



Dave Yost • Auditor of State

**CITY OF SHEFFIELD LAKE
LORAIN COUNTY
DECEMBER 31, 2016**

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CITY OF SHEFFIELD LAKE
LORAIN COUNTY
DECEMBER 31, 2016

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

City of Sheffield Lake
Lorain County
609 Harris Road
Sheffield Lake, Ohio 44054

To the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sheffield Lake, Lorain County, Ohio (the City), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the City's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sheffield Lake, Lorain County, Ohio, as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the 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 this presentation to include *Management's discussion and analysis* and schedules of net pension liabilities and pension contributions listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2017, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine 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.



Dave Yost
Auditor of State
Columbus, Ohio

September 22, 2017

CITY OF SHEFFIELD LAKE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016
UNAUDITED

The management's discussion and analysis of the City of Sheffield Lake's (the City) financial performance presents a narrative overview and analysis of the City's financial activities for the year ended December 31, 2016. The intent of the discussion and analysis is to present the City's financial performance as a whole. Readers are encouraged to consider this information in conjunction with the basic financial statements and notes to financial statements for an enhanced understanding of the City's financial performance.

Financial Highlights

Key financial highlights for 2016 were as follows.

The assets and deferred outflows of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$ 17,889,722 (net position).

Total net position increased by \$ 348,374. Net position of governmental activities increased \$ 200,622 from 2015. Net position of business-type activities increased \$ 147,752 from 2015.

At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$ 3,402,059, an increase of \$ 138,642 in comparison with the prior year. Approximately 42.5 percent of this amount, \$ 1,444,873 is available for spending at the City's discretion (unassigned fund balance).

At the end of the current fiscal year, unassigned fund balance for the General Fund was \$ 1,706,673 or 34.9 percent of total General Fund expenditures.

The City's total long-term debt obligations decreased by \$ 324,613 (9.0 percent) during the current year.

Overview of Financial Statements

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

Government-wide Financial Statements

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

CITY OF SHEFFIELD LAKE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016
UNAUDITED

Fund Financial Statements

Governmental fund financial statements focus on the City's most significant, or major funds. The City's major governmental funds are the General Fund and Shoreway Capital Project Fund. The remaining non-major funds are combined and reflected in one single column. Governmental fund financial statements focus on near-term inflows and outflows of spendable resources and on balances of spendable resources available at year end. This information can be useful in determining what financial resources are available to finance the City's activities. A reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities for the year ended December 31, 2016 is presented. The City, similar to other local governments, uses fund accounting to ensure and demonstrate finance related legal requirements.

Fund Categories

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

Governmental funds

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

Proprietary funds

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

Fiduciary funds

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

Notes to the Basic Financial Statements

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

CITY OF SHEFFIELD LAKE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016
UNAUDITED

The City of Sheffield Lake as a Whole

Analysis of Net Position

The *Statement of Net Position* presents the City as a whole. Following is a summary of the City's net position for 2016 compared to 2015.

	Governmental Activities		Business-type Activities		Total	
	2016	Restated 2015	2016	2015	2016	Restated 2015
Assets						
Current and other assets	\$ 11,254,287	\$ 10,476,214	\$ 1,705,662	\$ 1,584,421	\$ 12,959,949	\$ 12,060,635
Capital assets, net	12,049,311	12,028,029	7,096,791	6,985,207	19,146,102	19,013,236
Total assets	23,303,598	22,504,243	8,802,453	8,569,628	32,106,051	31,073,871
Deferred outflows of resources						
Pension	1,533,334	608,012	203,487	61,868	1,736,821	669,880
Liabilities						
Current liabilities	3,927,852	3,219,596	133,400	137,609	4,061,252	3,357,205
Long-term liabilities						
Due within one year	754,863	794,199	189,326	248,630	944,189	1,042,829
Due in more than one year						
Net pension liability	5,523,773	4,562,101	522,306	360,804	6,046,079	4,922,905
Other amounts	1,655,792	1,912,472	1,782,052	1,670,550	3,437,844	3,583,022
Total liabilities	11,862,280	10,488,368	2,627,084	2,417,593	14,489,364	12,905,961
Deferred inflows of resources						
Property taxes	1,270,100	1,267,500	-	-	1,270,100	1,267,500
Pension	170,002	22,459	23,684	6,483	193,686	28,942
Total deferred inflows of resources	1,440,102	1,289,959	23,684	6,483	1,463,786	1,296,442
Net position						
Net investment in capital assets	9,976,270	10,276,121	5,169,680	5,100,991	15,145,950	15,377,112
Restricted	2,445,944	2,468,461	-	-	2,445,944	2,468,461
Unrestricted	(887,664)	(1,410,654)	1,185,492	1,106,429	297,828	(304,225)
Total net position	\$ 11,534,550	\$ 11,333,928	\$ 6,355,172	\$ 6,207,420	\$ 17,889,722	\$ 17,541,348

The net pension liability (NPL) is the largest single liability reported by the City at December 31, 2016 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the City's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

CITY OF SHEFFIELD LAKE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016
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Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

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

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

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

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

CITY OF SHEFFIELD LAKE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016
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In accordance with GASB 68, the City's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's change in net pension liability not accounted for as deferred inflows/outflows.

Investment in capital assets (land, buildings and improvements, equipment and vehicles and infrastructure) less any related debt to acquire those assets still outstanding represents the largest portion of net position. Capital assets are used to provide services to the City's citizens, however, are not available for future spending.

Total assets increased by \$ 1,032,180 to \$ 32,106,051, primarily due to increases in capital assets, equity in pooled cash and due to other governments. Current and other assets increased by \$ 899,314 to \$ 12,959,949.

Current liabilities increased by \$ 1,119,047 to \$ 4,476,252 primarily due to increases in notes payable, due to other governments and accounts payable. Long-term liabilities increased by \$ 464,356 to \$ 10,013,112.

Total net position increased by \$ 348,374 to \$ 17,889,722 with governmental net position comprising \$ 11,534,550 and business-type net position comprising \$ 6,355,172 of that amount.

