Compensated Absences Payable	(\$136,133)
Decrease in supplies inventory	<u>(6,752)</u>
	(\$142,885)

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CITY OF LYNDHURST, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2012**

NOTE 3 – FUND BALANCE CLASSIFICATION

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

Fund Balances	General Fund	General Obligation Bond Retirement Fund	Permanent Improvement Fund	Capital Reserve Fund	Other Governmental Funds	Total Governmental Funds
Nonspendable:						
Prepaid Items	\$110,197	\$0	\$2,583	\$0	\$0	\$112,780
Supplies Inventory	34,179	0	0	0	103,173	137,352
Total Nonspendable	<u>144,376</u>	<u>0</u>	<u>2,583</u>	<u>0</u>	<u>103,173</u>	<u>250,132</u>
Restricted:						
State Highway Improvements	0	0	0	0	59,577	59,577
Probation Services	0	0	0	0	6,022	6,022
Court Special Projects	0	0	0	0	377,679	377,679
Street Construction and Maintenance	0	0	0	0	681,147	681,147
Municipal Court EDP	0	0	0	0	461,338	461,338
Community Development HUD	0	0	0	0	2,887	2,887
Indigent Drivers DUI	0	0	0	0	89,150	89,150
Law Enforcement	0	0	0	0	88,259	88,259
Street Improvement	0	0	0	0	297,093	297,093
Police Pension	0	0	0	0	94,460	94,460
Fire Pension	0	0	0	0	49,922	49,922
Street Lighting	0	0	0	0	23,870	23,870
Sewer Maintenance and Repair	0	0	0	0	665,901	665,901
Sidewalk Construction and Maintenance	0	0	0	0	109,034	109,034
Sewer Construction	0	0	0	0	894,271	894,271
Debt Service Payments	0	1,361,207	0	0	0	1,361,207
Total Restricted	<u>0</u>	<u>1,361,207</u>	<u>0</u>	<u>0</u>	<u>3,900,610</u>	<u>5,261,817</u>
Committed:						
Permanent Improvements	0	0	3,308,827	0	0	3,308,827
Capital Reserve	0	0	0	3,094,000	0	3,094,000
Parks and Recreation Equipment	0	0	0	0	35,013	35,013
Total Committed	<u>0</u>	<u>0</u>	<u>3,308,827</u>	<u>3,094,000</u>	<u>35,013</u>	<u>6,437,840</u>
Assigned	320,355	0	0	0	0	320,355
Unassigned	5,770,422	0	0	0	0	5,770,422
Total Fund Balances	<u>\$6,235,153</u>	<u>\$1,361,207</u>	<u>\$3,311,410</u>	<u>\$3,094,000</u>	<u>\$4,038,796</u>	<u>\$18,040,566</u>

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2012

NOTE 4 – CHANGE IN ACCOUNTING PRINCIPLE

For 2012 the City implemented GASB Statement No. 62, “*Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*,” GASB Statement No. 63, “*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*” and GASB Statement No. 65, “*Items Previously Reported as Assets and Liabilities*”.

Statement No. 62 incorporated into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants’ (AICPA) Committee on Accounting Procedure issued on or before November 30, 1989 which does not conflict with or contradict GASB pronouncements.

Statement No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. GASB 63 standardizes the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government’s net position.

Statement No. 65 provides guidance on how to properly classify items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources. In addition, guidance is provided on recognizing certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues).

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

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2012

NOTE 5 - CASH AND CASH EQUIVALENTS

Cash resources of several individual funds are combined to form a pool of cash, cash equivalents and investments.

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

Category 2 consists of “inactive” funds - those funds not required for use within the current five year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing not later than the end of the current period of designation of depositories.

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

- United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
- Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
- Interim deposits in eligible institutions applying for interim funds;
- Bonds and other obligations of the State of Ohio;
- No-load money market mutual funds consisting exclusively of obligations described in the first two bullets of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions, and
- The State Treasury Asset Reserve of Ohio (STAR Ohio).

