

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

AUDIT REPORT

**FOR THE YEAR ENDED
DECEMBER 31, 2012**

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



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the City of Sheffield Lake, Lorain County, prepared by James G. Zupka, CPA, 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 Sheffield Lake is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

August 15, 2013

This page intentionally left blank.

**CITY OF SHEFFIELD LAKE
LORAIN COUNTY, OHIO
AUDIT REPORT
FOR THE YEAR ENDED DECEMBER 31, 2012**

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1-3
Management's Discussion and Analysis	5-14
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Position	15
Statement of Activities	16-17
Fund Financial Statements	
Balance Sheet - Governmental Funds	18
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities	19
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	20
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	21
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Budgetary Basis) and Actual - General Fund	22
Statement of Fund Net Position - Proprietary Funds	23
Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Funds	24
Statement of Cash Flows - Proprietary Funds	25-26
Statement of Fiduciary Assets and Liabilities	27
Notes to the Basic Financial Statements	29-56
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	57-58
Schedule of Prior Year Audit Findings and Recommendations	59

This page intentionally left blank.

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

Certified Public Accountants

5240 East 98th Street

Garfield Hts., Ohio 44125

Member American Institute of Certified Public Accountants

(216) 475 - 6136

Ohio Society of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

The Honorable Dave Yost
Auditor of State
State of Ohio

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sheffield Lake, Lorain County, Ohio, 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 City'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.

Opinions

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

Emphasis of Matter

As described in Note 3 to the financial statements, during 2012 the City adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it 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 7, 2013, on our consideration of the City of Sheffield Lake, Ohio's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Sheffield Lake, Ohio's internal control over financial reporting and compliance.



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

June 7, 2013

This page intentionally left blank.

CITY OF SHEFFIELD LAKE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
UNAUDITED

The management's discussion and analysis of the City of Sheffield Lake's (the City) financial performance presents a narrative overview and analysis of the City's financial activities for the year ended December 31, 2012. The intent of the discussion and analysis is to present the City's financial performance as a whole. Readers are encouraged to consider this information in conjunction with the basic financial statements and notes to financial statements for an enhanced understanding of the City's financial performance.

Financial Highlights

Key financial highlights for 2012 were as follows.

The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$ 20,826,836 (net position). Of this amount, \$ 2,522,695 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.

Total net position decreased by \$ 57,867. This was comprised of decreases of \$ 497,298 and \$ 43,443 in net investment in capital assets and restricted net position and an increase in unrestricted net position of \$ 482,874.

At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$ 1,994,201, an increase of \$ 95,711 in comparison with the prior year. Approximately 25 percent of this amount, \$ 507,861 is available for spending at the City's discretion (unassigned fund balance).

At the end of the current fiscal year, unassigned fund balance for the General Fund was \$ 541,625 or 14 percent of total General Fund expenditures.

The City's total long-term obligations decreased by \$ 577,449 (7 percent) during the current year.

Overview of Financial Statements

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

Government-wide Financial Statements

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

CITY OF SHEFFIELD LAKE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
UNAUDITED

Fund Financial Statements

Governmental fund financial statements focus on the City's most significant, or major funds. The City's major governmental funds are the General Fund and Shoreway Capital Project Fund. The remaining non-major funds are combined and reflected in one single column. Governmental fund financial statements focus on near-term inflows and outflows of spendable resources and on balances of spendable resources available at year end. This information can be useful in determining what financial resources are available to finance the City's activities. A reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities for the year ended December 31, 2012 is presented. The City, similar to other local governments, uses fund accounting to ensure and demonstrate finance related legal requirements.

Fund Categories

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

Governmental funds

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

Proprietary funds

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

Fiduciary funds

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

Notes to the Basic Financial Statements

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

CITY OF SHEFFIELD LAKE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
UNAUDITED

The City of Sheffield Lake as a Whole

Analysis of Net Position

The *Statement of Net Position* presents the City as a whole. Following is a summary of the City's net position for 2012 compared to 2011.

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Assets						
Current and other assets	\$ 8,751,944	\$ 8,626,492	\$ 1,192,438	\$ 1,066,262	\$ 9,944,382	\$ 9,692,754
Capital assets, net	13,470,730	14,286,607	6,565,005	6,770,497	20,035,735	21,057,104
Total assets	22,222,674	22,913,099	7,757,443	7,836,759	29,980,117	30,749,858
Liabilities						
Current liabilities	4,790,473	4,897,555	61,587	88,930	4,852,060	4,986,485
Long-term liabilities	2,722,291	3,089,008	1,578,930	1,789,662	4,301,221	4,878,670
Total liabilities	7,512,764	7,986,563	1,640,517	1,878,592	9,153,281	9,865,155
Net position						
Net investment in capital assets	11,259,942	11,768,986	5,042,225	5,030,479	16,302,167	16,799,465
Restricted	2,001,974	2,045,417	-	-	2,001,974	2,045,417
Unrestricted	1,447,994	1,112,133	1,074,701	927,688	2,522,695	2,039,821
Total net position	\$ 14,709,910	\$ 14,926,536	\$ 6,116,926	\$ 5,958,167	\$ 20,826,836	\$ 20,884,703

Investment in capital assets (land, buildings and improvements, equipment and vehicles and infrastructure) less any related debt to acquire those assets still outstanding represents the largest portion of net position. Capital assets are used to provide services to the City's citizens, however, are not available for future spending. Total assets decreased by \$ 769,741 to \$ 29,980,117. Current and other assets increased by \$ 251,628 to \$ 9,944,382. Current liabilities decreased by \$ 134,425 to \$ 4,852,060 primarily due to decreases in deferred revenue and accounts and contracts payable. Long-term liabilities decreased by \$ 577,449 to \$ 4,301,221. Total net position decreased by \$ 57,867 to \$ 20,826,836 with governmental net position comprising \$ 14,709,910 and business-type net position comprising \$ 6,116,926 of that amount.

CITY OF SHEFFIELD LAKE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
UNAUDITED

Analysis of Changes in Net Position

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

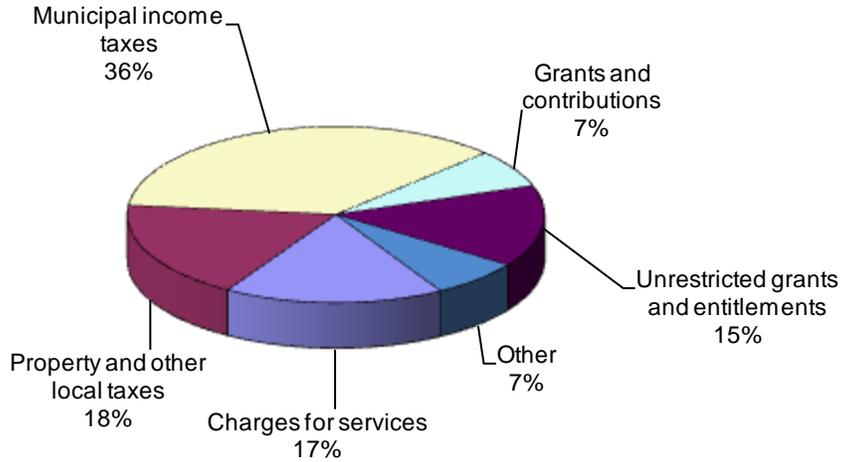
	Change in Net Position					
	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues						
Program revenues						
Charges for services	\$ 1,114,693	\$ 1,147,858	\$ 1,944,587	\$ 1,810,691	\$ 3,059,280	\$ 2,958,549
Operating grants and contributions	466,960	-	-	-	466,960	-
Capital grants and contributions	4,500	115,000	-	-	4,500	115,000
Total program revenues	<u>1,586,153</u>	<u>1,262,858</u>	<u>1,944,587</u>	<u>1,810,691</u>	<u>3,530,740</u>	<u>3,073,549</u>
General revenues						
Property and other local taxes	1,219,559	1,233,782	-	-	1,219,559	1,233,782
Municipal income taxes	2,389,210	2,173,575	-	-	2,389,210	2,173,575
Grants and entitlements	1,023,914	892,958	-	-	1,023,914	892,958
Other	473,307	680,880	-	-	473,307	680,880
Total general revenues	<u>5,105,990</u>	<u>4,981,195</u>	<u>-</u>	<u>-</u>	<u>5,105,990</u>	<u>4,981,195</u>
Total revenues	<u>6,692,143</u>	<u>6,244,053</u>	<u>1,944,587</u>	<u>1,810,691</u>	<u>8,636,730</u>	<u>8,054,744</u>
Program expenses						
Security of persons and property	3,372,441	2,952,553	-	-	3,372,441	2,952,553
Public health and welfare	35,536	31,644	-	-	35,536	31,644
Leisure time activities	173,048	169,323	-	-	173,048	169,323
Community environment	107,058	126,069	-	-	107,058	126,069
Basic utility services	724,699	729,486	-	-	724,699	729,486
Transportation	1,335,120	1,349,647	-	-	1,335,120	1,349,647
General government	993,974	1,134,835	-	-	993,974	1,134,835
Interest	166,893	202,727	-	-	166,893	202,727
Water	-	-	682,848	694,764	682,848	694,764
Sewer	-	-	816,574	1,004,759	816,574	1,004,759
Storm water	-	-	286,406	246,106	286,406	246,106
Total program expenses	<u>6,908,769</u>	<u>6,696,284</u>	<u>1,785,828</u>	<u>1,945,629</u>	<u>8,694,597</u>	<u>8,641,913</u>
Increase (decrease) in net position	(216,626)	(452,231)	158,759	(134,938)	(57,867)	(587,169)
Net position, beginning of year	<u>14,926,536</u>	<u>15,378,767</u>	<u>5,958,167</u>	<u>6,093,105</u>	<u>20,884,703</u>	<u>21,471,872</u>
Net position, end of year	<u>\$ 14,709,910</u>	<u>\$ 14,926,536</u>	<u>\$ 6,116,926</u>	<u>\$ 5,958,167</u>	<u>\$ 20,826,836</u>	<u>\$ 20,884,703</u>