CITY OF SHEFFIELD LAKE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
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Analysis of Changes in Net Position

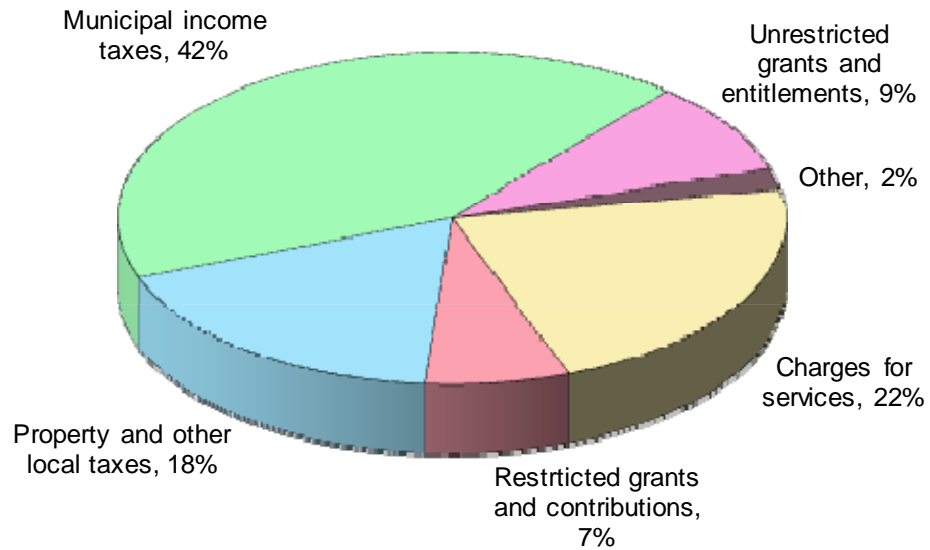
To understand what makes up changes in net position, following are results of activities for the current year compared to the prior year.

	Change in Net Position					
	Governmental Activities		Business-type Activities		Total	
	2016	Restated 2015	2016	2015	2016	Restated 2015
Revenues						
Program revenues						
Charges for services	\$ 1,591,864	\$ 1,164,206	\$ 2,228,203	\$ 2,176,971	\$ 3,820,067	\$ 3,341,177
Operating grants and contributions	227,273	-	-	-	227,273	-
Capital grants and contributions	322,315	1,229	-	40,000	322,315	41,229
Total program revenues	<u>2,141,452</u>	<u>1,165,435</u>	<u>2,228,203</u>	<u>2,216,971</u>	<u>4,369,655</u>	<u>3,382,406</u>
General revenues						
Property and other local taxes	1,290,121	1,213,183	-	-	1,290,121	1,213,183
Municipal income taxes	3,041,254	3,675,879	-	-	3,041,254	3,675,879
Unrestricted grants and entitlements	634,001	871,986	-	-	634,001	871,986
Other	141,065	730,885	15,052	13,144	156,117	744,029
Total general revenues	<u>5,106,441</u>	<u>6,491,933</u>	<u>15,052</u>	<u>13,144</u>	<u>5,121,493</u>	<u>6,505,077</u>
Total revenues	<u>7,247,893</u>	<u>7,657,368</u>	<u>2,243,255</u>	<u>2,230,115</u>	<u>9,491,148</u>	<u>9,887,483</u>
Program expenses						
Security of persons and property	3,215,620	2,968,262	-	-	3,215,620	2,968,262
Public health and welfare	30,051	34,643	-	-	30,051	34,643
Leisure time activities	203,135	175,645	-	-	203,135	175,645
Community environment	24,332	35,226	-	-	24,332	35,226
Basic utility services	763,226	737,209	-	-	763,226	737,209
Transportation	1,161,723	1,139,179	-	-	1,161,723	1,139,179
General government	1,545,289	1,183,640	-	-	1,545,289	1,183,640
Interest	103,895	95,406	-	-	103,895	95,406
Water	-	-	826,824	807,044	826,824	807,044
Sewer	-	-	1,008,765	912,789	1,008,765	912,789
Storm water	-	-	259,914	270,747	259,914	270,747
Total program expenses	<u>7,047,271</u>	<u>6,369,210</u>	<u>2,095,503</u>	<u>1,990,580</u>	<u>9,142,774</u>	<u>8,359,790</u>
Increase (decrease) in net position	200,622	1,288,158	147,752	239,535	348,374	1,527,693
Net position, beginning of year, as restated	11,333,928	10,045,770	6,207,420	5,967,885	17,541,348	16,013,655
Net position, end of year	<u>\$ 11,534,550</u>	<u>\$ 11,333,928</u>	<u>\$ 6,355,172</u>	<u>\$ 6,207,420</u>	<u>\$ 17,889,722</u>	<u>\$ 17,541,348</u>

CITY OF SHEFFIELD LAKE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016
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Governmental activities

Revenues by source of governmental activities for 2016 were comprised of:

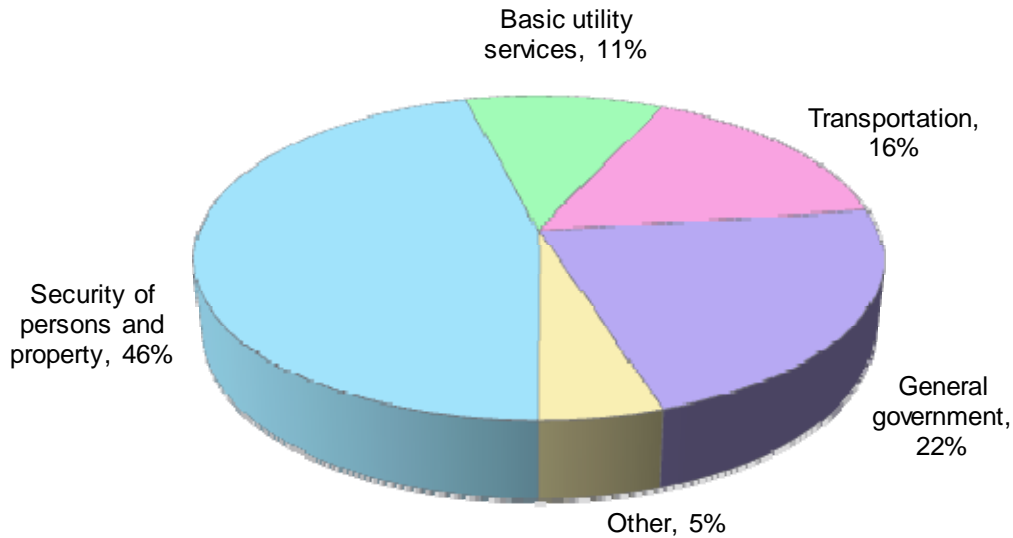


Revenues

For 2016, municipal income taxes, representing 42 percent of total revenue, was the largest portion of revenue for governmental activities. Property and other local taxes, charges for services, and unrestricted grants and entitlements, represented the next three largest sources of revenue at 18 percent, 22 percent, and 9 percent respectively.