CITY OF LYNDHURST, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2012**

NOTE 5 - CASH AND CASH EQUIVALENTS (Continued)

A. Deposits

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned. Protection of City cash and deposits is provided by the federal deposit insurance corporation as well as qualified securities pledged by the institution holding the assets. Ohio Law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the City places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105% of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation or other legally constituted authority of any other state, or any instrumentality of such county, municipal corporation or other authority. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

At year end the carrying amount of the City's deposits was \$3,867,126 and the bank balance was \$4,014,574. Federal depository insurance covered \$842,244 of the bank balance and \$3,172,330 was uninsured. Of the remaining uninsured bank balance, the City was exposed to custodial risk as follows:

	<u>Balance</u>
Uninsured and uncollateralized	\$3,172,330
Total Balance	\$3,172,330

B. Investments

The City's investments at December 31, 2012 were as follows:

	Fair Value	Credit Rating	Investment Maturities (in Years) less than 1
Repurchase Agreements	\$2,155,218	AAA ¹ / Aaa ²	\$2,155,218
STAR Ohio	11,777,179	AAAm ¹	11,777,179
Total Investments	\$13,932,397		\$13,932,397

¹Standard & Poor's

²Moody's Investor Service

CITY OF LYNDHURST, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2012**

NOTE 5 - CASH AND CASH EQUIVALENTS (Continued)

B. Investments (Continued)

Interest Rate Risk – The Ohio Revised Code generally limits security purchases to those that mature within five years of settlement date.

Concentration of Credit Risk – The City places no limit on the amount the City may invest in one issuer.

Credit Risk – The City’s investment policy addresses credit risk by limiting investments to the safest types of securities, pre-qualifying financial institutions, brokers, intermediaries and financial advisors and by diversifying the investment portfolio so that potential losses on individual securities do not exceed income generated from the remaining portfolio.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Of the City’s investment in repurchase agreements, the entire balance is collateralized by underlying securities pledged by the investment’s counterparty, not in the name of the City.

C. Reconciliation of Cash, Cash Equivalents and Investments

The classification of cash, cash equivalents and investments on the financial statements is based on criteria set forth in GASB Statement No. 9. Certificates of deposit with an original maturity of three months or less are treated as cash equivalents. The classification of cash and cash equivalents (deposits) for purposes of this note are based on criteria set forth in GASB Statement No. 3.

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>
Per Financial Statements	\$14,294,305	\$3,505,218
Certificates of Deposit		
(with maturities of more than 3 months)	1,350,000	(1,350,000)
STAR Ohio	<u>(11,777,179)</u>	<u>11,777,179</u>
Per GASB Statement No. 3	<u>\$3,867,126</u>	<u>\$13,932,397</u>

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2012

NOTE 6 - TAXES

A. Property Taxes

Property taxes include amounts levied against all real estate and public utility property, and tangible personal property used in business and located in the City. Real property taxes (other than public utility) collected during 2012 were levied after October 1, 2011 on assessed values as of January 1, 2011, the lien date. Assessed values were established by the County Auditor at 35% of appraised market value. All property is required to be reappraised every six years, and equalization adjustments are made in the third year following reappraisal. The last revaluation was completed in 2012. Real property taxes are payable annually or semi-annually. The first payment is due January 20; the remainder is payable by June 20.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property is currently assessed at 100% of its true value. Public utility property taxes are payable on the same dates as real property described previously.

The County Treasurer collects property taxes on behalf of all taxing districts in the County including the City of Lyndhurst. The County Fiscal Officer periodically remits to the City its portion of the taxes collected.

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2012

NOTE 6 – TAXES (Continued)

A. Property Taxes (Continued)

The full tax rate for all City operations for the year ended December 31, 2012 was \$11.50 per \$1,000 of assessed value. The assessed value upon which the 2012 receipts were based was \$459,706,150. This amount constitutes \$454,917,250 in real property assessed value and \$4,788,900 in public utility assessed value.

Ohio law prohibits taxation of property from all taxing authorities in excess of 1% of assessed value without a vote of the people. Under current procedures, the City's share is 1.15% (11.5 mills) of assessed value.

B. Income Tax

The City levies a tax of 1.5% on substantially all income earned within the City. In addition, residents of the City are required to pay City income tax on income they earn outside the City. However, the City allows a credit of a maximum of 50% of the first one and one-half percent of income tax paid to another municipality.

