

City of Lyndhurst, Ohio
Basic Financial Statements
For the Year Ended December 31, 2013



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the City of Lyndhurst, Cuyahoga County, prepared by Ciuni & Panichi, Inc., for the audit period January 1, 2013 through December 31, 2013. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

June 11, 2014

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City of Lyndhurst, Ohio

For The Year Ended December 31, 2013

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Independent Auditor's Report

Members of the City Council
Lyndhurst, Ohio

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Lyndhurst, Ohio (the "City") as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Members of the City Council
Lyndhurst, Ohio

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2013, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 29, 2014 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Cini & Paricki, Inc.

Cleveland, Ohio
May 29, 2014

CITY OF LYNDHURST, OHIO

Management's Discussion and Analysis For the Year Ended December 31, 2013

Unaudited

The discussion and analysis of the City of Lyndhurst's (the City) financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2013. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the City's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2013 are as follows:

- In total, net position decreased \$5,290,265, a 5.7% decrease from 2012.
- General revenues accounted for approximately \$10.5 million in revenue or 70% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for 30% of total revenues of approximately \$15.1 million.
- The City had approximately \$20.4 million in expenses related to governmental activities; only approximately \$4.6 million of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily taxes) of approximately \$10.5 million and reserves were adequate to provide for these programs.
- Among major funds, the general fund had approximately \$14.2 million in revenues and approximately \$13.0 million in expenditures. The general fund's fund balance decreased \$610,609 to \$5,624,544.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

These statements are as follows:

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

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

CITY OF LYNDHURST, OHIO

*Management's Discussion and Analysis
For the Year Ended December 31, 2013*

Unaudited

Government-Wide Statements

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

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

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

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

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

Fund Financial Statements

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

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

CITY OF LYNDHURST, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2013***

Unaudited

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

The presentation of the City's major funds begins on page 14. The City's major funds are the general fund, general obligation bond retirement fund, the permanent improvement fund and the capital reserve fund.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The following table provides a comparison of the City's net position as of December 31, 2013 and 2012:

| | Governmental Activities | |
|---|----------------------------|--------------|
| | 2013 | 2012 |
| Current and other assets | \$26,482,308 | \$31,116,115 |
| Capital assets, Net | 68,900,487 | 70,611,180 |
| Total assets | 95,382,795 | 101,727,295 |
| Long-term debt liabilities | 2,544,753 | 3,378,673 |
| Other liabilities | 1,432,576 | 1,773,709 |
| Total liabilities | 3,977,329 | 5,152,382 |
| Property Tax Levy for the Next Fiscal Year | 3,758,183 | 3,637,365 |
| Net position | | |
| Net Invested in Capital Assets | 67,700,487 | 68,506,180 |
| Restricted | 5,298,395 | 7,715,009 |
| Unrestricted | 14,648,401 | 16,716,359 |
| Total net position | 87,647,283 | 92,937,548 |

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CITY OF LYNDHURST, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2013**

Unaudited

Changes in Net Position – The following table shows the changes in net position for the fiscal year 2013 and 2012:

| | Governmental Activities | |
|--------------------------------------|----------------------------|--------------|
| | 2013 | 2012 |
| Revenues | | |
| Program revenues: | | |
| Charges for Services and Sales | \$2,478,942 | \$2,579,385 |
| Operating Grants and Contributions | 1,461,729 | 1,308,332 |
| Capital Grants and Contributions | 648,691 | 685,713 |
| General revenues: | | |
| Property Taxes | 1,406,422 | 4,749,772 |
| Municipal Income Taxes | 6,671,629 | 7,813,145 |
| Other Local Taxes | 114,552 | 130,038 |
| Unrestricted Grants and Entitlements | 1,998,545 | 3,792,301 |
| Investment Earnings | 11,957 | 15,156 |
| Miscellaneous | 336,110 | 246,568 |
| Total revenues | 15,128,577 | 21,320,410 |
| Program Expenses | | |
| Security of Persons and Property | 8,317,256 | 7,769,933 |
| Public Health and Welfare Services | 53,764 | 53,764 |
| Leisure Time Activities | 1,156,814 | 1,543,350 |
| Community Environment | 627,831 | 709,496 |
| Basic Utility Services | 3,608,151 | 3,775,943 |
| Transportation | 2,426,737 | 1,409,816 |
| General Government | 4,171,862 | 3,958,427 |
| Interest and Fiscal Charges | 56,427 | 67,985 |
| Total expenses | 20,418,842 | 19,288,714 |
| Total Change in Net Position | (5,290,265) | 2,031,696 |
| Net Position Beginning of Year | 92,937,548 | 90,905,852 |
| Net Position End of Year | \$87,647,283 | \$92,937,548 |

Governmental Activities

Net Position of the City's governmental activities decreased by \$5,290,265. Total revenues decreased by 29% compared to 2012. The significant decrease in revenues was a result of declines in Property Taxes, Municipal Income Taxes and Unrestricted Grants and Entitlements. Property Tax revenues sharply declined in 2013 due to a monumental change in delinquencies. In 2012 a final determination was issued by the Ohio Department of Taxation to the Cleveland Clinic Foundation (CCF) on five major parcels located in the City of Lyndhurst. Subsequently, CCF was ordered to pay delinquent property tax on some of the parcels while other parcels received tax exempt status thereby abating the delinquent taxes. These findings resulted in a considerable decline of over \$3 million dollars in delinquent taxes. Additionally, current collections also declined by over \$490,000 as a result of the re-appraisal and devaluation of real property throughout the County. Municipal Income Tax collections dropped by 14.6% in 2013 partially as a result of delinquent income tax revenues. Delinquencies climbed rapidly over the past few years as the City's collection agency became better equipped to identify unreported returns. Unrestricted Grants and Entitlements experienced a substantial 47.2% drop in revenue caused by a sharp decline in Estate Tax collections. The Ohio Estate tax was repealed as part of House Bill 153 effective January 1, 2013.

CITY OF LYNDHURST, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2013**

Unaudited

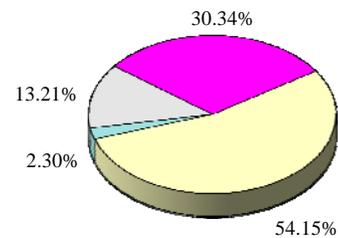
The completion of a new spray ground which opened in 2012 accounted for most of the 25% decrease to Leisure Time Activities. Transportation experienced a 72.1% increase in program activities in 2013. Snowfall was extraordinary in Lyndhurst with October 24th being the first recorded five inches of snow for the year and the beginning of numerous salt deliveries and snow removals. Capital purchases were made to assist with snow removal and street striping in 2013 totaling over \$300,000. Sidewalk, concrete and asphalt programs were completed totaling over \$1.25 million in improvements throughout the City. A joint street improvement with a border community enhanced the street improvement program for 2013 allowing for additional improvements. Overall, suppressing program expenditures with joint efforts and maintaining the objective to provide high level services to the community remained in focus for 2013.