CITY OF SHEFFIELD LAKE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
UNAUDITED

Governmental activities

Revenues by source of governmental activities for 2012 were comprised of:

Revenues by Source, Governmental Activities

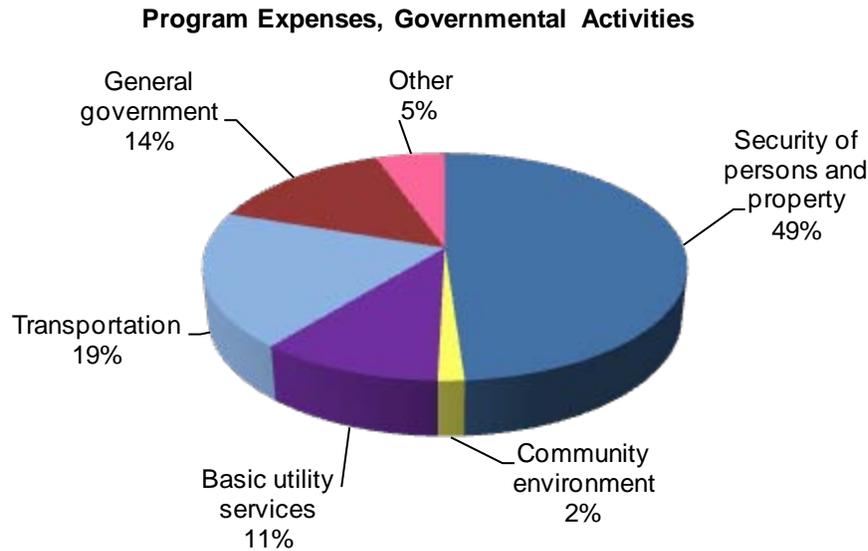


Revenues

For 2012, municipal income taxes, representing 36 percent of total revenue, was the largest portion of revenue for governmental activities. Property and other local taxes, charges for services, and unrestricted grants and entitlements, represented the next three largest sources of revenue at 18 percent, 17 percent, and 15 percent respectively.

CITY OF SHEFFIELD LAKE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
UNAUDITED

Program expenses of governmental activities for 2012 were comprised of:



Program expenses

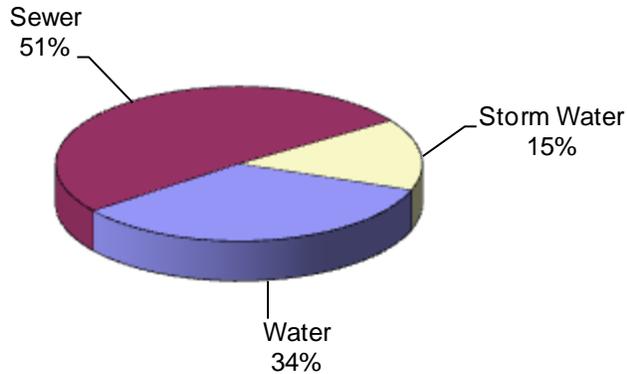
Program expenses amounted to \$ 6,908,769 in 2012, of which \$ 1,586,153 was supported by program revenue. Security of persons and property, which includes police, fire and paramedic services, represented \$ 3,372,441 or 49 percent of total program expenses. Community environment represented \$ 107,058 or 2 percent. Basic utilities services of \$ 724,699 or 11 percent includes refuse collections. Transportation, which includes street maintenance and snow removal, represented \$ 1,335,120 or 19 percent of program expenses. General government represented \$ 993,974 or 14 percent of program expenses. General government expenses include legislative and administrative services such as council, mayor, finance, law and computer services departments, utilities and maintenance of buildings. Other expenses include public health and welfare, leisure time activities, including recreation activities and maintenance of the City's park system, and interest amounted to \$ 375,477 or 5 percent.

CITY OF SHEFFIELD LAKE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
UNAUDITED

Business-type activities

Revenues for business-type activities for 2012 were comprised of:

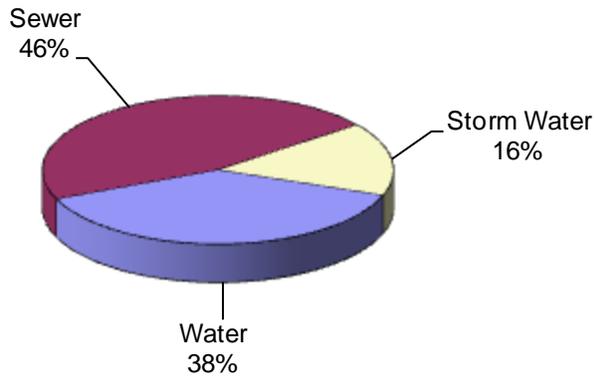
Revenue, Business-type Activities



Revenues

Charges for services represented 100 percent of total revenues for business-type activities in 2012.

Expenses, Business-type Activities



Expenses

Water operations expenses amounted to \$ 682,848 or 38 percent. Sanitary sewer operations expenses amounted to \$ 816,574 or 46 percent of total program expenses and storm water operation expenses amounted to \$ 286,406 or 16 percent for business-type activities. Water operations, sanitary sewer operations and storm water operations have historically been self-supporting through user fees and charges.

CITY OF SHEFFIELD LAKE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
UNAUDITED

The City's Funds

The City's governmental funds financial information begins at page 18. Total governmental assets increased by \$ 125,452 and total governmental liabilities increased by \$ 29,741 resulting in an increase in governmental total fund balances of \$ 95,711 to \$ 1,994,201 at year-end 2012. Total governmental funds revenues increased by \$ 387,178 in 2012, while total expenditures decreased by \$ 67,297. Total other financing sources (uses) decreased by \$ 170,685. The City's major governmental funds in 2012 consisted of the General Fund and Shoreway Capital Projects Fund. General Fund revenues were \$ 26,014 or .6 percent lower in 2012 than 2011. General Fund total expenditures decreased by \$ 211,260 or 5 percent. Other financing sources (uses) changed to \$ 54,705 in 2012 from (\$ 76,847) in 2011. Accordingly, the General Fund balance increased by \$ 173,749 to \$ 780,177 at year-end 2012.