Employers within the City are required to withhold income tax on employees compensation and remit the tax either monthly or quarterly, as required, to the Regional Income Tax Agency which serves as the City's agent for collection of their income tax. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. All income tax proceeds are received by the General Fund.

NOTE 7 - RECEIVABLES

Receivables at December 31, 2012 consisted of taxes, special assessments, interest, accounts receivable and intergovernmental receivables arising from shared revenues. All receivables other than those offset by deferred revenues are considered collectible in full.

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CITY OF LYNDHURST, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2012***

NOTE 8 - TRANSFERS

The following is a summary of transfers in and out for all funds for 2012:

	Transfers In:		
	Permanent Improvement Fund	Other Governmental Funds	Total
<u>Transfers Out:</u>			
General Fund	\$920,548	\$630,000	\$1,550,548
Other Governmental Funds	0	4,311	4,311
	<u>\$920,548</u>	<u>\$634,311</u>	<u>\$1,554,859</u>

Transfers are used to (1) move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorization.

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CITY OF LYNDHURST, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2012**

NOTE 9 – CAPITAL ASSETS

A. Governmental Activities Capital Assets

Summary by category of changes in governmental activities capital assets at December 31, 2012:

Historical Cost:

Class	December 31, 2011	Additions	Deletions	December 31, 2012
<i>Capital assets not being depreciated:</i>				
Land	\$421,379	\$0	\$0	\$421,379
Construction in Progress	0	633,682	0	633,682
Subtotal	421,379	633,682	0	1,055,061
<i>Capital assets being depreciated:</i>				
Buildings	10,373,375	0	0	10,373,375
Improvements Other than Buildings	2,781,173	35,951	0	2,817,124
Machinery and Equipment	9,501,009	615,701	(516,362)	9,600,348
Infrastructure	113,141,715	1,100,254	(1,154,930)	113,087,039
Subtotal	135,797,272	1,751,906	(1,671,292)	135,877,886
Total Cost	\$136,218,651	\$2,385,588	(\$1,671,292)	\$136,932,947
<i>Accumulated Depreciation:</i>				
Class	December 31, 2011	Additions	Deletions	December 31, 2012
Buildings	(\$3,802,819)	(\$249,777)	\$0	(\$4,052,596)
Improvements Other than Buildings	(1,288,858)	(125,266)	23,937	(1,390,187)
Machinery and Equipment	(7,498,291)	(590,714)	2,654,521	(5,434,484)
Infrastructure	(51,931,349)	(4,287,135)	773,984	(55,444,500)
Total Depreciation	(\$64,521,317)	(\$5,252,892) *	\$3,452,442	(\$66,321,767)
<i>Net Value:</i>	\$71,697,334			\$70,611,180

* Depreciation expenses were charged to governmental functions as follows:

Security of Persons and Property	\$239,512
Leisure Time Activities	270,412
Community Development	81,120
Basic Utility Services	997,316
Transportation	3,628,600
General Government	35,932
Total Depreciation Expense	\$5,252,892

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2012

NOTE 10 – DEFINED BENEFIT PENSION PLANS

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

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

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

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

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

The ORC provides statutory authority for employee and employer contributions. For 2012, employee and employer contribution rates were consistent across all three plans (TP, MD and CO). The employee contribution rate is 10.0%. The 2012 employer contribution rate for local government employer units was 14.00% of covered payroll, which is the maximum contribution rate set by State statutes. Employer contribution rates are actuarially determined. A portion of the City's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. The portion of employer contributions allocated to pension obligations for members in the Traditional Plan was 10.0% for calendar year 2012. The portion of employer contributions allocated to pension obligations for members in the Combined Plan was 7.95% for calendar year 2012. The contribution requirements of plan members and the City are established and may be amended by the OPERS Board. The City's contributions for pension obligations to OPERS for the years ending December 31, 2012, 2011, and 2010 were \$627,523, \$646,747 and \$571,086, respectively, which were equal to the required contributions for each year.

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2012

NOTE 10 – DEFINED BENEFIT PENSION PLANS (Continued)

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

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

Plan members are required to contribute 10.0% of their annual covered salary, while employers are required to contribute 19.5% and 24.0% respectively for police officers and firefighters. A portion of the City’s contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for 2012, 12.75% of annual covered salary for police and 17.25% of annual covered salary for firefighters, respectively, were the portions used to fund pension obligations. The City’s contributions for pension obligations to the OP&F Fund for the years ending December 31, 2012, 2011, and 2010 were \$418,684, \$442,204 and \$430,683 for police and \$488,036, \$486,110 and \$482,070 for firefighters, respectively, which were equal to the required contributions for each year.