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

Property taxes and income taxes made up 9% and 44%, respectively of revenues for governmental activities for the City in fiscal year 2013. The City's reliance upon tax revenues is demonstrated by the following graph indicating approximately 54.15% of total revenues from general tax revenues:

| Revenue Sources | 2013 | Percent of Total |
|-------------------------|--------------|---------------------|
| General Shared Revenues | \$1,998,545 | 13.21% |
| Program Revenues | 4,589,362 | 30.34% |
| General Tax Revenues | 8,192,603 | 54.15% |
| General Other | 348,067 | 2.30% |
| Total Revenue | \$15,128,577 | 100.00% |

2013



FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The City's governmental funds reported a combined fund balance of \$16,854,502, which is a decrease from last year's balance of \$18,040,566. The schedule below indicates the fund balance and the total change in fund balance by fund type as of December 31, 2013 and 2012:

| | Fund Balance December 31, 2013 | Fund Balance December 31, 2012 | Increase (Decrease) |
|------------------------------------|-----------------------------------|-----------------------------------|------------------------|
| General | \$5,624,544 | \$6,235,153 | (\$610,609) |
| General Obligation Bond Retirement | 749,851 | 1,361,207 | (611,356) |
| Permanent Improvement | 3,640,853 | 3,311,410 | 329,443 |
| Capital Reserve | 3,096,876 | 3,094,000 | 2,876 |
| Other Governmental | 3,734,378 | 4,038,796 | (304,418) |
| Total | \$16,846,502 | \$18,040,566 | (\$1,194,064) |

CITY OF LYNDHURST, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2013**

Unaudited

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

| | 2013 | 2012 | Increase |
|---------------------------|----------------------------|----------------------------|-----------------------------|
| | <u>Revenues</u> | <u>Revenues</u> | <u>(Decrease)</u> |
| Taxes | \$9,694,759 | \$9,616,687 | \$78,072 |
| Intergovernmental Revenue | 2,051,142 | 3,455,857 | (1,404,715) |
| Charges for Services | 657,932 | 611,088 | 46,844 |
| Licenses and Permits | 49,050 | 46,877 | 2,173 |
| Fines and Forfeitures | 1,375,218 | 1,395,985 | (20,767) |
| All Other Revenue | 405,042 | 238,568 | 166,474 |
| Total | <u>\$14,233,143</u> | <u>\$15,365,062</u> | <u>(\$1,131,919)</u> |

General fund revenues in 2013 decreased 7.4% compared to revenues in fiscal year 2012. The most significant factors contributing to this decrease were the devaluation of real property by means of the County reappraisal which took place in tax year 2012 coupled with the loss of revenues initiated by the State Legislators decision to repeal estate tax as well as reduce the shared revenues to local governments.

| | 2013 | 2012 | Increase |
|------------------------------------|----------------------------|----------------------------|-------------------------|
| | <u>Expenditures</u> | <u>Expenditures</u> | <u>(Decrease)</u> |
| Security of Persons and Property | \$6,826,103 | \$6,398,092 | \$428,011 |
| Public Health and Welfare Services | 53,764 | 53,764 | 0 |
| Leisure Time Activities | 897,315 | 901,374 | (4,059) |
| Community Environment | 486,349 | 430,508 | 55,841 |
| Basic Utility Services | 1,152,941 | 1,114,570 | 38,371 |
| General Government | 3,569,381 | 3,582,712 | (13,331) |
| Total | <u>\$12,985,853</u> | <u>\$12,481,020</u> | <u>\$504,833</u> |

General fund expenditures increased by \$504,833 or 4% compared to the prior year. The majority of the increase was due to shifts in staffing and benefits levels within the safety programs. Pensions, overtime and health care costs accounted for most of the increase. Health care costs increased as a result of changes in coverage but not premiums. Employees that had previously opted out of the plan returned to the plan and single coverage changed to family coverage thereby increasing costs. Deductibles and co-pays were increased to assist in stabilizing the cost of premiums. Timing in backfilling full time positions created most of the increases to salary expenditures. Two police officers were hired later in 2012 to fill open positions. That delay in hiring skewed the expenditures for 2012. Additionally, in 2013 two fire fighters resigned resulting in substantial exit pays and one firefighter was on extended personal injury leave. Both circumstances created a more than usual overtime occurrence for the fire personnel. Controls on general fund expenditures continued into 2013. Inasmuch as salaries and benefits experienced increases; the City moved towards its long-term goal to reduce spending utilizing benefit and staffing options to control labor costs. Each ancillary facet of a cost component is analyzed for future decision making that can further reduce costs while maintaining or enhancing City services.

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

During the course of fiscal year 2013 the City amended its general fund budget several times, none significant.

For the general fund, final budget basis revenue of approximately \$12.8 million changed slightly over the original budget estimates of \$12.4 million. The general fund had an adequate fund balance to cover expenditures.

CITY OF LYNDHURST, OHIO

*Management's Discussion and Analysis
For the Year Ended December 31, 2013*

Unaudited

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2013 the City had \$68,900,487 net of accumulated depreciation invested in land, improvements, infrastructure, buildings and machinery and equipment. The following table shows fiscal year 2013 and 2012 balances (net of accumulated depreciation):

| | Governmental Activities | | Increase (Decrease) |
|-----------------------------------|----------------------------|---------------------|------------------------|
| | 2013 | 2012 | |
| Land | \$421,379 | \$421,379 | \$0 |
| Construction in Progress | 0 | 633,682 | (633,682) |
| Buildings | 10,488,286 | 10,373,375 | 114,911 |
| Improvements Other than Buildings | 2,828,939 | 2,817,124 | 11,815 |
| Machinery and Equipment | 9,941,406 | 9,600,348 | 341,058 |
| Infrastructure | 114,602,312 | 113,087,039 | 1,515,273 |
| Less: Accumulated Depreciation | <u>(69,381,835)</u> | <u>(66,321,767)</u> | <u>(3,060,068)</u> |
| Totals | <u>\$68,900,487</u> | <u>\$70,611,180</u> | <u>(\$1,710,693)</u> |

Accumulated depreciation outpaced actual increases in capital assets. The City continues to concentrate on the timeliness and the way in which the City specs and bids out its road and sewer projects. The efficiency instituted throughout the bid process has proven to save the City multiple dollars in capital costs. Additionally, in 2013 a joint agreement with a bordered municipality was in place in order to reduce the overall cost of a large pavement project which shared two municipal borders. The completion of the Brainard Road Pump Station and Force Main further enhanced the sewer infrastructure in the City. Annual investments into these programs are crucial and have been a focal point of capital budgets for more than a decade. As examples of the citywide objective to reduce operating costs capital funds were appropriated for a park project (the spray ground) which broke ground in 2010 and experienced a first full year season of operation in 2012. The spray ground is an alternative amenity to a city pool. The 2013 season provided the much anticipated results demonstrating that the influx of capital for the project provided an enhancement to the community while achieving the objective to reduce operational costs associated with City parks and recreation. Capital investments assist the City in maintaining a strong financial grasp during the tumultuous economic decline. The expenditures for many of the road improvements are substantially lower as interest rates, materials, and more efficient labor practices assist in driving down the costs. The 2011 completion of a lower level Municipal Court annex, repurposing the existing municipal center facility has provided for the ongoing needs of the Municipal Court while relieving the taxpayers of the debt potential for new construction as well as the potential for multiple maintenance and operation costs that would be borne by an ancillary building. The annex operated at full capacity in 2012 and readily proved to serve the Court's needs in 2013 and well into the future without directly increasing municipal operating costs. As a result of the added capacity to the municipal complex a new energy efficient roof and chiller unit were installed and funded from an energy grant with energy cost savings experienced in 2013. Temperature controls were an added capital item in 2013 to further monitor utility costs. The acquisition of three (3) new police cruisers and one (1) new fire chase vehicle will assist the safety labor forces and maintain a reasonably aggressive replacement schedule. Multiple technological enhancements and replacements were completed in 2013. These steady technological upgrades and improvements contribute to the safety forces ability to quickly retrieve and send data necessary to maintain the safety and security of the community as well as to offer training opportunities that require no operational expenditures.

CITY OF LYNDHURST, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2013**

Unaudited

The addition of a new five ton dump snow removal unit will assist service crews in providing safe roadways with alternative cost effective methods for de-icing. A back hoe loader, 4x4 pickup, and street striping machine fortify the City's ability to provide topmost services to the community. The City continues its strong commitment to long term enhancements to both its capital assets and infrastructure. Additional information on the City's capital assets can be found in Note 9.