The City's proprietary funds information begins at page 23. Water Fund and Storm Water net position decreased by (\$ 24,037) and (\$ 771), respectively. Sewer Fund net position increased by \$ 183,567. The City's proprietary funds have historically been self-sufficient.

Budgetary Highlights

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

The General Fund is the City's most significant budgeted fund. Original budgeted receipts (excluding other sources) for the General Fund were \$ 3,258,720 and final budgeted receipts were \$ 3,476,713. Original appropriations (excluding other uses) were \$ 3,499,965. The City actually expended \$ 3,405,456 which was \$ 147,584 less than final appropriations.

The City historically spends less than appropriated. For 2012, actual expenditures were 96 percent of final appropriations.

CITY OF SHEFFIELD LAKE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
UNAUDITED

Capital Assets

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

	Governmental Activities		Business type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 484,539	\$ 484,539	\$ 153,910	\$ 153,910	\$ 638,449	\$ 638,449
Buildings and improvements	2,373,400	2,447,186	114,018	116,733	2,487,418	2,563,919
Equipment and vehicles	570,067	630,553	241,668	274,278	811,735	904,831
Infrastructure	10,042,724	10,724,329	6,055,409	6,225,576	16,098,133	16,949,905
	<u>\$ 13,470,730</u>	<u>\$ 14,286,607</u>	<u>\$ 6,565,005</u>	<u>\$ 6,770,497</u>	<u>\$ 20,035,735</u>	<u>\$ 21,057,104</u>

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

The City's total capital assets, net of depreciation, under governmental activities were \$ 13,470,730 at December 31, 2012, which was \$ 815,877 lower than the previous year. Business-type capital assets, net of depreciation, decreased by \$ 205,492 to \$ 6,565,005, primarily due to depreciation expense.

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

Debt

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

	Governmental Activities		Business type Activities		Total	
	2012	2011	2012	2011	2012	2011
Notes payable	\$ 1,006,744	\$ 1,146,066	\$ 60,000	\$ 90,000	\$ 1,066,744	\$ 1,236,066
OPWC loans	306,171	324,232	222,780	245,018	528,951	569,250
General obligation bonds	835,000	960,000	1,227,768	1,391,409	2,062,768	2,351,409
Capital leases	62,873	87,323	-	-	62,873	87,323
	<u>\$ 2,210,788</u>	<u>\$ 2,517,621</u>	<u>\$ 1,510,548</u>	<u>\$ 1,726,427</u>	<u>\$ 3,721,336</u>	<u>\$ 4,244,048</u>

As of December 31, 2012, the City had \$ 3,721,336 of total long-term debt obligations with \$ 781,922 due within one year.

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

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

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

CITY OF SHEFFIELD LAKE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
UNAUDITED

Economic Factors and Next Year's Budget

The City of Sheffield Lake has experienced financial difficulty as a result of rising costs and decreased revenue due to major cuts in local government funding, the elimination of personal property tax as well as the elimination of estate tax. The annual budget is monitored efficiently and consistently throughout the year and department heads review their budgets monthly and spend only for necessary expenses. These cuts affect the General Fund which supports all departments, most directly our safety forces. Appropriate measures will be taken to ensure spending is within available resources as the City prepares to meet the challenges of the future. The Finance Director, Mayor and City Council continue to work closely in the monitoring of the City's current budget as well as the preparation of the 2014 budget.

Requests for Information

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

CITY OF SHEFFIELD LAKE, OHIO
STATEMENT OF NET POSITION
DECEMBER 31, 2012

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in pooled cash	\$ 1,099,839	\$ 757,830	\$ 1,857,669
Accounts and other receivable	150,274	273,103	423,377
Due from other governments	450,044	-	450,044
Inventories and supplies	13,240	-	13,240
Prepaid expenses	23,500	2,500	26,000
Income taxes receivable	1,694,200	-	1,694,200
Property taxes receivable	1,372,700	-	1,372,700
Special assessments receivable	-	114,360	114,360
Property held for resale	3,948,147	-	3,948,147
Deferred bond issuance costs	-	44,645	44,645
Capital assets			
Nondepreciable capital assets	484,539	153,910	638,449
Depreciable capital assets, net	12,986,191	6,411,095	19,397,286
Total assets	22,222,674	7,757,443	29,980,117
Liabilities			
Accounts and contracts payable	114,201	10,770	124,971
Accrued wages and benefits	52,596	10,228	62,824
Accrued interest payable	17,064	3,138	20,202
Due to other governments	144,812	37,451	182,263
Deferred revenue	1,266,800	-	1,266,800
Notes payable	3,195,000	-	3,195,000
Long term liabilities			
Due within one year	534,684	247,238	781,922
Due in more than one year	2,187,607	1,331,692	3,519,299
Total liabilities	7,512,764	1,640,517	9,153,281
Net position			
Net investment in capital assets	11,259,942	5,042,225	16,302,167
Restricted for:			
Debt service	61,322	-	61,322
Capital projects	746,098	-	746,098
Highways and streets	900,390	-	900,390
Public safety	122,660	-	122,660
Recreation	5,377	-	5,377
Community environment	134,242	-	134,242
Other purposes	31,885	-	31,885
Unrestricted	1,447,994	1,074,701	2,522,695
Total net position	\$ 14,709,910	\$ 6,116,926	\$ 20,826,836

See accompanying notes to the basic financial statements.

CITY OF SHEFFIELD LAKE, OHIO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012

Functions/Programs	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants Interest and Contributions	Capital Grants and Contributions
Governmental activities				
Security of persons and property	\$ 3,372,441	\$ 267	\$ 480	\$ -
Public health and welfare	35,536	-	-	-
Leisure time activities	173,048	27,195	-	-
Community environment	107,058	-	466,480	4,500
Basic utility services	724,699	690,039	-	-
Transportation	1,335,120	14,113	-	-
General government	993,974	383,079	-	-
Interest	166,893	-	-	-
Total governmental activities	<u>6,908,769</u>	<u>1,114,693</u>	<u>466,960</u>	<u>4,500</u>
Business-type activities:				
Water	682,848	658,811	-	-
Sewer	816,574	1,000,141	-	-
Storm Water	286,406	285,635	-	-
Total business-type activities	<u>1,785,828</u>	<u>1,944,587</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 8,694,597</u>	<u>\$ 3,059,280</u>	<u>\$ 466,960</u>	<u>\$ 4,500</u>

General revenues

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

Total general revenues

Change in net position

- Net position at beginning of year
- Net position at end of year

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and Changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (3,371,694)	\$ -	\$ (3,371,694)
(35,536)	-	(35,536)
(145,853)	-	(145,853)
363,922	-	363,922
(34,660)	-	(34,660)
(1,321,007)	-	(1,321,007)
(610,895)	-	(610,895)
(166,893)	-	(166,893)
(5,322,616)	-	(5,322,616)
-	(24,037)	(24,037)
-	183,567	183,567
-	(771)	(771)
-	158,759	158,759
(5,322,616)	158,759	(5,163,857)
326,347	-	326,347
74,834	-	74,834
818,378	-	818,378
1,920,210	-	1,920,210
469,000	-	469,000
1,023,914	-	1,023,914
1,296	-	1,296
472,011	-	472,011
5,105,990	-	5,105,990
(216,626)	158,759	(57,867)
14,926,536	5,958,167	20,884,703
\$ 14,709,910	\$ 6,116,926	\$ 20,826,836

CITY OF SHEFFIELD LAKE, OHIO
BALANCE SHEET – GOVERNMENTAL FUNDS
DECEMBER 31, 2012

	General	Shoreway Capital Project	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in pooled cash	\$ 658,695	\$ -	\$ 441,144	\$ 1,099,839
Income taxes receivables	1,355,360	-	338,840	1,694,200
Property taxes receivable	354,700	-	1,018,000	1,372,700
Due from other governments	122,483	-	327,561	450,044
Accounts and other receivable	150,274	-	-	150,274
Inventories and supplies	3,757	-	9,483	13,240
Prepaid expenses	21,700	-	1,800	23,500
Property held for resale	-	3,948,147	-	3,948,147
Total assets	\$ 2,666,969	\$ 3,948,147	\$ 2,136,828	\$ 8,751,944
Liabilities and fund balances				
Liabilities				
Accounts and contracts payable	\$ 107,788	\$ -	\$ 6,413	\$ 114,201
Accrued wages and benefits	47,999	-	4,597	52,596
Accrued interest payable	-	7,400	-	7,400
Due to other governments	87,141	-	57,671	144,812
Deferred revenue	1,643,864	-	1,599,870	3,243,734
Notes payable	-	3,195,000	-	3,195,000
Total liabilities	1,886,792	3,202,400	1,668,551	6,757,743
Fund balances				
Nonspendable	25,457	-	11,283	36,740
Restricted	-	745,747	490,758	1,236,505
Assigned	213,095	-	-	213,095
Unassigned (deficit)	541,625	-	(33,764)	507,861
Total fund balances	780,177	745,747	468,277	1,994,201
Total liabilities and fund balances	\$ 2,666,969	\$ 3,948,147	\$ 2,136,828	\$ 8,751,944

See accompanying notes to the basic financial statements.