NOTE 11 - POSTEMPLOYMENT BENEFITS

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

Plan Description – OPERS administers three separate pension plans: the Traditional Pension Plan – a cost-sharing, multiple-employer defined benefit pension plan; the Member directed Plan – a defined contribution plan; and the Combined Plan – a cost sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

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

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 45.

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2012

NOTE 11 - POSTEMPLOYMENT BENEFITS (Continued)

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

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

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

Funding Policy – The ORC provides the statutory authority requiring public employers to fund post retirement health care coverage through their contributions to OPERS. A portion of each employer’s contribution to OPERS is set aside for the funding of post retirement health care benefits. Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2012, local government employers contributed at a rate of 14.00% of covered payroll. The ORC currently limits the employer contribution to a rate not to exceed 14.0% of covered payroll for local government employers. Active members do not make contributions to the OPEB plan.

The OPERS Postemployment Health Care plan was established under, and is administered in accordance with Internal Revenue Code 401(h). Each year the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of postemployment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 4.0% for calendar year 2012. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05% for calendar year 2012. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions for health care to the OPERS for the years ending December 31, 2012, 2011, and 2010 were \$179,292, \$167,006 and \$209,057, respectively, which were equal to the required contributions for each year.

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

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2012

NOTE 11 - POSTEMPLOYMENT BENEFITS (Continued)

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

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

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

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

OP&F issues a stand-alone financial report that includes financial information and required supplementary information for the plan. Interested parties may obtain a copy by making a written request to 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy – The ORC provides for contribution requirements of the participating employers and of plan members to the OP&F. Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.5% and 24.0% of covered payroll for police and fire employers, respectively. The ORC states that the employer contribution may not exceed 19.5% of covered payroll for police employer units and 24.0% of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

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 2012, the employer contribution allocated to the health care plan was 6.75% of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h). The OP&F Board of Trustees also is authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions for health care to the OP&F for the years ending December 31, 2012, 2011, and 2010 were \$144,929, \$153,071 and \$149,083 for police and \$137,260, \$136,718 and \$135,582 for firefighters, respectively, which were equal to the required contributions for each year.

CITY OF LYNDHURST, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2012***

NOTE 12 – COMPENSATED ABSENCES

The costs of vacation and sick leave benefits are recorded as they are earned. Employees earn sick and vacation leave at varying rates based upon length of service. Upon retirement, and in certain instances, termination, an individual will be compensated for their accumulated sick leave at a maximum rate of 45% of the balance.

At December 31, 2012, the City's accumulated, unpaid compensated absences amounted to \$1,273,673, which is recorded as a liability of the Governmental Activities.

CITY OF LYNDHURST, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2012**

NOTE 13 - LONG-TERM DEBT

Long-term debt of the City at December 31, 2012 was as follows:

		Balance December 31, 2011	Issued	(Retired)	Balance December 31, 2012	Due Within One Year
Governmental Activities:						
General Obligation Bonds:						
2.000% Recreational Facilities	2003	\$1,495,000	\$0	(\$190,000)	\$1,305,000	\$195,000
Total General Obligation Bonds		1,495,000	0	(190,000)	1,305,000	195,000
Long-Term Notes:						
1.100% Street Improvement	2011	750,000	0	(750,000)	0	0
1.000% Street Improvement	2012	0	800,000	0	800,000	800,000
Total Long-Term Notes		750,000	800,000	(750,000)	800,000	800,000
Compensated Absences		1,137,540	1,273,673	(1,137,540)	1,273,673	179,602
Total Governmental Activities		<u>\$3,382,540</u>	<u>\$2,073,673</u>	<u>(\$2,077,540)</u>	<u>\$3,378,673</u>	<u>\$1,174,602</u>

Special assessment debt service is financed by assessments to affected property owners. However, the City is ultimately responsible for the debt service if the assessments are not collected. Delinquent special assessments related to outstanding special assessment bonded debt at year-end were \$35,133.