CITY OF SHEFFIELD LAKE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
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Program expenses of governmental activities for 2016 were comprised of:



Program expenses

Program expenses amounted to \$ 7,047,271 in 2016, of which \$ 2,141,452 was supported by program revenue. Security of persons and property, which includes police, fire and paramedic services, represented \$ 3,215,620 or 46 percent of total program expenses. Basic utilities services of \$ 763,226 or 11 percent includes refuse collections. Transportation, which includes street maintenance and snow removal, represented \$ 1,161,723 or 16 percent of program expenses. General government represented \$ 1,545,289 or 22 percent of program expenses. General government expenses include legislative and administrative services such as council, mayor, finance, law and computer services departments, utilities and maintenance of buildings. Other expenses include public health and welfare, community environment, leisure time activities, including recreation activities and maintenance of the City's park system, and interest amounted to \$ 361,413 or 5 percent.

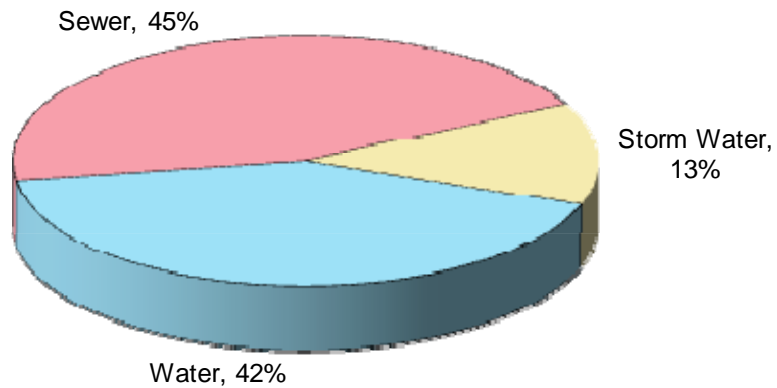
CITY OF SHEFFIELD LAKE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016
UNAUDITED

Business-type activities

Revenues

Charges for services represented 99.3 percent of total revenues for business-type activities in 2016. Revenues for business-type activities for 2016 were comprised of:

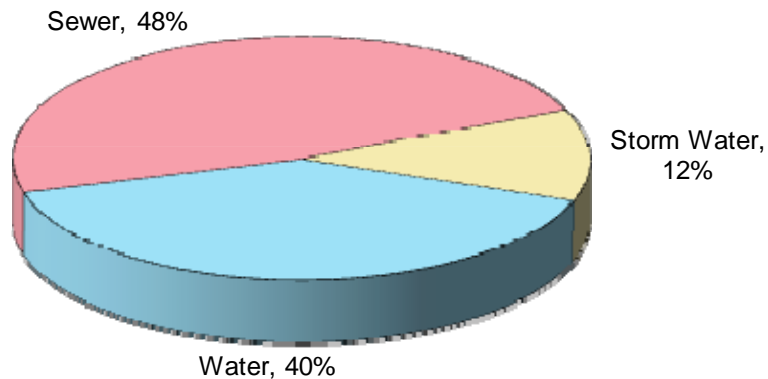
Revenue, Business-type Activities



Expenses

Water operations expenses amounted to \$ 826,824 or 40 percent. Sanitary sewer operations expenses amounted to \$ 1,008,765 or 48 percent of total program expenses and storm water operation expenses amounted to \$ 259,914 or 12 percent for business-type activities. Water operations, sanitary sewer operations and storm water operations have historically been self-supporting through user fees and charges.

Expenses, Business-type Activities



CITY OF SHEFFIELD LAKE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016
UNAUDITED

The City's Funds

The City's governmental funds financial information begins at page 18. Total assets of governmental funds increased by \$ 778,073, total liabilities of governmental funds increased by \$ 822,809 and deferred inflows of resources decreased by \$ 183,378 resulting in a decrease in governmental total fund balances of \$ 138,642 to \$ 3,402,059 at year-end 2016.

Total governmental funds revenues increased by \$ 436,464 in 2016, while total expenditures increased by \$ 837,598. Total other financing sources (uses) decreased by \$ 135,000. The City's major governmental funds in 2016 consisted of the General Fund and Shoreway Capital Projects Fund. General Fund revenues were \$ 407,621 or 8 percent higher in 2016 than 2015. General Fund total expenditures increased by \$ 841,642 or 20.8 percent. General Fund net other financing sources (uses) changed to (\$ 133,527) in 2016 from (\$ 126,128) in 2015. Accordingly, the General Fund balance increased by \$ 333,527 to \$ 2,107,522 at year-end 2016. Shoreway Capital Projects fund had total expenditures of \$ 36,534 and other financing sources of \$ 133,634, resulting in an increase in fund balance of \$ 97,100 to \$ 1,093,947 at year-end 2016.

The City's proprietary funds information begins at page 23. Water Fund and Storm Water net position increased by \$ 109,576 and \$ 42,031, respectively. The Sewer Fund's net position decreased by \$ 3,855. The City's proprietary funds have historically been self-sufficient.

Budgetary Highlights

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

The General Fund is the City's most significant budgeted fund. Original budgeted receipts (excluding other sources) for the General Fund were \$ 3,981,479 and final budgeted receipts were \$ 4,563,477. Original appropriations (excluding other uses) were \$ 4,132,750. The City actually expended \$ 4,049,202 which was \$ 395,931 less than final appropriations.