CITY OF SHEFFIELD LAKE, OHIO
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2012

Total governmental funds balances		\$	1,994,201
Amount reported for governmental activities in the statement of net position are different because:			
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.			13,470,730
Other long term assets are not available to pay for current period expenditures and therefore are deferred in the funds:			
Property and other local taxes	105,900		
Municipal income tax	1,458,351		
Intergovernmental	412,683		
Total	1,976,934		1,976,934
In the statement of activities, interest is accrued on outstanding long-term obligations, whereas in governmental funds, an interest expenditure is reported when due.			(9,664)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:			
Notes payable	(1,006,744)		
OPWC loans payable	(306,171)		
General obligation bonds	(835,000)		
Capital leases	(62,873)		
Accrued leave benefits	(511,503)		
	(2,722,291)		(2,722,291)
Net position of governmental activities		\$	14,709,910

See accompanying notes to the basic financial statements.

CITY OF SHEFFIELD LAKE, OHIO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	General	Shoreway Capital Project	Other Governmental Funds	Total Governmental Funds
Revenues				
Property and other local taxes	\$ 332,747	\$ -	\$ 905,412	\$ 1,238,159
Municipal income taxes	1,696,029	-	412,955	2,108,984
Intergovernmental revenue	447,667	-	1,080,114	1,527,781
Charges for services	1,018,784	-	-	1,018,784
Fines, licenses, and permits	186,816	-	267	187,083
Interest	1,220	-	76	1,296
Miscellaneous	444,534	-	23,506	468,040
Total revenues	4,127,797	-	2,422,330	6,550,127
Expenditures				
Current				
Security of persons and property	1,941,626	-	1,425,265	3,366,891
Public health and welfare	35,536	-	-	35,536
Leisure time activities	118,136	-	-	118,136
Community environment	88,732	-	9,274	98,006
Basic utility services	693,127	-	-	693,127
Transportation	-	-	695,173	695,173
General government	964,372	-	7,037	971,409
Debt service				
Note principal	-	-	489,027	489,027
Bond principal	45,000	-	80,000	125,000
OPWC loan principal	2,358	-	15,703	18,061
Capital lease principal	24,450	-	-	24,450
Interest and fiscal charges	95,416	80	73,809	169,305
Total expenditures	4,008,753	80	2,795,288	6,804,121
Excess (deficiency) of revenues over expenditures	119,044	(80)	(372,958)	(253,994)
Other financing sources (uses)				
Note proceeds	54,705	-	295,000	349,705
Total other financing sources (uses)	54,705	-	295,000	349,705
Net change in fund balance	173,749	(80)	(77,958)	95,711
Fund balances, beginning of year	606,428	745,827	546,235	1,898,490
Fund balances, end of year	\$ 780,177	\$ 745,747	\$ 468,277	\$ 1,994,201

See accompanying notes to the basic financial statements.

CITY OF SHEFFIELD LAKE, OHIO
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012

Net change in fund balances - total governmental funds	\$	95,711
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded net capital outlay in the current period.</p>		
	Capital outlay, net	\$ 43,502
	Depreciation expense	<u>(859,379)</u>
		(815,877)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:</p>		
	Municipal income tax	280,226
	Property and other local taxes	(18,600)
	Miscellaneous	(87,203)
	Intergovernmental revenue	<u>(32,407)</u>
		142,016
<p>Debt proceeds are an other financing source in the funds, but increase long-term liabilities in the Statement of Net Position</p>		
		(349,705)
<p>Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.</p>		
	Note principal paid	489,027
	OPWC loan principal paid	18,061
	Bond principal paid	125,000
	Capital lease principal paid	<u>24,450</u>
		656,538
<p>In the statement of activities, interest is accrued on outstanding debt, whereas in governmental funds, an interest expenditure is reported when due.</p>		
		2,412
<p>Some expenses reported in the statement of activities, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>		
	Accrued leave benefits	<u>52,279</u>
Change in net position of governmental activities	\$	<u><u>(216,626)</u></u>

See accompanying notes to the basic financial statements.

CITY OF SHEFFIELD LAKE, OHIO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2012

	General Fund			Variance with Final Budget Positive (Negative)
	Budget Amounts		Actual	
	Original	Final		
Revenues				
Property and other local taxes	\$ 330,584	\$ 332,747	\$ 332,747	\$ -
Municipal income taxes	1,620,000	1,706,610	1,706,610	-
Intergovernmental revenue	321,006	317,143	447,667	130,524
Charges for services	302,150	310,189	310,189	-
Fines, licenses, and permits	238,600	186,816	186,816	-
Interest	4,500	1,208	1,220	12
Miscellaneous	441,880	622,000	436,771	(185,229)
Total revenues	<u>3,258,720</u>	<u>3,476,713</u>	<u>3,422,020</u>	<u>(54,693)</u>
Expenditures				
Current				
Security of persons and property	1,912,097	2,016,359	1,977,988	38,371
Public health and welfare	50,500	46,500	38,361	8,139
Leisure time activities	131,235	119,866	115,887	3,979
Community environment	89,500	90,390	89,661	729
General government	1,247,901	1,093,543	1,029,334	64,209
Capital outlay	5,000	17,650	15,603	2,047
Debt service				
Bond principal	45,000	45,000	45,000	-
OPWC loan principal	2,358	2,358	2,358	-
Interest and fiscal charges	16,374	121,374	91,264	30,110
Total expenditures	<u>3,499,965</u>	<u>3,553,040</u>	<u>3,405,456</u>	<u>147,584</u>
Excess (deficiency) of revenues over expenditures	<u>(241,245)</u>	<u>(76,327)</u>	<u>16,564</u>	<u>92,891</u>
Other financing sources (uses)				
Transfers-in	10,000	-	-	-
Loan proceeds	-	-	54,705	54,705
Transfers-out	(5,000)	-	-	-
Total other financing sources (uses)	<u>5,000</u>	<u>-</u>	<u>54,705</u>	<u>54,705</u>
Net change in fund balance	(236,245)	(76,327)	71,269	147,596
Prior year encumbrances	43,428	43,428	43,428	-
Fund balances, beginning of year	<u>398,451</u>	<u>398,451</u>	<u>398,451</u>	<u>-</u>
Fund balances, end of year	<u>\$ 205,634</u>	<u>\$ 365,552</u>	<u>\$ 513,148</u>	<u>\$ 147,596</u>

See accompanying notes to the basic financial statements.