Debt

The following table summarizes the City's debt outstanding as of December 31, 2013 and 2012:

| | <u>2013</u> | <u>2012</u> |
|-------------------------------|---------------------------|---------------------------|
| Governmental Activities: | | |
| General Obligation Bonds | \$0 | \$1,305,000 |
| Long-Term Notes | 1,200,000 | 800,000 |
| Compensated Absences | <u>1,344,753</u> | <u>1,273,673</u> |
| Total Governmental Activities | <u><u>\$2,544,753</u></u> | <u><u>\$3,378,673</u></u> |

State statutes limit the amount of unvoted general obligation debt the City may issue. The aggregate amount of the City's unvoted debt is also subject to overlapping debt restrictions with other political subdivisions. The actual aggregate amount of the City's unvoted debt, when added to that of other political subdivisions within the county in which Lyndhurst lies, is limited to 11.5 mills. At December 31, 2013, the City's outstanding debt was below the legal limit. Additional information on the City's long-term debt can be found in Note 13.

ECONOMIC FACTORS

The TRW Corporation, once a major employer in the City of Lyndhurst, was purchased by Northrop Grumman in late 2002. Upon the exit of TRW and in an effort to stabilize the city's economy, Legacy Village (a premier retail district) was erected and continues to trend the economic tax base of the City in a positive fashion. The footprint of Legacy Village combined with the presence of the Cleveland Clinic provide for an exclusive plan that was expected to take shape within the next few years. Due to the general state of the economy on both a Federal and State level, much of the anticipated impact to these changes for 2013 was stalled while investors slowed the pace of their financial influx but not their commitment to the plan. The Cleveland Clinic has added another estimated fifty (50) new employees to the existing site. Expectations are that the Lyndhurst site will continue to pilot wellness programs for the Cleveland Clinic with potential for future expansions. Live Long Lyndhurst is a product of the new wellness partnership shared by the City with the Cleveland Clinic. A most recent event adding to the future development of this southeast quadrant of the City is the sale of the Acacia Country Club (Acacia CC). Acacia CC, was a 160-acre property located in the City of Lyndhurst and adjacent to Legacy Village. The shareholders voted in 2008 to dissolve the club and sell this unique property. Acacia CC was a vital element to the City's future vision and as such the land had been zoned as part of a mixed-use overlay district. The mixed-use overlay district was designed to encourage economic, residential and recreational development that is compatible with the existing and proposed character of the City. In September of 2012 the shareholders voted to sell the land to a national nonprofit organization to preserve the land in its natural state. That sale further lead to the transfer of the property to the Cleveland Metroparks and has since been converted into a public park. Inasmuch as the sale no longer affords the City the ability to develop the property for enhancements to its tax base, the property does provide an added value to the Community and has sparked the further residential development of the adjoining property.

CITY OF LYNDHURST, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2013***

Unaudited

The City does continue to experience small bursts in new housing developments associated with the Legacy Village lifestyle center. Despite the sharp increase in sub prime mortgage delinquencies eight new home permits were issued in 2013 with a total estimated value of \$3,400,000. Rivercreek development plans for a remaining 16 of 33 single family and duplex units stalled in 2012 but experienced a small rebound in 2013 with the addition of a new duplex with each unit valued at approximately \$400,000 each. As a result of the Metro Parks acquisition of the adjoining 160 plus acres Eagle Point Vintage Development has submitted plans on 53 sub lots at the Acacia Country Club Estates. Included are 11 duplex lots which would result in 22 homes. Additionally, 39 free-standing cluster homes and 2 sets of 2 manor homes on 17-acres of land abutting the Metro Parks perimeter are also part of the plans. Estimated values of these duplexes, homes and manors are in the \$400,000 - \$800,000 range. It can be projected that the values may increase as interests intensify for property near or abutting the Metro Park. Currently under construction in Eagle Point are six homes with approximate values ranging from \$400,000 - \$650,000.

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

Most importantly was the level of continued improvement to existing commercial developments and the estimated \$3,000,000 remediation development of a new Key Bank. The remediation program at the site of the new Key Bank continued on through 2013. Twenty permits were issued for commercial alterations in 2013 with an estimated \$9.37 million in scheduled improvements and enhancements. Most recently two (2) new retailers have taken occupancy in Legacy Village. With the additions of Lithium Clothing and the Granite City Brewery the withholding tax for Legacy continues to trend upward. This strong level of improvement confirms a long-term pattern of continued commercial dedication within the City of Lyndhurst. This commitment coupled with the engagement to new residential development will assist the City through the current wave of Federal and State economic downturns.

REQUESTS FOR INFORMATION

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

CITY OF LYNDHURST, OHIO

Statement of Net Position
December 31, 2013

| | Governmental Activities |
|--|------------------------------------|
| Assets: | |
| Cash and Cash Equivalents | \$ 13,497,189 |
| Investments | 2,841,465 |
| Receivables: | |
| Taxes | 7,280,288 |
| Accounts | 425,971 |
| Intergovernmental | 880,763 |
| Special Assessments | 1,286,972 |
| Inventory of Supplies at Cost | 134,407 |
| Prepaid Items | 135,253 |
| Capital Assets: | |
| Capital Assets Not Being Depreciated | 421,379 |
| Capital Assets Being Depreciated, Net | <u>68,479,108</u> |
| Total Assets | <u>95,382,795</u> |
| Liabilities: | |
| Accounts Payable | 728,994 |
| Accrued Wages and Benefits | 660,160 |
| Retainage Payable | 34,055 |
| Accrued Interest Payable | 9,367 |
| Long-Term Liabilities: | |
| Due Within One Year | 1,395,905 |
| Due in More Than One Year | <u>1,148,848</u> |
| Total Liabilities | <u>3,977,329</u> |
| Deferred Inflows of Resources: | |
| Property Tax Levy for the Next Fiscal Year | <u>3,758,183</u> |
| Net Position: | |
| Net Investment in Capital Assets | 67,700,487 |
| Restricted For: | |
| Capital Projects | 1,735,292 |
| Debt Service | 897,488 |
| Other Purposes | 2,665,615 |
| Unrestricted | <u>14,648,401</u> |
| Total Net Position | <u>\$ 87,647,283</u> |

See accompanying notes to the basic financial statements

CITY OF LYNDHURST, OHIO

Statement of Activities
For the Year Ended December 31, 2013

| | | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position |
|---|--------------------------------------|--|--|----------------------------|--|
| Expenses | Charges for Services and Sales | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | |
| Governmental Activities: | | | | | |
| Current: | | | | | |
| Security of Persons and Property | \$ 8,317,256 | \$ 685,986 | \$ 11,967 | \$ 51,939 | \$ (7,567,364) |
| Public Health and Welfare Services | 53,764 | 0 | 0 | 0 | (53,764) |
| Leisure Time Activities | 1,156,814 | 192,062 | 0 | 0 | (964,752) |
| Community Environment | 627,831 | 108,133 | 208,843 | 0 | (310,855) |
| Basic Utility Services | 3,608,151 | 27,090 | 645,150 | 543,801 | (2,392,110) |
| Transportation | 2,426,737 | 49,218 | 595,769 | 52,951 | (1,728,799) |
| General Government | 4,171,862 | 1,416,453 | 0 | 0 | (2,755,409) |
| Interest and Fiscal Charges | 56,427 | 0 | 0 | 0 | (56,427) |
| Total Governmental Activities | \$ 20,418,842 | \$ 2,478,942 | \$ 1,461,729 | \$ 648,691 | (15,829,480) |
| General Revenues | | | | | |
| Property Taxes | | | | | 1,406,422 |
| Municipal Income Taxes | | | | | 6,671,629 |
| Other Local Taxes | | | | | 114,552 |
| Grants and Entitlements not Restricted to Specific Programs | | | | | 1,998,545 |
| Investment Earnings | | | | | 11,957 |
| Miscellaneous | | | | | 336,110 |
| Total General Revenues | | | | | 10,539,215 |
| Change in Net Position | | | | | (5,290,265) |
| Net Position Beginning of Year | | | | | 92,937,548 |
| Net Position End of Year | | | | | \$ 87,647,283 |