The City historically spends less than appropriated. For 2016, actual expenditures were 91 percent of final appropriations.

CITY OF SHEFFIELD LAKE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016
UNAUDITED

Capital Assets

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

	Governmental Activities		Business type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 484,539	\$ 484,539	\$ 153,910	\$ 153,910	\$ 638,449	\$ 638,449
Construction in progress	233,688	-	299,117	993,150	532,805	993,150
Buildings and improvements	2,340,359	2,300,052	103,158	105,873	2,443,517	2,405,925
Equipment and vehicles	1,132,115	920,146	1,165,868	187,369	2,297,983	1,107,515
Infrastructure	7,858,610	8,323,292	5,374,738	5,544,905	13,233,348	13,868,197
	<u>\$ 12,049,311</u>	<u>\$ 12,028,029</u>	<u>\$ 7,096,791</u>	<u>\$ 6,985,207</u>	<u>\$ 19,146,102</u>	<u>\$ 19,013,236</u>

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

The City's total capital assets, net of depreciation, under governmental activities were \$ 12,049,311 at December 31, 2016, which was \$ 21,282 higher than the previous year. Business-type capital assets, net of depreciation, increased by \$ 111,584 to \$ 7,096,791.

For more information about the City's capital assets, see Note 8 to the Basic Financial Statements.

Debt

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

	Governmental Activities		Business type Activities		Total	
	2016	2015	2016	2015	2016	2015
Notes payable	\$ 874,288	\$ 1,073,785	\$ -	\$ -	\$ 874,288	\$ 1,073,785
OPWC loans	228,753	248,123	133,828	156,066	362,581	404,189
OWDA loan	-	-	291,525	-	291,525	-
General obligation bonds	280,000	430,000	553,204	726,845	833,204	1,156,845
Capital leases	-	-	941,758	993,150	941,758	993,150
	<u>\$ 1,383,041</u>	<u>\$ 1,751,908</u>	<u>\$ 1,920,315</u>	<u>\$ 1,876,061</u>	<u>\$ 3,303,356</u>	<u>\$ 3,627,969</u>

As of December 31, 2016, the City had long-term debt obligations, excluding accrued leave benefits and net pension liability, of \$ 3,303,356, with \$ 820,834 due within one year.

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

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

For more information about the City's debt, see Notes 9, 10, 11 and 13 to the Basic Financial Statements.

CITY OF SHEFFIELD LAKE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016
UNAUDITED

Economic Factors and Next Year's Budget

In 2016 the City was able to fill much needed staff vacancies, bringing departments back to safe operating levels that we haven't seen since over 10 years ago bringing peace of mind for our residents. The City recognized several improvements utilizing grant proceeds as well as low interest loans for improvements to our aging infrastructure. Over \$200,000 was spent on road resurfacing and paving with a similar amount planned for 2017 as well. In 2016 the City erected another picnic shelter in Gary Green Park and has plans for similar additions at our other parks throughout the City. Plans are also being prepared for several more improvements to our local parks and playgrounds. The careful planning and monitoring of the City's finances has allowed us to keep our debt low and credit rating high. The annual budget will continue to be monitored efficiently and consistently throughout the year as department heads review their budgets on a monthly basis. The Finance Director, Mayor and City Council continue to work closely in the monitoring of the City's current budget as well as the preparation of future budgets and look forward to providing our citizens a safer and more enjoyable community.

Requests for Information

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

CITY OF SHEFFIELD LAKE, OHIO
STATEMENT OF NET POSITION
DECEMBER 31, 2016

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in pooled cash	\$ 2,565,680	\$ 1,329,627	\$ 3,895,307
Accounts and other receivable	176,197	289,985	466,182
Due from other governments	700,833	324	701,157
Inventories and supplies	37,522	-	37,522
Prepaid expenses	56,308	10,900	67,208
Income taxes receivable	2,226,000	-	2,226,000
Property taxes receivable	1,543,600	-	1,543,600
Special assessments receivable	-	74,826	74,826
Property held for resale	3,948,147	-	3,948,147
Capital assets			
Nondepreciable capital assets	718,227	453,027	1,171,254
Depreciable capital assets, net	11,331,084	6,643,764	17,974,848
Total assets	23,303,598	8,802,453	32,106,051
Deferred outflow s of resources			
Pension	1,533,334	203,487	1,736,821
Liabilities			
Accounts and contracts payable	370,441	99,053	469,494
Accrued wages and benefits	95,441	16,786	112,227
Accrued interest payable	16,450	9,700	26,150
Due to other governments	325,520	7,861	333,381
Notes payable	3,120,000	-	3,120,000
Long term liabilities			
Due within one year	754,863	189,326	944,189
Due in more than one year			
Net pension liability	5,523,773	522,306	6,046,079
Other amounts	1,655,792	1,782,052	3,437,844
Total liabilities	11,862,280	2,627,084	14,489,364
Deferred inflow s of resources			
Property taxes	1,270,100	-	1,270,100
Pension	170,002	23,684	193,686
Total deferred inflow s of resources	1,440,102	23,684	1,463,786
Net position			
Net investment in capital assets	9,976,270	5,169,680	15,145,950
Restricted for:			
Debt service	63,768	-	63,768
Capital projects	1,093,947	-	1,093,947
Highw ays and streets	828,457	-	828,457
Public safety	258,680	-	258,680
Recreation	9,077	-	9,077
Community environment	183,566	-	183,566
Other purposes	8,449	-	8,449
Unrestricted	(887,664)	1,185,492	297,828
Total net position	\$ 11,534,550	\$ 6,355,172	\$ 17,889,722

See accompanying notes to the basic financial statements.