CITY OF SHEFFIELD LAKE, OHIO
STATEMENT OF FUND NET POSITION -
PROPRIETARY FUNDS
DECEMBER 31, 2012

	Business-Type Activities - Enterprise Funds			
	Water	Sewer	Storm Water	Total
Assets				
Current assets				
Equity in pooled cash	\$ 74,177	\$ 585,319	\$ 98,334	\$ 757,830
Accounts and other receivable	90,942	140,564	41,597	273,103
Prepaid expenses	2,000	500	-	2,500
Total current assets	<u>167,119</u>	<u>726,383</u>	<u>139,931</u>	<u>1,033,433</u>
Noncurrent assets				
Special assessments receivable	-	-	114,360	114,360
Deferred bond issuance costs	-	-	44,645	44,645
Nondepreciable capital assets	-	33,500	120,410	153,910
Depreciable capital assets, net	503,222	521,855	5,386,018	6,411,095
Total noncurrent assets	<u>503,222</u>	<u>555,355</u>	<u>5,665,433</u>	<u>6,724,010</u>
Total assets	<u>670,341</u>	<u>1,281,738</u>	<u>5,805,364</u>	<u>7,757,443</u>
Liabilities				
Current				
Accounts and contracts payable	2,846	7,675	249	10,770
Accrued wages and benefits	3,058	5,294	1,876	10,228
Accrued interest payable	500	-	2,638	3,138
Due to other governments	17,169	17,482	2,800	37,451
Notes payable	60,000	-	-	60,000
OPWC loans payable	-	-	22,238	22,238
General obligation bonds payable	-	-	165,000	165,000
Total current liabilities	<u>83,573</u>	<u>30,451</u>	<u>194,801</u>	<u>308,825</u>
Long-term liabilities				
OPWC loans payable	-	-	200,542	200,542
General obligation bonds payable	-	-	1,062,768	1,062,768
Accrued leave benefits	26,537	39,806	2,039	68,382
Total long-term liabilities	<u>26,537</u>	<u>39,806</u>	<u>1,265,349</u>	<u>1,331,692</u>
Total liabilities	<u>110,110</u>	<u>70,257</u>	<u>1,460,150</u>	<u>1,640,517</u>
Net position				
Net investment in capital assets	443,222	555,355	4,043,648	5,042,225
Unrestricted	117,009	656,126	301,566	1,074,701
Total net position	<u>\$ 560,231</u>	<u>\$ 1,211,481</u>	<u>\$ 4,345,214</u>	<u>\$ 6,116,926</u>

See accompanying notes to the basic financial statements.

CITY OF SHEFFIELD LAKE, OHIO
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION -
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Business-Type Activities - Enterprise Funds			Total
	Water	Sewer	Storm Water	
Operating revenues				
Charges for services	\$ 658,811	\$ 1,000,141	\$ 283,772	\$ 1,942,724
Miscellaneous	-	-	1,863	1,863
Total operating revenues	<u>658,811</u>	<u>1,000,141</u>	<u>285,635</u>	<u>1,944,587</u>
Operating expenses				
Personal services	227,201	305,292	85,198	617,691
Contractual services	406,378	447,652	4,702	858,732
Supplies and materials	20,025	21,949	3,600	45,574
Other operating	9,376	6,347	98	15,821
Depreciation	17,675	35,334	152,483	205,492
Total operating expenses	<u>680,655</u>	<u>816,574</u>	<u>246,081</u>	<u>1,743,310</u>
Operating income (loss)	<u>(21,844)</u>	<u>183,567</u>	<u>39,554</u>	<u>201,277</u>
Nonoperating revenues (expenses)				
Interest and fiscal charges	(2,193)	-	(40,325)	(42,518)
Net nonoperating revenues (expenses)	<u>(2,193)</u>	<u>-</u>	<u>(40,325)</u>	<u>(42,518)</u>
Change in net position	(24,037)	183,567	(771)	158,759
Net position, beginning of year	<u>584,268</u>	<u>1,027,914</u>	<u>4,345,985</u>	<u>5,958,167</u>
Net position, end of year	<u>\$ 560,231</u>	<u>\$ 1,211,481</u>	<u>\$ 4,345,214</u>	<u>\$ 6,116,926</u>

See accompanying notes to the basic financial statements.

CITY OF SHEFFIELD LAKE, OHIO
STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Business-Type Activities - Enterprise Funds			
	Water	Sewer	Storm Water	Total
Cash flows from operating activities:				
Receipts from customers and users	\$ 635,417	\$ 967,836	\$ 296,479	\$ 1,899,732
Cash paid to suppliers for materials and supplies	(20,862)	(21,880)	(3,600)	(46,342)
Cash paid for employee services and benefits	(226,718)	(300,710)	(82,980)	(610,408)
Cash paid for contractual services	(435,312)	(447,290)	(4,453)	(887,055)
Other operating revenues	-	-	1,864	1,864
Other operating expenses	(9,376)	(6,347)	(98)	(15,821)
Net cash provided by (used in) operating activities	<u>(56,851)</u>	<u>191,609</u>	<u>207,212</u>	<u>341,970</u>
Cash flows from capital and related financing activities:				
Issuance of notes	60,000	-	-	60,000
Note principal payment	(90,000)	-	-	(90,000)
OPWC loans payments	-	-	(22,238)	(22,238)
Bond principal payments	-	-	(165,000)	(165,000)
Payment of interest and fiscal charges	(2,503)	-	(34,184)	(36,687)
Net cash (used in) capital and related financing activities	<u>(32,503)</u>	<u>-</u>	<u>(221,422)</u>	<u>(253,925)</u>
Net increase (decrease) in equity in pooled cash	(89,354)	191,609	(14,210)	88,045
Equity in pooled cash, beginning of year	<u>163,531</u>	<u>393,710</u>	<u>112,544</u>	<u>669,785</u>
Equity in pooled cash, end of year	<u>\$ 74,177</u>	<u>\$ 585,319</u>	<u>\$ 98,334</u>	<u>\$ 757,830</u>

(Continued)

See accompanying notes to the basic financial statements.

CITY OF SHEFFIELD LAKE, OHIO
STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Concluded)

	Water	Sewer	Storm Water	Total
Reconciliation of operating income to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ (21,844)	\$ 183,567	\$ 39,554	\$ 201,277
Adjustments:				
Depreciation	17,675	35,334	152,483	205,492
Changes in net position (increase) decrease and liabilities increase (decrease)				
Accounts and other receivable	(23,394)	(32,305)	12,708	(42,991)
Prepaid expenses	(100)	-	-	(100)
Accounts and contracts payable	(29,793)	309	249	(29,235)
Accrued wages and benefits	(820)	2,076	911	2,167
Due to other governments	(171)	234	150	213
Accrued leave benefits	1,596	2,394	1,157	5,147
Net cash provided by (used in) operating activities	<u>\$ (56,851)</u>	<u>\$ 191,609</u>	<u>\$ 207,212</u>	<u>\$ 341,970</u>

See accompanying notes to the basic financial statements.

CITY OF SHEFFIELD LAKE, OHIO
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
DECEMBER 31, 2012

	Agency Funds
Assets	
Equity in pooled cash	\$ 50,442
Cash and investments w ith fiscal agents	6,730
Property taxes receivable	319,800
Due from other governments	16,400
Total assets	<u>\$ 393,372</u>
Liabilities	
Due to others	\$ 57,172
Due to other governments	336,200
Total liabilities	<u>\$ 393,372</u>

See accompanying notes to the basic financial statements.

This page intentionally left blank.

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 1 DESCRIPTION OF THE CITY AND REPORTING ENTITY

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

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

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

The City is associated with the Lorain County General Health District, a jointly governed organization, which provides health services to the members of the Health District. The City does not have any financial interest in or responsibility for the Health District. The County Auditor serves as fiscal agent. See Note 19.