See accompanying notes to the basic financial statements

CITY OF LYNDHURST, OHIO

**Balance Sheet
Governmental Funds
December 31, 2013**

| | General | General Obligation Bond Retirement | Permanent Improvement | Capital Reserve |
|---|----------------------|--|--------------------------|---------------------|
| Assets: | | | | |
| Cash and Cash Equivalents | \$ 3,783,894 | \$ 593,812 | \$ 2,937,084 | \$ 2,452,434 |
| Investments | 967,954 | 156,039 | 771,797 | 644,442 |
| Receivables: | | | | |
| Taxes | 5,864,725 | 1,209,103 | 0 | 0 |
| Accounts | 396,331 | 0 | 3,458 | 0 |
| Intergovernmental | 361,016 | 91,682 | 52,951 | 0 |
| Special Assessments | 111,751 | 13 | 0 | 0 |
| Inventory of Supplies, at Cost | 40,786 | 0 | 0 | 0 |
| Prepaid Items | 132,892 | 0 | 2,064 | 0 |
| Total Assets | \$ 11,659,349 | \$ 2,050,649 | \$ 3,767,354 | \$ 3,096,876 |
| Liabilities: | | | | |
| Accounts Payable | \$ 185,029 | \$ 0 | \$ 73,550 | \$ 0 |
| Accrued Wages and Benefits Payable | 539,114 | 0 | 0 | 0 |
| Retainage Payable | 34,055 | 0 | 0 | 0 |
| Total Liabilities | 758,198 | 0 | 73,550 | 0 |
| Deferred Inflows of Resources: | | | | |
| Unavailable Amounts | 2,858,298 | 157,004 | 52,951 | 0 |
| Property Tax for Next Fiscal Year | 2,418,309 | 1,143,794 | 0 | 0 |
| Total Deferred Inflows of Resources | 5,276,607 | 1,300,798 | 52,951 | 0 |
| Fund Balances: | | | | |
| Nonspendable | 173,678 | 0 | 2,064 | 0 |
| Restricted | 0 | 749,851 | 0 | 0 |
| Committed | 0 | 0 | 3,638,789 | 3,096,876 |
| Assigned | 2,783,786 | 0 | 0 | 0 |
| Unassigned | 2,667,080 | 0 | 0 | 0 |
| Total Fund Balances | 5,624,544 | 749,851 | 3,640,853 | 3,096,876 |
| Total Liabilities, Deferred Inflows of Resources and Fund Balances | \$ 11,659,349 | \$ 2,050,649 | \$ 3,767,354 | \$ 3,096,876 |

See accompanying notes to the basic financial statements

CITY OF LYNDHURST, OHIO

| Other Governmental Funds | Total Governmental Funds |
|--------------------------------|--------------------------------|
| \$ 3,729,965 | \$ 13,497,189 |
| 301,233 | 2,841,465 |
| 206,460 | 7,280,288 |
| 26,182 | 425,971 |
| 375,114 | 880,763 |
| 1,175,208 | 1,286,972 |
| 93,621 | 134,407 |
| 297 | 135,253 |
| <u>\$ 5,908,080</u> | <u>\$ 26,482,308</u> |
| | |
| \$ 470,415 | \$ 728,994 |
| 121,046 | 660,160 |
| 0 | 34,055 |
| <u>591,461</u> | <u>1,423,209</u> |
| | |
| 1,386,161 | 4,454,414 |
| 196,080 | 3,758,183 |
| <u>1,582,241</u> | <u>8,212,597</u> |
| | |
| 93,918 | 269,660 |
| 3,605,414 | 4,355,265 |
| 35,046 | 6,770,711 |
| 0 | 2,783,786 |
| 0 | 2,667,080 |
| <u>3,734,378</u> | <u>16,846,502</u> |
| | |
| <u>\$ 5,908,080</u> | <u>\$ 26,482,308</u> |

CITY OF LYNDHURST, OHIO

***Reconciliation Of Total Governmental Fund Balances
To Net Position Of Governmental Activities
December 31, 2013***

| | |
|--|-----------------------------|
| Total Governmental Fund Balances | \$ 16,846,502 |
| <i>Amounts reported for governmental activities in the statement of net position are different because</i> | |
| Capital Assets used in governmental activities are not resources and therefore are not reported in the funds. | 68,900,487 |
| Other long-term assets are not available to pay for current- period expenditures and therefore are unavailable in the funds. | 4,454,414 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. | <u>(2,554,120)</u> |
| <i>Net Position of Governmental Activities</i> | <u>\$ 87,647,283</u> |

See accompanying notes to the basic financial statements

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CITY OF LYNDHURST, OHIO

**Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2013**

| | General | General Obligation Bond Retirement | Permanent Improvement | Capital Reserve |
|--|---------------------|---|--------------------------|---------------------|
| Revenues: | | | | |
| Property Taxes | \$ 2,860,528 | \$ 549,299 | \$ 0 | \$ 0 |
| Municipal Income Tax | 6,834,231 | 0 | 0 | 0 |
| Other Local Taxes | 0 | 0 | 52,107 | 0 |
| Intergovernmental Revenues | 2,051,142 | 202,658 | 1,100 | 0 |
| Charges for Services | 657,932 | 0 | 0 | 0 |
| Licenses and Permits | 49,050 | 0 | 0 | 0 |
| Investment Earnings | 0 | 1,531 | 3,618 | 2,876 |
| Special Assessments | 0 | 13 | 0 | 0 |
| Fines and Forfeitures | 1,375,218 | 0 | 0 | 0 |
| All Other Revenue | 405,042 | 0 | 275 | 0 |
| Total Revenue | 14,233,143 | 753,501 | 57,100 | 2,876 |
| Expenditures: | | | | |
| Current: | | | | |
| Security of Persons and Property | 6,826,103 | 0 | 265,599 | 0 |
| Public Health and Welfare Services | 53,764 | 0 | 0 | 0 |
| Leisure Time Activities | 897,315 | 0 | 32,508 | 0 |
| Community Development | 486,349 | 0 | 0 | 0 |
| Basic Utility Services | 1,152,941 | 0 | 24,569 | 0 |
| Transportation | 0 | 0 | 374,598 | 0 |
| General Government | 3,569,381 | 5,449 | 169,364 | 0 |
| Debt Service: | | | | |
| Principal Retirement | 0 | 1,305,000 | 0 | 0 |
| Interest & Fiscal Charges | 0 | 54,408 | 0 | 0 |
| Total Expenditures | 12,985,853 | 1,364,857 | 866,638 | 0 |
| Excess (Deficiency) of Revenues Over Expenditures | 1,247,290 | (611,356) | (809,538) | 2,876 |
| Other Financing Sources (Uses): | | | | |
| Sale of Capital Assets | 0 | 0 | 27,800 | 0 |
| General Obligation Notes Issued | 0 | 0 | 0 | 0 |
| Transfers In | 0 | 0 | 1,111,181 | 0 |
| Transfers Out | (1,864,506) | 0 | 0 | 0 |
| Total Other Financing Sources (Uses) | (1,864,506) | 0 | 1,138,981 | 0 |
| Net Change in Fund Balances | (617,216) | (611,356) | 329,443 | 2,876 |
| Fund Balances at Beginning of Year | 6,235,153 | 1,361,207 | 3,311,410 | 3,094,000 |
| Increase (Decrease) in Inventory Reserve | 6,607 | 0 | 0 | 0 |
| Fund Balances End of Year | \$ 5,624,544 | \$ 749,851 | \$ 3,640,853 | \$ 3,096,876 |