CITY OF SHEFFIELD LAKE, OHIO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016

Functions/Programs	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants Interest and Contributions	Capital Grants and Contributions
Governmental activities				
Security of persons and property	\$ 3,215,620	\$ 194,348	\$ 215,457	\$ 302,315
Public health and welfare	30,051	-	-	-
Leisure time activities	203,135	28,120	-	20,000
Community environment	24,332	116,381	-	-
Basic utility services	763,226	746,817	11,816	-
Transportation	1,161,723	11,698	-	-
General government	1,545,289	494,500	-	-
Interest	103,895	-	-	-
Total governmental activities	7,047,271	1,591,864	227,273	322,315
Business-type activities:				
Water	826,824	929,220	-	-
Sewer	1,008,765	999,365	-	-
Storm Water	259,914	299,618	-	-
Total business-type activities	2,095,503	2,228,203	-	-
Total	\$ 9,142,774	\$ 3,820,067	\$ 227,273	\$ 322,315

General revenues

Property and other local taxes levied for:

General purpose

Debt service

Other

Municipal income taxes levied for:

General purpose

Roads

Grants and entitlements not restricted to specific purposes

Investment earnings

Miscellaneous

Total general revenues

Change in net position

Net position at beginning of year, as restated

Net position at end of year

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and Changes in Net Position

<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
\$ (2,503,500)	\$ -	\$ (2,503,500)
(30,051)	-	(30,051)
(155,015)	-	(155,015)
92,049	-	92,049
(4,593)	-	(4,593)
(1,150,025)	-	(1,150,025)
(1,050,789)	-	(1,050,789)
(103,895)	-	(103,895)
<u>(4,905,819)</u>	<u>-</u>	<u>(4,905,819)</u>
-	102,396	102,396
-	(9,400)	(9,400)
-	39,704	39,704
-	132,700	132,700
<u>(4,905,819)</u>	<u>132,700</u>	<u>(4,773,119)</u>
327,601	-	327,601
75,184	-	75,184
887,336	-	887,336
2,737,739	-	2,737,739
303,515	-	303,515
634,001	-	634,001
17,346	-	17,346
123,719	15,052	138,771
<u>5,106,441</u>	<u>15,052</u>	<u>5,121,493</u>
200,622	147,752	348,374
11,333,928	6,207,420	17,541,348
<u>\$ 11,534,550</u>	<u>\$ 6,355,172</u>	<u>\$ 17,889,722</u>

CITY OF SHEFFIELD LAKE, OHIO
BALANCE SHEET – GOVERNMENTAL FUNDS
DECEMBER 31, 2016

	General	Shoreway Capital Project	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in pooled cash	\$ 2,082,440	\$ -	\$ 483,240	\$ 2,565,680
Income taxes receivables	1,914,360	-	311,640	2,226,000
Property taxes receivable	394,200	-	1,149,400	1,543,600
Due from other governments	275,713	-	425,120	700,833
Accounts and other receivable	176,197	-	-	176,197
Inventories and supplies	15,081	-	22,441	37,522
Prepaid expenses	47,508	-	8,800	56,308
Property held for resale	-	3,948,147	-	3,948,147
Total assets	\$ 4,905,499	\$ 3,948,147	\$ 2,400,641	\$ 11,254,287
Liabilities				
Accounts and contracts payable	\$ 157,274	\$ -	\$ 213,167	\$ 370,441
Accrued wages and benefits	87,406	-	8,035	95,441
Accrued interest payable	-	9,200	1,900	11,100
Due to other governments	320,059	-	5,461	325,520
Notes payable	-	2,845,000	275,000	3,120,000
Accrued leave benefits	123,355	-	-	123,355
Total liabilities	688,094	2,854,200	503,563	4,045,857
Deferred Inflows of resources				
Property taxes levied for next year and unavailable resources	2,109,883	-	1,696,488	3,806,371
Total deferred inflows of resources	2,109,883	-	1,696,488	3,806,371
Fund balances				
Nonspendable	62,589	1,093,947	31,241	1,187,777
Restricted	-	-	431,149	431,149
Assigned	338,260	-	-	338,260
Unassigned	1,706,673	-	(261,800)	1,444,873
Total fund balances	2,107,522	1,093,947	200,590	3,402,059
Total liabilities, deferred inflows of resources and fund balances	\$ 4,905,499	\$ 3,948,147	\$ 2,400,641	\$ 11,254,287

See accompanying notes to the basic financial statements.

CITY OF SHEFFIELD LAKE, OHIO
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2016

Total governmental funds balances		\$	3,402,059
Amount reported for governmental activities in the statement of net position are different because:			
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.			12,049,311
Other long term assets are not available to pay for current period expenditures and therefore are deferred inflow s in the funds:			
Property and other local taxes	273,500		
Accounts and other receivables	20,544		
Municipal income tax	1,834,200		
Intergovernmental	408,027		
Total	2,536,271		2,536,271
In the statement of activities, interest is accrued on outstanding long-term obligations, whereas in governmental funds, an interest expenditure is reported when due.			(5,350)
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflow s/outflow s are not reported in governmental funds:			
Deferred outflow s - pension	1,533,334		
Deferred inflow s - pension	(170,002)		
Net pension liability	(5,523,773)		(4,160,441)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:			
Notes payable	(874,288)		
OPWC loans payable	(228,753)		
General obligation bonds	(280,000)		
Accrued leave benefits	(904,259)		(2,287,300)
Net position of governmental activities		\$	11,534,550

See accompanying notes to the basic financial statements.