The City is a member of the Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed with an aggregation program for the purchase of electricity. See Note 19.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. BASIS OF PRESENTATION

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

Government-wide Financial Statements

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

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

Fund Financial Statements

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

B. FUND ACCOUNTING

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

Governmental Funds

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

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. FUND ACCOUNTING (continued)

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

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

Proprietary Funds

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

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

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

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

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

Fiduciary Funds

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

C. MEASUREMENT FOCUS

Government-wide Financial Statements

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

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. MEASUREMENT FOCUS (continued)

Fund Financial Statements

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

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

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

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

D. BASIS OF ACCOUNTING

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

Revenues - Exchange and Non-exchange Transactions

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

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. BASIS OF ACCOUNTING (continued)

Revenues - Exchange and Non-exchange Transactions (continued)

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

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

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of December 31, 2012, but which were levied to finance year 2013 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures

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

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

E. BUDGETARY PROCESS

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

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. BUDGETARY PROCESS (continued)

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

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

F. CASH AND CASH EQUIVALENTS

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

G. INVESTMENTS

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

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

H. INVENTORIES

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

I. CAPITAL ASSETS

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

CITY OF SHEFFIELD LAKE, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. CAPITAL ASSETS (continued)

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

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

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

J. PROPERTY HELD FOR RESALE

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

K. INTERFUND BALANCES

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

L. UNPAID COMPENSATED ABSENCES

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

M. ACCRUED LIABILITIES AND LONG-TERM LIABILITIES

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

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

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

N. NET POSITION

Net position is the residual amount when comparing assets and deferred outflows of resources to liabilities and deferred inflows of resources. The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. The restricted component of net position is reported when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The government-wide statement of net position for the governmental activities reports \$ 2,001,974 of restricted net position, none of which is restricted by enabling legislation. The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted components of net position are available.

O. FUND BALANCE

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

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

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

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

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

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

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

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

P. OPERATING REVENUES AND EXPENSES

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services primarily for water, sanitary sewer and storm water services. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund.

Q. CONTRIBUTIONS OF CAPITAL

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

R. INTERFUND ACTIVITY

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

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

S. EXTRAORDINARY AND SPECIAL ITEMS

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

T. USE OF ESTIMATES

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

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 3 CHANGE IN ACCOUNTING PRINCIPLES

GASB Statement No.57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans". The objective of this Statement is to address issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2011 and have been implemented by the City. The implementation of GASB Statement No. 57 did not have an effect on the financial statements of the City.

GASB Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements". The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011 and have been implemented by the City. The implementation of GASB Statement No. 60 did not have an effect on the financial statements of the City.

GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements". The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the FASB and AICPA pronouncements which does not conflict with or contradict GASB pronouncements. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011 and have been implemented by the City. The implementation of GASB Statement No. 62 did not have an effect on the financial statements of the City.

GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position". This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011 and have been implemented by the City. The implementation of GASB Statement No. 63 did have an effect on the presentation of the financial statements of the City, however the implementation did not require any restatements of beginning balances.

GASB Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions". The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2011 and have been implemented by the City. The implementation of GASB Statement No. 64 did not have an effect on the financial statements of the City.

CITY OF SHEFFIELD LAKE, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 4 COMPLIANCE AND ACCOUNTABILITY

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

Special Revenue Funds	
Police Pension Fund	\$ (16,882)
Fire Pension Fund	\$ (16,882)

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

NOTE 5 BUDGETARY BASIS OF ACCOUNTING

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

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

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

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

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

	Net Change in Fund Balance
	General Fund
Budget basis	\$ 71,269
Adjustments, increase (decrease)	
Revenue accruals	15,738
Expenditure accruals	7,473
Funds budgeted elsewhere **	(3,088)
Encumbrances	82,357
GAAP basis, as reported	\$ 173,749

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

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 6 – FUND BALANCES

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

	General Fund	Shoreway Capital Project Fund	Other Governmental Funds	Total
Nonspendable				
Inventories and supplies	\$ 3,757	\$ -	\$ 9,483	\$ 13,240
Prepaid expenses	21,700		1,800	23,500
Total nonspendable	25,457	-	11,283	36,740
Restricted for:				
Shoreway capital project	-	745,747	-	745,747
Debt service	-	-	50,822	50,822
Capital projects	-	-	351	351
Highways and streets	-	-	360,937	360,937
Public safety	-	-	13,560	13,560
Recreation	-	-	4,877	4,877
Community environment	-	-	28,326	28,326
Other	-	-	31,885	31,885
Total restricted	-	745,747	490,758	1,236,505
Assigned for				
Encumbrances	30,622	-	-	30,622
Fiscal year 2013 appropriations	76,557	-	-	76,557
Refuse services	105,916	-	-	105,916
Total assigned	213,095	-	-	213,095
Unassigned (deficit)	541,625	-	(33,764)	507,861
Total fund balances	\$ 780,177	\$ 745,747	\$ 468,277	\$ 1,994,201

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 7 - DEPOSITS AND INVESTMENTS

A. LEGAL REQUIREMENTS

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

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

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

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

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

Interim monies may be invested in the following securities:

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

CITY OF SHEFFIELD LAKE, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 7 - DEPOSITS AND INVESTMENTS (continued)

A. LEGAL REQUIREMENTS (continued)

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

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

B. DEPOSITS

Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits may not be returned. The City does not have a deposit policy for custodial credit risk. At fiscal year end, the carrying amount of the City's deposits was \$ 579,718 and the bank balance was \$ 714,532. Of the bank balance, \$ 346,322 was covered by federal depository insurance and \$ 368,210 by collateral held by third party trustees in accordance with the Ohio Revised Code, in collateral pools securing all public funds on deposit with specific depository institutions, which amount is considered uncollateralized as defined by the Government Accounting Standards Board.

C. INVESTMENTS

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of December 31, 2012, the City had the following investments:

	<u>Maturities</u>	<u>Fair Value</u>
STAR Ohio	<u>n/a</u>	<u>\$ 1,335,123</u>

D. INTEREST RATE RISK

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

E. CREDIT RISK

The City follows the Ohio Revised Code that limits its investment choices. As of December 31, 2012, the City's investments in Star Ohio were rated AAAM by Standard & Poor's.

F. CONCENTRATION OF CREDIT RISK

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

NOTE 8 RECEIVABLES

Receivables at December 31, 2012, consisted primarily of municipal income taxes, property and other taxes, intergovernmental receivables arising from entitlements, shared revenues, interest, and accounts (billings for utility service).

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

CITY OF SHEFFIELD LAKE, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 8 RECEIVABLES (continued)

A. PROPERTY TAXES

Property taxes include amounts levied against all real and public utility tangible personal property located in the City. Property tax revenue received during 2012 for real and public utility property taxes represents collections of the 2011 taxes. Property tax payments received during 2012 for tangible personal property (other than public utility property) is for 2012 taxes.

2012 real property taxes are levied after October 1, 2012, on the assessed value as of January 1, 2012, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2012 real property taxes are collected in and intended to finance 2013.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2012 public utility property taxes became a lien December 31, 2011, are levied after October 1, 2012, and are collected in 2013 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2012 was \$ 18.61 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2012 property tax receipts were based are as follows:

Property valuation consisted of:	
Real property	
Residential/agricultural	\$ 132,642,010
Commercial/industrial	14,613,500
Tangible personal property	
Public utilities	<u>1,851,080</u>
Total valuation	<u><u>\$ 149,106,590</u></u>

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

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City of Sheffield Lake. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2012 and for which there is an enforceable legal claim. In the governmental funds, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2012 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, delinquent property taxes have been recorded as revenue while the remainder of the receivable is deferred.