See accompanying notes to the basic financial statements

CITY OF LYNDHURST, OHIO

| | <u>Other</u> | | <u>Total</u> |
|---------------------|------------------|---------------------|-------------------|
| <u>Governmental</u> | <u>Funds</u> | <u>Governmental</u> | <u>Funds</u> |
| \$ | 1,035,587 | \$ | 4,445,414 |
| | 0 | | 6,834,231 |
| | 62,445 | | 114,552 |
| | 689,511 | | 2,944,411 |
| | 0 | | 657,932 |
| | 0 | | 49,050 |
| | 3,932 | | 11,957 |
| | 1,189,136 | | 1,189,149 |
| | 235,435 | | 1,610,653 |
| | 49,913 | | 455,230 |
| | <u>3,265,959</u> | | <u>18,312,579</u> |
| | 1,089,379 | | 8,181,081 |
| | 0 | | 53,764 |
| | 0 | | 929,823 |
| | 216,069 | | 702,418 |
| | 1,218,135 | | 2,395,645 |
| | 1,807,660 | | 2,182,258 |
| | 391,501 | | 4,135,695 |
| | 800,000 | | 2,105,000 |
| | 3,653 | | 58,061 |
| | <u>5,526,397</u> | | <u>20,743,745</u> |
| | (2,260,438) | | (2,431,166) |
| | 12,247 | | 40,047 |
| | 1,200,000 | | 1,200,000 |
| | 753,325 | | 1,864,506 |
| | 0 | | (1,864,506) |
| | <u>1,965,572</u> | | <u>1,240,047</u> |
| | (294,866) | | (1,191,119) |
| | 4,038,796 | | 18,040,566 |
| | (9,552) | | (2,945) |
| \$ | <u>3,734,378</u> | \$ | <u>16,846,502</u> |

CITY OF LYNDHURST, OHIO

***Reconciliation Of The Statement Of Revenues, Expenditures
And Changes In Fund Balances Of Governmental Funds
To The Statement Of Activities
For The Year Ended December 31, 2013***

Net Change in Fund Balances - Total Governmental Funds \$ (1,191,119)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period. (1,572,600)

Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the amount of the gain on the disposal of capital assets net of proceeds received. (138,093)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (3,221,062)

The issuance of long-term debt provides current financial resources to governmental funds, but has no effect on net position. In addition, repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 905,000

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. 1,634

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. (74,025)

Change in Net Position of Governmental Activities \$ (5,290,265)

See accompanying notes to the basic financial statements

CITY OF LYNDHURST, OHIO

**Statement of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For The Year Ended December 31, 2013**

| | Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|--|-----------------|--------------|--------------|---|
| Revenues: | | | | |
| Property Taxes | \$ 2,339,271 | \$ 2,339,271 | \$ 2,860,528 | \$ 521,257 |
| Municipal Income Tax | 6,320,187 | 6,386,687 | 6,821,599 | 434,912 |
| Intergovernmental Revenue | 1,477,602 | 1,703,373 | 1,829,420 | 126,047 |
| Charges for Services | 608,477 | 638,477 | 673,545 | 35,068 |
| Licenses and Permits | 40,300 | 40,300 | 49,050 | 8,750 |
| Fines and Forfeitures | 1,358,000 | 1,381,500 | 1,360,080 | (21,420) |
| All Other Revenues | 212,117 | 312,117 | 377,590 | 65,473 |
| Total Revenues | 12,355,954 | 12,801,725 | 13,971,812 | 1,170,087 |
| Expenditures: | | | | |
| Current: | | | | |
| Security of Persons and Property | 7,073,750 | 7,224,498 | 6,915,316 | 309,182 |
| Public Health and Welfare Services | 53,764 | 53,764 | 53,764 | 0 |
| Leisure Time Activities | 731,079 | 737,975 | 660,953 | 77,022 |
| Community Environment | 506,919 | 576,095 | 502,404 | 73,691 |
| Basic Utility Services | 1,341,827 | 1,455,582 | 1,189,772 | 265,810 |
| General Government | 4,178,732 | 4,194,107 | 3,655,704 | 538,403 |
| Total Expenditures | 13,886,071 | 14,242,021 | 12,977,913 | 1,264,108 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (1,530,117) | (1,440,296) | 993,899 | 2,434,195 |
| Other Financing Sources (Uses): | | | | |
| Transfers Out | (975,325) | (975,325) | (975,325) | 0 |
| Total Other Financing Sources (Uses): | (975,325) | (975,325) | (975,325) | 0 |
| Net Change In Fund Balance | (2,505,442) | (2,415,621) | 18,574 | 2,434,195 |
| Fund Balance at Beginning of Year | 3,990,936 | 3,990,936 | 3,990,936 | 0 |
| Prior Year Encumbrances | 370,135 | 370,135 | 370,135 | 0 |
| Fund Balance at End of Year | \$ 1,855,629 | \$ 1,945,450 | \$ 4,379,645 | \$ 2,434,195 |

See accompanying notes to the basic financial statements

CITY OF LYNDHURST, OHIO

***Statement of Assets and Liabilities
Fiduciary Funds
December 31, 2013***

| | <u>Agency</u> |
|---------------------------|-------------------|
| Assets: | |
| Cash and Cash Equivalents | \$ 784,008 |
| Total Assets | <u>\$ 784,008</u> |
| Liabilities: | |
| Intergovernmental Payable | \$ 136,673 |
| Due to Others | <u>647,335</u> |
| Total Liabilities | <u>\$ 784,008</u> |

See accompanying notes to the basic financial statements

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The accompanying basic financial statements of the City are presented as of December 31, 2013 and for the year then ended and have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to local governments. The Governmental Accounting Standards Board (the "GASB") is the standard-setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification).

A. Reporting Entity

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

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

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

B. Basis of Presentation - Fund Accounting

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

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

Governmental Funds

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

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

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

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

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

Fiduciary Funds

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

C. Basis of Presentation – Financial Statements

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

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

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation – Financial Statements (Continued)

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

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

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

D. Basis of Accounting

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

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

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting (Continued)

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

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

Special assessment installments, which are measurable, but not available at December 31, are recorded as deferred inflow of resources – unavailable amount. Property taxes measurable as of December 31, 2013, but which are not intended to finance 2013 operations and delinquent property taxes, whose availability is indeterminate, are recorded as deferred inflow of resources as further described in Note 6.

E. Deferred Inflows/Outflows of Resources

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

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

CITY OF LYNDHURST, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2013***

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Budgetary Process

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

1. Tax Budget

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

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CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Budgetary Process (Continued)

2. Estimated Resources

The County Budget Commission reviews estimated revenue and determines if the budget substantiates a need to levy all or part of previously authorized taxes. The Budget Commission then certifies its actions to the City by September 1 of each year. As part of the certification process, the City receives an official certificate of estimated resources stating the projected receipts by fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year do not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include any unencumbered fund balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or if actual receipts exceed current estimates. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 2013.