CITY OF SHEFFIELD LAKE, OHIO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	General	Shoreway Capital Project	Other Governmental Funds	Total Governmental Funds
Revenues				
Property and other local taxes	\$ 305,801	\$ -	\$ 898,920	\$ 1,204,721
Municipal income taxes	2,884,885	-	451,253	3,336,138
Intergovernmental revenue	478,333	-	702,294	1,180,627
Charges for services	1,381,352	-	-	1,381,352
Fines, licenses, and permits	183,585	-	2,335	185,920
Interest	16,666	-	680	17,346
Miscellaneous	112,414	-	15,435	127,849
Total revenues	5,363,036	-	2,070,917	7,433,953
Expenditures				
Current				
Security of persons and property	2,116,556	-	959,387	3,075,943
Public health and welfare	30,051	-	-	30,051
Leisure time activities	272,412	-	-	272,412
Community environment	17,318	-	7,014	24,332
Basic utility services	757,092	-	-	757,092
Transportation	-	-	718,139	718,139
General government	1,608,883	-	6,020	1,614,903
Capital outlay	-	-	328,065	328,065
Debt service				
Note principal	23,470	-	591,027	614,497
Bond principal	50,000	-	100,000	150,000
OPWC loan principal	2,358	-	17,012	19,370
Interest and fiscal charges	17,735	36,534	51,238	105,507
Total expenditures	4,895,875	36,534	2,777,902	7,710,311
Excess (deficiency) of revenues over expenditures	467,161	(36,534)	(706,985)	(276,358)
Other financing sources (uses)				
Transfers-in	-	133,634	-	133,634
Note proceeds	-	-	415,000	415,000
Transfers-out	(133,634)	-	-	(133,634)
Total other financing sources (uses)	(133,634)	133,634	415,000	415,000
Net change in fund balance	333,527	97,100	(291,985)	138,642
Fund balances, beginning of year	1,773,995	996,847	492,575	3,263,417
Fund balances, end of year	<u>\$ 2,107,522</u>	<u>\$ 1,093,947</u>	<u>\$ 200,590</u>	<u>\$ 3,402,059</u>

See accompanying notes to the basic financial statements.

CITY OF SHEFFIELD LAKE, OHIO
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016

Net change in fund balances - total governmental funds	\$	138,642
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lives and reported as depreciation expense. This is the amount by which net capital outlay exceeded depreciation expense in the current period.		
	Capital outlay, net	\$ 600,141
	Depreciation expense	<u>(578,859)</u>
		21,282
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:		
	Municipal income tax	(294,884)
	Property and other local taxes	85,400
	Miscellaneous	20,544
	Intergovernmental revenue	<u>2,962</u>
		(185,978)
Debt proceeds are an other financing source in the funds, but increase long-term liabilities in the statement of net position		
		(415,000)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
	Note principal paid	614,497
	OPWC loan principal paid	19,370
	Bond principal paid	<u>150,000</u>
		783,867
In the statement of activities, interest is accrued on outstanding debt, whereas in governmental funds, an interest expenditure is reported when due.		
		1,530
Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.		
		437,296
Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.		
		(621,189)
Some expenses reported in the statement of activities, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
	Accrued leave benefits	<u>40,172</u>
Change in net position of governmental activities	\$	<u><u>200,622</u></u>

See accompanying notes to the basic financial statements.

CITY OF SHEFFIELD LAKE, OHIO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2016

	General Fund			Variance with Final Budget Positive (Negative)
	Budget Amounts		Actual	
	Original	Final		
Revenues				
Property and other local taxes	\$ 306,639	\$ 305,801	\$ 305,801	\$ -
Municipal income taxes	2,500,000	2,851,862	2,851,862	-
Intergovernmental revenue	257,230	241,446	241,446	-
Charges for services	306,550	274,983	275,115	132
Fines, licenses, and permits	198,800	179,105	183,585	4,480
Interest	4,100	14,207	16,666	2,459
Miscellaneous	408,160	696,073	696,373	300
Total revenues	3,981,479	4,563,477	4,570,848	7,371
Expenditures				
Current				
Security of persons and property	2,158,495	2,182,251	1,969,324	212,927
Public health and welfare	44,300	36,500	30,154	6,346
Leisure time activities	337,941	363,991	271,892	92,099
Community environment	17,330	17,330	17,318	12
General government	1,300,242	1,585,619	1,537,626	47,993
Capital outlay	25,000	5,000	-	5,000
Debt service				
Principal	175,000	175,000	145,906	29,094
Bond principal	63,000	68,000	68,000	-
OPWC loan principal	2,358	2,358	2,358	-
Interest and fiscal charges	9,084	9,084	6,624	2,460
Total expenditures	4,132,750	4,445,133	4,049,202	395,931
Excess (deficiency) of revenues over expenditures	(151,271)	118,344	521,646	403,302
Other financing sources (uses)				
Transfers-in	5,000	7,500	7,500	-
Transfers-out	(7,500)	(7,500)	(7,500)	-
Total other financing sources (uses)	(2,500)	-	-	-
Net change in fund balance	(153,771)	118,344	521,646	403,302
Prior year encumbrances	97,797	97,797	97,797	-
Fund balances, beginning of year	1,320,704	1,320,704	1,320,704	-
Fund balances, end of year	\$ 1,264,730	\$ 1,536,845	\$ 1,940,147	\$ 403,302

See accompanying notes to the basic financial statements.

CITY OF SHEFFIELD LAKE, OHIO
STATEMENT OF FUND NET POSITION -
PROPRIETARY FUNDS
DECEMBER 31, 2016

	Business-Type Activities - Enterprise Funds			
	Water	Sewer	Storm Water	Total
Assets				
Current assets				
Equity in pooled cash	\$ 317,382	\$ 929,241	\$ 83,004	\$ 1,329,627
Accounts and other receivable	114,770	134,097	41,118	289,985
Due from other governments	144	180	-	324
Prepaid expenses	4,600	6,000	300	10,900
Total current assets	<u>436,896</u>	<u>1,069,518</u>	<u>124,422</u>	<u>1,630,836</u>
Noncurrent assets				
Special assessments receivable	-	-	74,826	74,826
Nondepreciable capital assets	-	332,617	120,410	453,027
Depreciable capital assets, net	1,414,561	453,345	4,775,858	6,643,764
Total noncurrent assets	<u>1,414,561</u>	<u>785,962</u>	<u>4,971,094</u>	<u>7,171,617</u>
Total assets	<u>1,851,457</u>	<u>1,855,480</u>	<u>5,095,516</u>	<u>8,802,453</u>
Deferred outflows of resources				
Pension	<u>79,053</u>	<u>100,280</u>	<u>24,154</u>	<u>203,487</u>
Liabilities				
Current				
Accounts and contracts payable	31,997	67,056	-	99,053
Accrued wages and benefits	6,584	8,990	1,212	16,786
Accrued interest payable	8,200	-	1,500	9,700
Due to other governments	3,005	4,383	473	7,861
OPWC loans payable	-	-	22,239	22,239
OWDA loans payable	-	13,885	-	13,885
General obligation bonds payable	-	-	100,000	100,000
Capital leases	53,202	-	-	53,202
Total current liabilities	<u>102,988</u>	<u>94,314</u>	<u>125,424</u>	<u>322,726</u>
Long-term liabilities				
OPWC loans payable	-	-	111,589	111,589
OWDA loans payable	-	277,640	-	277,640
General obligation bonds payable	-	-	453,204	453,204
Capital leases	888,556	-	-	888,556
Accrued leave benefits	20,403	30,605	55	51,063
Net pension liability	202,910	257,396	62,000	522,306
Total long-term liabilities	<u>1,111,869</u>	<u>565,641</u>	<u>626,848</u>	<u>2,304,358</u>
Total liabilities	<u>1,214,857</u>	<u>659,955</u>	<u>752,272</u>	<u>2,627,084</u>
Deferred inflows of resources				
Pension	<u>9,201</u>	<u>11,672</u>	<u>2,811</u>	<u>23,684</u>
Net position				
Net investment in capital assets	472,803	494,437	4,202,440	5,169,680
Unrestricted	233,649	789,696	162,147	1,185,492
Total net position	<u>\$ 706,452</u>	<u>\$ 1,284,133</u>	<u>\$ 4,364,587</u>	<u>\$ 6,355,172</u>