CITY OF SHEFFIELD LAKE, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 8 RECEIVABLES (continued)

B. INCOME TAXES

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

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

C. DUE FROM OTHER GOVERNMENTS

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

	Amount
Governmental Activities	
Local government assistance	\$ 91,425
Gasoline tax	224,917
Permissive tax	50,444
Homestead and rollback	70,400
Estate tax	12,858
Total governmental activities	450,044
Agency Fund	
Homestead and rollback	16,400
Total due from other governments	\$ 466,444

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 9 CAPITAL ASSETS

A summary of changes in capital assets during 2012 follows:

	Balance January 1	Additions	Disposals	Balance December 31
<u>Governmental activities</u>				
Capital assets, not being depreciated				
Land	\$ 484,539	\$ -	\$ -	\$ 484,539
Total capital assets, not being depreciated	<u>484,539</u>	<u>-</u>	<u>-</u>	<u>484,539</u>
Capital assets, being depreciated				
Buildings and improvements	3,698,872	-	-	3,698,872
Equipment and vehicles	2,182,056	58,079	61,852	2,178,283
Infrastructure	38,263,896	-	-	38,263,896
Total capital assets being depreciated	<u>44,144,824</u>	<u>58,079</u>	<u>61,852</u>	<u>44,141,051</u>
Less accumulated depreciation				
Buildings and improvements	1,251,686	73,786	-	1,325,472
Equipment and vehicles	1,551,503	103,988	47,275	1,608,216
Infrastructure	27,539,567	681,605	-	28,221,172
Total accumulated depreciation	<u>30,342,756</u>	<u>859,379</u>	<u>47,275</u>	<u>31,154,860</u>
Total capital assets being depreciated, net	<u>13,802,068</u>	<u>(801,300)</u>	<u>14,577</u>	<u>12,986,191</u>
Total governmental capital assets, net	<u>\$ 14,286,607</u>	<u>\$ (801,300)</u>	<u>\$ 14,577</u>	<u>\$ 13,470,730</u>
<u>Business-type activities</u>				
Capital assets, not being depreciated				
Land	\$ 153,910	\$ -	\$ -	\$ 153,910
Total capital assets, not being depreciated	<u>153,910</u>	<u>-</u>	<u>-</u>	<u>153,910</u>
Capital assets, being depreciated				
Buildings and improvements	150,818	-	-	150,818
Equipment and vehicles	626,693	-	14,293	612,400
Infrastructure	11,880,736	-	-	11,880,736
Total capital assets being depreciated	<u>12,658,247</u>	<u>-</u>	<u>14,293</u>	<u>12,643,954</u>
Less accumulated depreciation				
Buildings and improvements	34,085	2,715	-	36,800
Equipment and vehicles	352,415	32,610	14,293	370,732
Infrastructure	5,655,160	170,167	-	5,825,327
Total accumulated depreciation	<u>6,041,660</u>	<u>205,492</u>	<u>14,293</u>	<u>6,232,859</u>
Total capital assets being depreciated, net	<u>6,616,587</u>	<u>(205,492)</u>	<u>-</u>	<u>6,411,095</u>
Total business-type capital assets, net	<u>\$ 6,770,497</u>	<u>\$ (205,492)</u>	<u>\$ -</u>	<u>\$ 6,565,005</u>

CITY OF SHEFFIELD LAKE, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 9 CAPITAL ASSETS (continued)

Depreciation expense was charged to governmental functions as follows:

Security of persons and property	\$	67,768
Leisure time activities		54,912
Basic utility services		31,572
Transportation		682,146
General government		22,981
		22,981
	\$	859,379

NOTE 10 NOTES PAYABLE

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

	Balance, 12/31/11	Additions	Reductions	Balance, 12/31/12
Governmental activities				
Short-term notes payable				
Bond anticipation notes				
Shoreway Capital Project fund				
2.25% issued 11/23/11, due 11/14/12	\$ 3,195,000	\$ -	\$ 3,195,000	\$ -
Shoreway Capital Project fund				
1.75% issued 11/13/12, due 11/12/13	-	3,195,000	-	3,195,000
	\$ 3,195,000	\$ 3,195,000	\$ 3,195,000	\$ 3,195,000

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 11 LONG-TERM DEBT

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

<u>Debt Issue</u>	<u>Original Issue Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Original Issue Amount</u>
<u>Governmental activities</u>				
General obligation bonds				
Building improvements	1996	2016	6.20%	\$ 200,000
Street improvements	2003	2018	3.60 - 5.00%	1,200,000
Street improvements	1998	2018	5.00 - 5.20%	500,000
Tax anticipation note	2007	2027	4.78%	800,000
Bond anticipation note	2011	2012	1.80%	160,000
Bond anticipation note	2011	2012	1.80%	270,000
Bond anticipation note	2012	2013	1.60%	295,000
Highway improvement note	2006	2017	0.00%	175,908
911 system improvement note	2012	2022	0.00%	54,705
Ohio Public Works loan	2001	2017	0.00%	35,371
Ohio Public Works loan	2004	2013	0.00%	28,566
Ohio Public Works loan	2007	2028	0.00%	99,190
Ohio Public Works loan	2007	2028	0.00%	25,264
Ohio Public Works loan	2010	2030	0.00%	100,000
Ohio Public Works loan	2010	2030	0.00%	118,172
<u>Business-type activities</u>				
General obligation bonds				
Storm water improvements	2011	2021	1.00 - 3.70%	1,575,000
Bond anticipation note	2011	2012	1.80%	90,000
Bond anticipation note	2012	2013	1.60%	60,000
Ohio Public Works loan	2000	2009	0.00%	30,000
Ohio Public Works loan	2000	2020	0.00%	124,842
Ohio Public Works loan	2003	2024	0.00%	140,949
Ohio Public Works loan	2003	2024	0.00%	81,187
Ohio Public Works loan	2003	2024	0.00%	97,793

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 11 LONG-TERM DEBT (continued)

Changes in the City's long-term obligations during 2012 were as follows:

	Outstanding 12/31/11	Additions	Reductions	Outstanding 12/31/12	Due in One Year
<u>Governmental activities</u>					
General obligation bonds					
Building improvement (1996)					
6.20% through 2016	\$ 75,000	\$ -	\$ 15,000	\$ 60,000	\$ 15,000
Street improvement (2003)					
3.60% - 5.00%					
through 2018	655,000	-	80,000	575,000	85,000
Street improvement (1998)					
5.00% - 5.20%					
through 2018	230,000	-	30,000	200,000	30,000
	<u>960,000</u>	<u>-</u>	<u>125,000</u>	<u>835,000</u>	<u>130,000</u>
Tax anticipation note	601,905	-	40,000	561,905	40,000
Bond anticipation notes	430,000	295,000	430,000	295,000	295,000
Highway improvement note	114,161	-	19,027	95,134	19,027
911 system improvement note	-	54,705	-	54,705	5,470
OPWC loans	324,232	-	18,061	306,171	19,489
Capital leases	87,323	-	24,450	62,873	25,698
Accrued leave benefits	571,387	-	59,884	511,503	-
Total governmental activities	<u>\$ 3,089,008</u>	<u>\$ 349,705</u>	<u>\$ 716,422</u>	<u>\$ 2,722,291</u>	<u>\$ 534,684</u>
<u>Business-type activities</u>					
General obligation bonds					
Storm water improvement					
1.00% - 3.70%					
through 2021	\$ 1,405,000	\$ -	\$ 165,000	\$ 1,240,000	\$ 165,000
Less deferred amount on					
refundings	(13,591)	-	(1,359)	(12,232)	-
Bond anticipation notes	90,000	60,000	90,000	60,000	60,000
OPWC loans	245,018	-	22,238	222,780	22,238
Accrued leave benefits	63,235	5,147	-	68,382	-
Total business-type activities	<u>\$ 1,789,662</u>	<u>\$ 65,147</u>	<u>\$ 275,879</u>	<u>\$ 1,578,930</u>	<u>\$ 247,238</u>

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 11 LONG-TERM DEBT (continued)

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

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

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

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

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2012, excluding accrued leave benefits, are as follows:

Governmental Activities						
Year	General Obligation Bonds		Bond Anticipation Notes		Highway Improvement Note	911 System Improvement Note
	Principal	Interest	Principal	Interest	Principal	Principal
2013	\$ 130,000	\$ 42,163	\$ 295,000	\$ 4,720	\$ 19,027	\$ 5,470
2014	135,000	36,014	-	-	19,027	5,470
2015	140,000	29,084	-	-	19,027	5,470
2016	150,000	21,874	-	-	19,027	5,470
2017	135,000	14,150	-	-	19,026	5,470
2018-2022	145,000	7,330	-	-	-	27,355
2023-2027	-	-	-	-	-	-
2028-2030	-	-	-	-	-	-
	<u>\$ 835,000</u>	<u>\$ 150,615</u>	<u>\$ 295,000</u>	<u>\$ 4,720</u>	<u>\$ 95,134</u>	<u>\$ 54,705</u>