The City's future long-term obligation funding requirements, including principal and interest payments as of December 31, 2012, follow:

Years	General Obligation Bonds	
	Principal	Interest
2013	\$195,000	\$54,408
2014	205,000	46,706
2015	215,000	38,506
2016	220,000	29,690
2017	230,000	20,450
2018	240,000	10,560
Totals	<u>\$1,305,000</u>	<u>\$200,320</u>

CITY OF LYNDHURST, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2012***

NOTE 14 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. During 2012 the City contracted with several different insurance providers for various insurance coverages, as follows:

Insurance Provider	Coverage	Deductible
USSIC	Property	\$1,000
USSIC	Inland Marine	\$500
USSIC	Crime	\$500
USSIC	General Liability	\$0
USSIC	Public Officials	\$10,000
USSIC	Employee Practices	\$0
USSIC	Law Enforcement	\$10,000
USSIC	Auto Liability	\$0
USSIC	Auto Physical Damage	\$250 Comprehensive; \$1,000 Collision
USSIC	Umbrella	\$10,000
USSIC	Boiler	\$1,000
USSIC	EDP	\$500

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2012

NOTE 14 - RISK MANAGEMENT (Continued)

Settled claims resulting from these risks have not exceeded commercial insurance coverages in any of the past three fiscal years. There has been no significant reduction in insurance coverages from coverages in the prior year.

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

NOTE 15 – JOINT VENTURE

Community Partnership on Aging:

The Community Partnership on Aging is a joint venture among the Cities of South Euclid, Lyndhurst and Highland Heights, formed for the purpose of coordinating among the Cities all matters related to assistance and programs for the aged. Revenues consist of contributions from the member Cities and federal grants. The organization is controlled by the Council of Governments composed of the Mayors of the Cities of South Euclid, Lyndhurst and Highland Heights, with the advice of a nine member commission. Continued existence of the organization is dependent on the City. However, the City of Lyndhurst has no explicit and measurable equity in the organization. The organization is not accumulating financial resources or experiencing fiscal stress, which would cause additional financial benefit or burden on the City. In 2012, the City contributed \$153,581. To obtain a copy of the organization's financial statements, write to the Community Partnership on Aging, 1370 Victory Drive, South Euclid, Ohio 44121.

NOTE 16 – JOINTLY GOVERNED ORGANIZATION

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 jointly with an aggregation program for the purchase of electricity and natural gas. NOPEC is currently comprised of over 112 communities who have been authorized by ballot to purchase electricity and natural gas on behalf of their citizens. The intent of NOPEC is to provide electricity and natural gas 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 and natural gas to the citizens of its member communities.

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2012

NOTE 16 – JOINTLY GOVERNED ORGANIZATION (Continued)

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 of Lyndhurst did not contribute to NOPEC during 2012. Financial information can be obtained by contacting Joseph Migliorini, the Board Chairman, at 175 South Main Street, Akron, Ohio 44308 or at the website www.nopecinfo.org.

NOTE 17 - CONTINGENCIES

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

NOTE 18 – SUBSEQUENT EVENTS

On March 19, 2013 the City issued \$1,200,000 in one year General Obligation Notes to pay for Street Improvements. The notes had an interest rate of 1.00%.

NOTE 19 - OPERATING LEASE COMMITMENT

The City is committed under an operating lease for four copiers located in the Court and Community Center at a monthly rate of \$431. Under the terms of the lease, the City is responsible for any damage to the copiers and for insuring the copiers. The length of the lease is thirty-nine months. The end of lease purchase option is fair market value. This lease began on March 1, 2010 and is scheduled to end on June 1, 2013. This lease is considered for accounting purposes to be an operating lease. Lease expenditures for the fiscal year ended December 31, 2012, amounted to \$5,172.

**Independent Auditor's 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***

Members of the City Council
Lyndhurst, Ohio

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Lyndhurst, Ohio (the "City") as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 14, 2013.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Members of the City Council
Lyndhurst, Ohio

Compliance and Other Matters

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

Purpose of This Report

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

Cini & Parichi, Inc.

Cleveland, Ohio
June 14, 2013



Dave Yost • Auditor of State

CITY OF LYNDHURST

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 11, 2013**