3. Appropriations

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

4. Encumbrances

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

CITY OF LYNDHURST, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2013***

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Budgetary Process (Continued)

5. Lapsing of Appropriations

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

6. Budgetary Basis of Accounting

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

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

| | Net Change In Fund Balance |
|--|----------------------------|
| | General Fund |
| GAAP Basis (as reported) | (\$617,216) |
| Increase (Decrease): | |
| Accrued Revenues at December 31, 2013 received during 2014 | (1,457,216) |
| Accrued Revenues at December 31, 2012 received during 2013 | 2,349,376 |
| Accrued Expenditures at December 31, 2013 paid during 2014 | 758,198 |
| Accrued Expenditures at December 31, 2012 paid during 2013 | (748,758) |
| 2012 Prepays for 2013 | 110,197 |
| 2013 Prepays for 2014 | (132,892) |
| 2012 Municipal Court Cash | 85,250 |
| 2013 Municipal Court Cash | (100,338) |
| Outstanding Encumbrances | (227,830) |
| Perspective Difference: | |
| Activity of Funds Reclassified for GAAP Reporting Purposes | (197) |
| Budgetary Basis | \$18,574 |

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Cash and Cash Equivalents

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

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

H. Investments

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

The City has invested funds in the STAR Ohio during 2013. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 2013.

I. Inventory

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

J. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2013, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

CITY OF LYNDHURST, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2013***

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Capital Assets and Depreciation

1. Property, Plant and Equipment - Governmental Activities

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

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

2. Depreciation

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

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

L. Long-Term Debt

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

| <u>Obligation</u> | <u>Fund</u> |
|--------------------------|--|
| General Obligation Bonds | General Obligation Bond Retirement Fund |
| Compensated Absences | General Fund Street Construction, Maintenance and Repair Fund |
| Long-Term Note | General Obligation Bond Retirement Fund |

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Compensated Absences

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

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

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

N. Net Position

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

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

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Fund Balances

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

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

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

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

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

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

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

P. Pensions

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

CITY OF LYNDHURST, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2013***

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Q. Interfund Activity

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

R. Estimates

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

S. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Council and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2013.

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CITY OF LYNDHURST, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2013***

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

A. Explanation of certain differences between the governmental fund Balance Sheet and the Government-Wide Statement of Net Position

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

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

| | |
|--------------------------------------|--------------------|
| Delinquent Income Tax Revenue | \$1,845,101 |
| Delinquent Property Tax Revenue | 200,025 |
| Unrestricted Grants and Entitlements | 789,817 |
| Charges for Services | 332,499 |
| Special Assessment Revenue | 1,286,972 |
| | <u>\$4,454,414</u> |

Long-Term liabilities not reported in the funds:

| | |
|------------------------------------|----------------------|
| Accrued Interest on Long-Term Debt | (\$9,367) |
| Long-Term Notes Payable | (1,200,000) |
| Compensated Absences Payable | (1,344,753) |
| | <u>(\$2,554,120)</u> |

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CITY OF LYNDHURST, OHIO

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2013*

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

B. Explanation of certain differences between the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities

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

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

| | |
|----------------------|--------------------|
| Capital Outlay | \$2,077,486 |
| Depreciation Expense | <u>(3,650,086)</u> |
| | (\$1,572,600) |

Governmental revenues not reported in the funds:

| | |
|--|----------------|
| Decrease in Delinquent Income Tax Revenue | (\$162,602) |
| Decrease in Delinquent Property Tax | (3,038,992) |
| Decrease in Unrestricted Grants and Entitlements | (285,179) |
| Increase in Charges for Services | 34,866 |
| Increase in Special Assessment Revenue | <u>230,845</u> |
| | (\$3,221,062) |

Expenses not requiring the use of current financial resources:

| | |
|--|----------------|
| Increase in Compensated Absences Payable | (\$71,080) |
| Decrease in supplies inventory | <u>(2,945)</u> |
| | (\$74,025) |

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CITY OF LYNDHURST, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2013**

NOTE 3 – FUND BALANCE CLASSIFICATION

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

| Fund Balances | General Fund | General Obligation Bond Retirement Fund | Permanent Improvement Fund | Capital Reserve Fund | Other Governmental Funds | Total Governmental Funds |
|---------------------------------------|--------------------|---|----------------------------------|----------------------------|--------------------------------|--------------------------------|
| Nonspendable: | | | | | | |
| Prepaid Items | \$132,892 | \$0 | \$2,064 | \$0 | \$297 | \$135,253 |
| Supplies Inventory | 40,786 | 0 | 0 | 0 | 93,621 | 134,407 |
| Total Nonspendable | <u>173,678</u> | <u>0</u> | <u>2,064</u> | <u>0</u> | <u>93,918</u> | <u>269,660</u> |
| Restricted: | | | | | | |
| State Highway Improvements | 0 | 0 | 0 | 0 | 59,163 | 59,163 |
| Probation Services | 0 | 0 | 0 | 0 | 14,745 | 14,745 |
| Court Special Projects | 0 | 0 | 0 | 0 | 291,617 | 291,617 |
| Street Construction and Maintenance | 0 | 0 | 0 | 0 | 734,757 | 734,757 |
| Municipal Court EDP | 0 | 0 | 0 | 0 | 393,136 | 393,136 |
| Community Development HUD | 0 | 0 | 0 | 0 | 2,887 | 2,887 |
| Indigent Drivers DUI | 0 | 0 | 0 | 0 | 91,822 | 91,822 |
| Law Enforcement | 0 | 0 | 0 | 0 | 46,779 | 46,779 |
| Street Improvement | 0 | 0 | 0 | 0 | 303,872 | 303,872 |
| Police Pension | 0 | 0 | 0 | 0 | 116,677 | 116,677 |
| Fire Pension | 0 | 0 | 0 | 0 | 108,899 | 108,899 |
| Street Lighting | 0 | 0 | 0 | 0 | 16,503 | 16,503 |
| Sewer Maintenance and Repair | 0 | 0 | 0 | 0 | 485,462 | 485,462 |
| Sidewalk Construction and Maintenance | 0 | 0 | 0 | 0 | 33,082 | 33,082 |
| Sewer Construction | 0 | 0 | 0 | 0 | 860,395 | 860,395 |
| Shade Trees | 0 | 0 | 0 | 0 | 45,618 | 45,618 |
| Debt Service Payments | 0 | 749,851 | 0 | 0 | 0 | 749,851 |
| Total Restricted | <u>0</u> | <u>749,851</u> | <u>0</u> | <u>0</u> | <u>3,605,414</u> | <u>4,355,265</u> |
| Committed: | | | | | | |
| Permanent Improvements | 0 | 0 | 3,638,789 | 0 | 0 | 3,638,789 |
| Capital Reserve | 0 | 0 | 0 | 3,096,876 | 0 | 3,096,876 |
| Parks and Recreation Equipment | 0 | 0 | 0 | 0 | 35,046 | 35,046 |
| Total Committed | <u>0</u> | <u>0</u> | <u>3,638,789</u> | <u>3,096,876</u> | <u>35,046</u> | <u>6,770,711</u> |
| Assigned | 2,783,786 | 0 | 0 | 0 | 0 | 2,783,786 |
| Unassigned | 2,667,080 | 0 | 0 | 0 | 0 | 2,667,080 |
| Total Fund Balances | <u>\$5,624,544</u> | <u>\$749,851</u> | <u>\$3,640,853</u> | <u>\$3,096,876</u> | <u>\$3,734,378</u> | <u>\$16,846,502</u> |

CITY OF LYNDHURST, OHIO

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2013*

NOTE 4 – DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources consisted of the following sources on the modified accrual basis:

| | |
|--------------------------------------|------------------|
| Delinquent Income Tax Revenue | \$1,845,101 |
| Delinquent Property Tax Revenue | 200,025 |
| Unrestricted Grants and Entitlements | 789,817 |
| Charges for Services | 332,499 |
| Special Assessment Revenue | <u>1,286,972</u> |
| | \$4,454,414 |

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CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2013