See accompanying notes to the basic financial statements.

CITY OF SHEFFIELD LAKE, OHIO
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION -
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Business-Type Activities - Enterprise Funds			
	Water	Sewer	Storm Water	Total
Operating revenues				
Charges for services	\$ 929,220	\$ 999,365	\$ 299,618	\$ 2,228,203
Miscellaneous	7,036	5,365	2,327	14,728
Total operating revenues	<u>936,256</u>	<u>1,004,730</u>	<u>301,945</u>	<u>2,242,931</u>
Operating expenses				
Personal services	276,239	337,961	73,254	687,454
Contractual services	428,584	517,179	3,000	948,763
Supplies and materials	48,491	120,274	6,943	175,708
Other operating	3,818	3,372	-	7,190
Depreciation	35,519	27,940	152,483	215,942
Total operating expenses	<u>792,651</u>	<u>1,006,726</u>	<u>235,680</u>	<u>2,035,057</u>
Operating income	<u>143,605</u>	<u>(1,996)</u>	<u>66,265</u>	<u>207,874</u>
Nonoperating revenues (expenses)				
Loss on disposal of capital assets	(456)	(456)	(228)	(1,140)
Intergovernmental revenue	144	180	-	324
Interest and fiscal charges	(33,717)	(1,583)	(24,006)	(59,306)
Net nonoperating revenues (expenses)	<u>(34,029)</u>	<u>(1,859)</u>	<u>(24,234)</u>	<u>(60,122)</u>
Change in net position	109,576	(3,855)	42,031	147,752
Net position, beginning of year	<u>596,876</u>	<u>1,287,988</u>	<u>4,322,556</u>	<u>6,207,420</u>
Net position, end of year	<u>\$ 706,452</u>	<u>\$ 1,284,133</u>	<u>\$ 4,364,587</u>	<u>\$ 6,355,172</u>

See accompanying notes to the basic financial statements.

CITY OF SHEFFIELD LAKE, OHIO
STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Business-Type Activities - Enterprise Funds			
	Water	Sewer	Storm Water	Total
Cash flows from operating activities:				
Receipts from customers and users	\$ 914,513	\$ 996,449	\$ 297,007	\$ 2,207,969
Cash paid to suppliers for materials and supplies	(56,427)	(120,847)	(6,943)	(184,217)
Cash paid for employee services and benefits	(251,159)	(318,721)	(77,535)	(647,415)
Cash paid for contractual services	(447,098)	(492,796)	(3,000)	(942,894)
Other operating revenues	5,365	5,365	2,327	13,057
Other operating expenses	(5,212)	(3,658)	-	(8,870)
Net cash provided by operating activities	<u>159,982</u>	<u>65,792</u>	<u>211,856</u>	<u>437,630</u>
Cash flows from capital and related financing activities:				
Special assessments	-	-	9,929	9,929
Payment on capital lease	(85,609)	-	-	(85,609)
OPWC loans payments	-	-	(22,238)	(22,238)
OWDA loan payment	-	(9,175)	-	(9,175)
Bond principal payments	-	-	(175,000)	(175,000)
Payment of interest and fiscal charges	-	-	(23,047)	(23,047)
Acquisition of fixed assets	(5,284)	(24,265)	-	(29,549)
Net cash (used in) capital and related financing activities	<u>(90,893)</u>	<u>(33,440)</u>	<u>(210,356)</u>	<u>(334,689)</u>
Net increase in equity in pooled cash	69,089	32,352	1,500	102,941
Equity in pooled cash, beginning of year	<u>248,293</u>	<u>896,889</u>	<u>81,504</u>	<u>1,226,686</u>
Equity in pooled cash, end of year	<u>\$ 317,382</u>	<u>\$ 929,241</u>	<u>\$ 83,004</u>	<u>\$ 1,329,627</u>
Non-cash capital and related financing transactions:				
Capital asset acquired through OWDA loan	<u>\$ -</u>	<u>\$ 299,117</u>	<u>\$ -</u>	<u>\$ 299,117</u>

(Continued)

See accompanying notes to the basic financial statements.