Governmental Activities					
Year	Tax Anticipation Note		OPWC Loans	Total	
	Principal	Interest	Principal	Principal	Interest
2013	\$ 40,000	\$ 26,859	\$ 19,489	\$ 508,986	\$ 73,742
2014	40,000	24,947	19,489	218,986	60,961
2015	40,000	23,035	19,489	223,986	52,119
2016	40,000	21,123	19,491	233,988	42,997
2017	40,000	19,211	17,131	216,627	33,361
2018-2022	200,000	67,375	85,655	458,010	74,705
2023-2027	161,905	19,514	85,656	247,561	19,514
2028-2030	-	-	39,771	39,771	-
	<u>\$ 561,905</u>	<u>\$ 202,064</u>	<u>\$ 306,171</u>	<u>\$ 2,147,915</u>	<u>\$ 357,399</u>

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 11 LONG-TERM DEBT (continued)

Year	Business-Type Activities			
	General Obligation Bonds		Bond Anticipation Notes	
	Principal	Interest	Principal	Interest
2013	\$ 165,000	\$ 31,650	\$ 60,000	\$ 9,600
2014	170,000	29,176	-	-
2015	170,000	26,116	-	-
2016	175,000	22,546	-	-
2017	100,000	18,346	-	-
2018-2022	460,000	41,316	-	-
2023-2027	-	-	-	-
	<u>\$ 1,240,000</u>	<u>\$ 169,150</u>	<u>\$ 60,000</u>	<u>\$ 9,600</u>

Year	Business-Type Activities		
	OPWC Loans	Total	
	Principal	Principal	Interest
2013	\$ 22,238	\$ 247,238	\$ 41,250
2014	22,240	192,240	29,176
2015	22,239	192,239	26,116
2016	22,239	197,239	22,546
2017	22,239	122,239	18,346
2018-2022	95,590	555,590	41,316
2023-2027	15,995	15,995	-
	<u>\$ 222,780</u>	<u>\$ 1,522,780</u>	<u>\$ 178,750</u>

CITY OF SHEFFIELD LAKE, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 12 CAPITAL LEASES

The City is obligated under certain leases accounted for as capital leases. The leased assets are included in capital assets and the related obligations are included under long-term debt. At December 31, 2012, assets under capital lease totaled \$ 129,416 in governmental activities, with related accumulated depreciation of \$ 49,382. The leases are in effect until 2015. The following is the schedule of future minimum lease payments under the capital lease together with the net present value of the minimum lease payments as of December 31, 2012.

Year Ending December 31,	Governmental Activities
2013	\$28,602
2014	19,944
2015	19,944
Total minimum lease payments	68,490
Less amount representing interest	(5,617)
Net present value of minimum lease payments	\$ 62,873

NOTE 13 OPERATING LEASES

The City is obligated under leases accounted for as operating leases. Total lease expense for the year ended December 31, 2012 was \$ 10,354. The following is a schedule of future minimum lease payments required under operating leases that have initial or remaining noncancellable lease terms in excess of one year as of December 31, 2012.

Year ending December 31	Amount
2013	\$ 13,707
2014	13,272
2015	11,967
2016	8,902
2017	1,415
Total minimum payments	\$ 49,263

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 14 DEFINED BENEFIT PENSION PLANS

A. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM

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

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

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

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2012, member and employer contribution rates were consistent across all three plans. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Pension Plan. The 2012 member contribution rates were 10.0 percent for members in state and local classifications. Public safety and law enforcement members contributed 11.5 percent and 12.1 percent, respectively. Effective January 1, 2013, the member contribution rates for public safety and law enforcement members increased to 12.0 percent and 12.6 percent respectively.

The 2012 employer contribution rate for state and local employers was 14.0 percent of covered payroll. The law enforcement and public safety division employer contribution rate was 18.1 percent of covered payroll.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2012, 2011, and 2010, were \$ 136,475, \$ 138,299, and \$ 133,715, respectively. For 2012, \$ 126,552 (92.7 percent) has been contributed. The balance was subsequently contributed in 2013. The full amount has been contributed for 2011 and 2010.

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 14 DEFINED BENEFIT PENSION PLANS (continued)

B. OHIO POLICE AND FIRE PENSION FUND

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

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

The City's contributions to OP&F for police and firefighters pensions, respectively, were \$ 71,885 and \$ 146,393 for the year ended December 31, 2012 and \$ 79,503 and \$ 139,582 for the year ended December 31, 2011 and \$ 71,648 and \$ 139,570 for the year ended December 31, 2010. The full amount has been contributed for 2011 and 2010. For 2012, \$ 54,549 (75.9 percent) and \$ 112,727 (77.0 percent) has been contributed for police and firefighters pensions, respectively. The balance was subsequently paid in 2013.

NOTE 15 – POSTEMPLOYMENT BENEFITS

A. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM

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

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

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

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

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

The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care coverage.

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 15 – POSTEMPLOYMENT BENEFITS (continued)

A. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (continued)

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2012, state and local employers contributed at a rate of 14.00 percent of covered payroll and public safety and law enforcement employers contributed at 18.10 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active members do not make contributions to the OPEB Plan.

OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 4.0 percent during calendar year 2012. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent during calendar year 2012. Effective January 1, 2013, the portion of employer contributions allocated to healthcare was lowered to 1 percent for both plans, as recommended by the OPERS Actuary. The OPERS Board of Trustees is also authorized to establish rules for the retiree, or their surviving beneficiaries to pay a portion of the health care benefits provided. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City contributions to fund postemployment benefits for the years ended December 31, 2012, 2011, and 2010, were \$ 54,590, \$ 55,320, and \$ 76,141, respectively. For 2012, \$ 49,774 (92.7 percent) has been contributed. The balance was subsequently contributed in 2013. The full amount has been contributed for 2011 and 2010.

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

B. OHIO POLICE AND FIRE PENSION FUND

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

OP&F provides access to post-retirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

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

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 15 – POSTEMPLOYMENT BENEFITS (continued)

B. OHIO POLICE AND FIRE PENSION FUND (continued)

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

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2011, the employer contribution allocated to the health care plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

The City's actual contributions to fund postemployment health care benefits for police and firefighters were \$ 38,057 and \$ 60,809 for the year ended December 31, 2012, \$ 42,090 and \$ 57,980 for the year ended December 31, 2011, and \$ 37,932 and \$ 54,614 for the year ended December 31, 2010. The full amount has been contributed for 2011 and 2010. For 2012, \$ 28,879 (75.9 percent) and \$ 46,825 (77.0 percent) has been contributed for police and firefighters, respectively. The balance was subsequently paid in 2013.

NOTE 16 RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. For the past several years, settled claims from these risks have not exceeded coverage.

NOTE 17 FEDERAL GRANTS AND ENTITLEMENTS

For the year ended December 31, 2012, the City recognized federal grants and entitlements. These programs generally require compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2012.

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 18 CONTINGENCIES

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

NOTE 19 JOINTLY GOVERNED ORGANIZATIONS

A. LORAIN COUNTY GENERAL HEALTH DISTRICT

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

B. NORTHEAST OHIO PUBLIC ENERGY COUNCIL

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

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

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

Certified Public Accountants

5240 East 98th Street

Garfield Hts., Ohio 44125

Member American Institute of Certified Public Accountants

(216) 475 - 6136

Ohio Society of Certified Public Accountants

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

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

We have audited, 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, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sheffield Lake, Lorain County, 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 of Sheffield Lake, Ohio's basic financial statements, and have issued our report thereon dated June 7, 2013, wherein we noted that the City adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Sheffield Lake, Ohio'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 of Sheffield Lake, Ohio's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Sheffield Lake, Ohio'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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Sheffield Lake, Ohio'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 results of that testing, and not to provide an opinion on the effectiveness of the City of Sheffield Lake, Ohio'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 City of Sheffield Lake, Ohio's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



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

June 7, 2013

**CITY OF SHEFFIELD LAKE
LORAIN COUNTY, OHIO
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Management letter recommendations as of December 31, 2011, have been corrected, repeated, or procedures instituted to prevent occurrences in this audit period.

This page intentionally left blank.



Dave Yost • Auditor of State

CITY OF SHEFFIELD LAKE

LORAIN 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
AUGUST 27, 2013**