NOTE 5 - CASH AND CASH EQUIVALENTS

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

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

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

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

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

CITY OF LYNDHURST, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2013**

NOTE 5 - CASH AND CASH EQUIVALENTS (Continued)

A. Deposits

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

At year-end the carrying amount of the City's deposits was \$3,849,424 and the bank balance was \$3,974,462. Federal depository insurance covered \$803,948 of the bank balance and \$3,170,514 was uninsured. Of the remaining uninsured bank balance, the City was exposed to custodial risk as follows:

| | |
|--------------------------------|----------------|
| | <u>Balance</u> |
| Uninsured and uncollateralized | \$3,170,514 |
| Total Balance | \$3,170,514 |

B. Investments

The City's investments at December 31, 2013 were as follows:

| | Fair Value | Credit Rating | Investment Maturities (in Years) less than 1 |
|-----------------------|--------------|-------------------------------------|---|
| Repurchase Agreements | \$1,491,465 | AAA ¹ / Aaa ² | \$1,491,465 |
| STAR Ohio | 11,781,773 | AAAm ¹ | 11,781,773 |
| Total Investments | \$13,273,238 | | \$13,273,238 |

¹Standard & Poor's

²Moody's Investor Service

CITY OF LYNDHURST, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2013**

NOTE 5 - CASH AND CASH EQUIVALENTS (Continued)

B. Investments (Continued)

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

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

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

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

C. Reconciliation of Cash, Cash Equivalents and Investments

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

| | <u>Cash and Cash Equivalents</u> | <u>Investments</u> |
|---|--------------------------------------|---------------------|
| Per Financial Statements | \$14,281,197 | \$2,841,465 |
| Certificates of Deposit | | |
| (with maturities of more than 3 months) | 1,350,000 | (1,350,000) |
| STAR Ohio | <u>(11,781,773)</u> | <u>11,781,773</u> |
| Per GASB Statement No. 3 | <u>\$3,849,424</u> | <u>\$13,273,238</u> |

CITY OF LYNDHURST, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2013***

NOTE 6 - TAXES

A. Property Taxes

Property taxes include amounts levied against all real estate and public utility property, and tangible personal property used in business and located in the City. Real property taxes (other than public utility) collected during 2013 were levied after October 1, 2012 on assessed values as of January 1, 2012, the lien date. Assessed values were established by the County Auditor at 35% of appraised market value. All property is required to be reappraised every six years, and equalization adjustments are made in the third year following reappraisal. The last revaluation was completed in 2012. Real property taxes are payable annually or semi-annually. The first payment is due January 20; the remainder is payable by June 20.

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

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

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2013

NOTE 6 – TAXES (Continued)

A. Property Taxes (Continued)

The full tax rate for all City operations for the year ended December 31, 2013 was \$11.50 per \$1,000 of assessed value. The assessed value upon which the 2013 receipts were based was \$395,816,880. This amount constitutes \$390,618,380 in real property assessed value and \$5,198,500 in public utility assessed value.

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

B. Income Tax

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

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

NOTE 7 - RECEIVABLES

Receivables at December 31, 2013 consisted of taxes, special assessments, interest, accounts receivable and intergovernmental receivables arising from shared revenues. All receivables other than those offset by deferred inflows of resources are considered collectible in full.

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CITY OF LYNDHURST, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2013***

NOTE 8 - TRANSFERS

The following is a summary of transfers in and out for all funds for 2013:

| | Transfers In: | | Total |
|----------------|----------------------------------|--------------------------------|-------------|
| | Permanent Improvement Fund | Other Governmental Funds | |
| Transfers Out: | | | |
| General Fund | \$1,111,181 | \$753,325 | \$1,864,506 |

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

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CITY OF LYNDHURST, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2013**

NOTE 9 – CAPITAL ASSETS

A. Governmental Activities Capital Assets

Summary by category of changes in governmental activities capital assets at December 31, 2013:

Historical Cost:

| Class | December 31, 2012 | Additions | Deletions | December 31, 2013 |
|--|-----------------------------|---------------------------|-----------------------------|-----------------------------|
| <i>Capital assets not being depreciated:</i> | | | | |
| Land | \$421,379 | \$0 | \$0 | \$421,379 |
| Construction in Progress | 633,682 | 0 | (633,682) | 0 |
| Subtotal | <u>1,055,061</u> | <u>0</u> | <u>(633,682)</u> | <u>421,379</u> |
| <i>Capital assets being depreciated:</i> | | | | |
| Buildings | 10,373,375 | 114,911 | 0 | 10,488,286 |
| Improvements Other than Buildings | 2,817,124 | 11,815 | 0 | 2,828,939 |
| Machinery and Equipment | 9,600,348 | 544,081 | (203,023) | 9,941,406 |
| Infrastructure | 113,087,039 | 2,040,361 | (525,088) | 114,602,312 |
| Subtotal | <u>135,877,886</u> | <u>2,711,168</u> | <u>(728,111)</u> | <u>137,860,943</u> |
| Total Cost | <u><u>\$136,932,947</u></u> | <u><u>\$2,711,168</u></u> | <u><u>(\$1,361,793)</u></u> | <u><u>\$138,282,322</u></u> |

Accumulated Depreciation:

| Class | December 31, 2012 | Additions | Deletions | December 31, 2013 |
|-----------------------------------|----------------------------|------------------------|------------------|----------------------------|
| Buildings | (\$4,052,596) | (\$213,513) | \$0 | (\$4,266,109) |
| Improvements Other than Buildings | (1,390,187) | (118,865) | 0 | (1,509,052) |
| Machinery and Equipment | (5,434,484) | (626,502) | 155,924 | (5,905,062) |
| Infrastructure | (55,444,500) | (2,691,206) | 434,094 | (57,701,612) |
| Total Depreciation | <u>(\$66,321,767)</u> | <u>(\$3,650,086) *</u> | <u>\$590,018</u> | <u>(\$69,381,835)</u> |
| <i>Net Value:</i> | <u><u>\$70,611,180</u></u> | | | <u><u>\$68,900,487</u></u> |

* Depreciation expenses were charged to governmental functions as follows:

| | |
|----------------------------------|---------------------------|
| Security of Persons and Property | \$249,265 |
| Leisure Time Activities | 223,061 |
| Community Development | 92,217 |
| Basic Utility Services | 1,225,274 |
| Transportation | 1,821,824 |
| General Government | 38,445 |
| Total Depreciation Expense | <u><u>\$3,650,086</u></u> |

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2013

NOTE 10 – DEFINED BENEFIT PENSION PLANS

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

A. Ohio Public Employees Retirement System ("OPERS")

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

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

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

The ORC provides statutory authority for employee and employer contributions. For 2013, employee and employer contribution rates were consistent across all three plans (TP, MD and CO). The employee contribution rate is 10.0%. The 2013 employer contribution rate for local government employer units was 14.00% of covered payroll, which is the maximum contribution rate set by State statutes. Employer contribution rates are actuarially determined. A portion of the City's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. The portion of employer contributions allocated to pension obligations for members in the Traditional and Combined Plans was 13.0% for calendar year 2013. The contribution requirements of plan members and the City are established and may be amended by the OPERS Board. The City's contributions for pension obligations to OPERS for the years ending December 31, 2013, 2012, and 2011 were \$579,483, \$627,523 and \$646,747, respectively, which were equal to the required contributions for each year.

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2013

NOTE 10 – DEFINED BENEFIT PENSION PLANS (Continued)

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

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

From January 1, 2013 through July 1, 2013, plan members were required to contribute 10.0% of their annual covered salary. From July 2, 2013 through December 31, 2013, plan members were required to contribute 10.75% of their annual covered salary. Throughout 2013, employers were required to contribute 19.5% and 24.0% respectively for police officers and firefighters. A portion of the City’s contribution is used to fund pension obligations with the remainder being used to fund health care benefits. The portion of employer contributions used to fund pension obligations from January 1, 2013 through May 31, 2013 was 14.81% for police officers and 19.31% for firefighters. The portion of employer contributions used to fund pension obligations from June 1, 2013 through December 31, 2013 was 16.65% for police officers and 21.15% for firefighters. The City’s contributions for pension obligations to the OP&F Fund for the years ending December 31, 2013, 2012, and 2011 were \$441,562, \$418,684 and \$442,204 for police officers and \$493,892, \$488,036 and \$486,110 for firefighters, respectively, which were equal to the required contributions for each year.

NOTE 11 – POST-EMPLOYMENT BENEFITS

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

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

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

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

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2013

NOTE 11 – POST-EMPLOYMENT BENEFITS (Continued)

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

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

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

Funding Policy – The ORC provides the statutory authority requiring public employers to fund post-retirement health care coverage through their contributions to OPERS. A portion of each employer’s contribution to OPERS is set aside for the funding of post-retirement health care benefits. Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2013, local government employers contributed at a rate of 14.00% of covered payroll. The ORC currently limits the employer contribution to a rate not to exceed 14.0% of covered payroll for local government employers. Active members do not make contributions to the OPEB plan.

The OPERS Post-Employment Health Care plan was established under, and is administered in accordance with Internal Revenue Code 401(h). Each year the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional and Combined Plans was 1.0% for calendar year 2013. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions for health care to the OPERS for the years ending December 31, 2013, 2012, and 2011 were \$41,392, \$179,292 and \$167,006, respectively, which were equal to the required contributions for each year.

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

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

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

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2013

NOTE 11 – POST-EMPLOYMENT BENEFITS (Continued)

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

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

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

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

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

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 2013, the portion of employer contributions allocated to health care was 4.69% of covered payroll from January 1, 2013 through May 31, 2013 and 2.85% of covered payroll from June 1, 2013 through December 31, 2013 for both police officers and firefighters. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees’ primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h). The OP&F Board of Trustees also is authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions for health care to the OP&F for the years ending December 31, 2013, 2012, and 2011 were \$85,369, \$144,929 and \$153,071 for police and \$77,582, \$137,260 and \$136,718 for firefighters, respectively, which were equal to the required contributions for each year.

CITY OF LYNDHURST, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2013**

NOTE 12 – COMPENSATED ABSENCES

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

At December 31, 2013, the City's accumulated, unpaid compensated absences amounted to \$1,344,753, which is recorded as a liability of the Governmental Activities.

NOTE 13 - LONG-TERM DEBT

Long-term debt of the City at December 31, 2013 was as follows:

| | | Balance December 31, 2012 | Issued | (Retired) | Balance December 31, 2013 | Due Within One Year |
|---------------------------------|------|---------------------------------|--------------------|----------------------|---------------------------------|---------------------------|
| Governmental Activities: | | | | | | |
| General Obligation Bonds: | | | | | | |
| 2.000% Recreational Facilities | 2003 | \$1,305,000 | \$0 | (\$1,305,000) | \$0 | \$0 |
| Total General Obligation Bonds | | 1,305,000 | 0 | (1,305,000) | 0 | 0 |
| Long-Term Notes: | | | | | | |
| 1.000% Street Improvement | 2012 | 800,000 | 0 | (800,000) | 0 | 0 |
| 1.000% Street Improvement | 2013 | 0 | 1,200,000 | 0 | 1,200,000 | 1,200,000 |
| Total Long-Term Notes | | 800,000 | 1,200,000 | (800,000) | 1,200,000 | 1,200,000 |
| Compensated Absences | | 1,273,673 | 1,344,753 | (1,273,673) | 1,344,753 | 195,905 |
| Total Governmental Activities | | <u>\$3,378,673</u> | <u>\$2,544,753</u> | <u>(\$3,378,673)</u> | <u>\$2,544,753</u> | <u>\$1,395,905</u> |

Special assessment debt service is financed by assessments to affected property owners. However, the City is ultimately responsible for the debt service if the assessments are not collected. Delinquent special assessments related to outstanding special assessment bonded debt at year-end were \$55,095.

CITY OF LYNDHURST, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2013***

NOTE 14 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. During 2013 the City contracted with several different insurance providers for various insurance coverages, as follows:

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

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

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

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2013

NOTE 15 – JOINT VENTURE

Community Partnership on Aging:

The Community Partnership on Aging (the “Agency”) was established as the Tri-City Consortium on Aging in 1978 as a cooperative agreement between the Cities of Lyndhurst, South Euclid and Highland Heights to meet the needs of older adults and their caregivers/families. Mayfield Heights became a member in 2011 shortly followed by Mayfield Village in 2012. The addition of the two communities necessitated a name change and in 2012 the agency’s name was formally changed to Community Partnership on Aging.

Funding is provided by the member cities; Title III of the Older Americans Act from the Ohio Department on Aging through the Western Reserve Area Agency on Aging; Cuyahoga County through the Health and Human Services Levy; program donations; and contributions of time and dollars.

The Agency Director reports to a Council of Government, which serves as the Board of Directors and is made up of the Mayor of each of the five cities, with the Lyndhurst Mayor serving as chair. Per Agency Bylaws, a set number of each City’s Agency members serve on the Community Partnership on Aging Commission (“CPA Commission”), an advisory board that supports and guides the Community Partnership on Aging. Community Partnership on Aging is deemed to be a governmental instrumentality and is therefore recognized as a nonprofit organization. In addition, the CPA Commission has also filed for and obtained 501c3 nonprofit status.

Continued existence of the organization is dependent on the City. However, the City of Lyndhurst has no explicit and measurable equity in the Agency. The Agency is not accumulating financial resources or experiencing fiscal stress, which would cause additional financial benefit or burden on the City. In 2013, the City contributed \$154,465. To obtain a copy of the Agency’s financial statements, write to the Community Partnership on Aging, 1370 Victory Drive, South Euclid, Ohio 44121.

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2013

NOTE 16 – JOINTLY GOVERNED ORGANIZATION

Northeast Ohio Public Energy Council:

The City is a member of the Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of electricity and natural gas. NOPEC is currently comprised of over 112 communities who have been authorized by ballot to purchase electricity and natural gas on behalf of their citizens. The intent of NOPEC is to provide electricity and natural gas at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity and natural gas to the citizens of its member communities.

NOPEC is governed by a General Assembly made up of one representative from each member community. The NOPEC Board of Directors is made up of one representative from each of the ten counties in the NOPEC service area. The representatives from each county elect one person to serve on the Board of Directors, each of whom serves without compensation. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. The City of Lyndhurst did not contribute to NOPEC during 2013. Financial information can be obtained by contacting Joseph Migliorini, the Board Chairman, at 175 South Main Street, Akron, Ohio 44308 or at the website www.nopecinfo.org.

NOTE 17 - CONTINGENCIES

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

NOTE 18 – SUBSEQUENT EVENTS

On March 12, 2014 the City issued \$1,000,000 in one year General Obligation Notes to pay for Street Improvements. The notes had an interest rate of .75%.

**Independent Auditor’s Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

Members of the City Council
Lyndhurst, Ohio

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Lyndhurst, Ohio (the “City”) as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated May 29, 2014.

Internal Control over Financial Reporting

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

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

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

Members of the City Council
Lyndhurst, Ohio

Compliance and Other Matters

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the City'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's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cini & Paricki, Inc.

Cleveland, Ohio
May 29, 2014

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Dave Yost • Auditor of State

CITY OF LYNDHURST

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 24, 2014**