CITY OF SHEFFIELD LAKE, OHIO
STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Concluded)

	Business-Type Activities - Enterprise Funds			
	Water	Sewer	Storm Water	Total
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 143,605	\$ (1,996)	\$ 66,265	\$ 207,874
Adjustments:				
Depreciation	35,519	27,940	152,483	215,942
(Increase) decrease in assets:				
Accounts and other receivable	(16,378)	(2,916)	(2,611)	(21,905)
Prepaid expenses	(2,300)	(3,700)	-	(6,000)
Increase in deferred outflow s of resources - pension	(56,937)	(69,417)	(15,265)	(141,619)
Increase (decrease) in liabilities:				
Accounts and contracts payable	(28,579)	23,489	-	(5,090)
Accrued wages and benefits	1,406	2,015	(507)	2,914
Due to other governments	(444)	(379)	(310)	(1,133)
Accrued leave benefits	3,273	4,911	(240)	7,944
Net pension liability	73,934	77,407	10,161	161,502
Increase in deferred inflow s of resources - pension	6,883	8,438	1,880	17,201
Net cash provided by operating activities	<u>\$ 159,982</u>	<u>\$ 65,792</u>	<u>\$ 211,856</u>	<u>\$ 437,630</u>

See accompanying notes to the basic financial statements.

CITY OF SHEFFIELD LAKE, OHIO
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
DECEMBER 31, 2016

	Agency Funds
Assets	
Equity in pooled cash	\$ 56,140
Cash and investments w ith fiscal agents	3,886
Property taxes receivable	476,600
Due from other governments	21,800
Total assets	<u>\$ 558,426</u>
Liabilities	
Accounts payable	\$ 100
Due to others	59,926
Due to other governments	498,400
Total liabilities	<u>\$ 558,426</u>

See accompanying notes to the basic financial statements.

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CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 1 DESCRIPTION OF THE CITY AND REPORTING ENTITY

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

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

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

The City is associated with the Lorain County General Health District, a jointly governed organization, which provides health services to the members of the Health District. The City does not have any financial interest in or responsibility for the Health District. The County Auditor serves as fiscal agent. See Note 18.

The City is a member of the Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed with an aggregation program for the purchase of electricity. See Note 18.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. BASIS OF PRESENTATION

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

Government-wide Financial Statements

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

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

Fund Financial Statements

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

B. FUND ACCOUNTING

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

Governmental Funds

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

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. FUND ACCOUNTING (continued)

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

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

Proprietary Funds

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

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

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

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

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

Fiduciary Funds

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

C. MEASUREMENT FOCUS

Government-wide Financial Statements

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

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. MEASUREMENT FOCUS (continued)

Fund Financial Statements

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

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

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

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

D. BASIS OF ACCOUNTING

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

Revenues - Exchange and Non-exchange Transactions

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

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. BASIS OF ACCOUNTING (continued)

Revenues - Exchange and Non-exchange Transactions (continued)

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

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

Deferred Outflows/Inflows 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 represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the City, deferred outflows of resources are reported on the government-wide statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 13.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the City, deferred inflows of resources include property taxes, pension, and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2016, but which were levied to finance 2017 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes delinquent property taxes, intergovernmental grants, and miscellaneous revenues. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide statement of net position. (See Note 13)

Expenses/Expenditures

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

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

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. BUDGETARY PROCESS

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

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

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

F. CASH AND CASH EQUIVALENTS

To improve cash management, cash received by the City is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through City records. Each fund's interest in the pool is presented as "equity in pooled cash" on the balance sheet. Under existing Ohio statutes, interest earnings are allocated to funds based on average monthly balances. Interest revenue credited to the General Fund during the year amounted to \$ 16,666 of which \$ 7,852 was assigned from other City Funds.

Except for investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase, investments are reported at fair value, which is based on quoted market prices. Investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase are reported at cost or amortized cost.

The City has invested in the State Treasury Asset Reserve of Ohio (STAR Ohio) during the year. Investment in STAR Ohio is measured at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

Investments with an original maturity of three months or less at the time of purchase are considered to be cash equivalents.

CITY OF SHEFFIELD LAKE, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. INVENTORIES

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

H. CAPITAL ASSETS

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

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

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

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

I. PROPERTY HELD FOR RESALE

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

J. INTERFUND BALANCES

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

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

K. ACCRUED LEAVE BENEFITS

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

L. ACCRUED LIABILITIES AND LONG-TERM LIABILITIES

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

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

M. NET POSITION

Net position is the residual amount when comparing assets and deferred outflows of resources to liabilities and deferred inflows of resources. The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. The restricted component of net position is reported when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The government-wide statement of net position for the governmental activities reports \$ 2,445,944 of restricted net position, none of which is restricted by enabling legislation. The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted components of net position are available.

N. FUND BALANCE

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

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

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

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

N. FUND BALANCE (continued)

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

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

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

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

O. OPERATING REVENUES AND EXPENSES

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

P. CONTRIBUTIONS OF CAPITAL

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

Q. INTERFUND ACTIVITY

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

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

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

R. PENSIONS

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

S. EXTRAORDINARY AND SPECIAL ITEMS

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

T. USE OF ESTIMATES

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

NOTE 3 CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF NET POSITION

A. CHANGE IN ACCOUNTING PRINCIPLES

GASB Statement No. 72, "Fair Value Measurement and Application" The objective of this Statement is to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements. These improvements are based in part on the concepts and definitions established in Concepts Statement No. 6, Measurement of Elements of Financial Statements, and other relevant literature. The implementation of GASB Statement No. 72 did not have an effect on the financial statement of the City.

GASB Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68." The principal objective of this Statement is to improve the usefulness of information for decisions made by the various users of the general purpose external financial reports (financial reports) of governments whose employees—both active employees and inactive employees—are provided with pensions that are not within the scope of Statement No. 68, Accounting and Financial Reporting for Pensions, as amended. One aspect of that objective is to provide information about the effects of pension-related transactions and other events on the elements of the basic financial statements of state and local governmental employers. This information will assist users in assessing the relationship between a government's inflows of resources and its total cost (including pension expense) of providing government services each period. Another aspect of that objective is to provide users with information about the government's pension obligations. The implementation of GASB Statement No. 73 did not have an effect on the financial statement of the City.

CITY OF SHEFFIELD LAKE, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 3 CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF NET POSITION (continued)

A. CHANGE IN ACCOUNTING PRINCIPLES (continued)

GASB Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments." The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with generally accepted accounting principles (GAAP) and the framework for selecting those principles. The implementation of GASB Statement No. 76 did not have an effect on the financial statement of the City.

GASB Statement No. 77, "Tax Abatement Disclosures." The objective of this Statement is to provide financial statement users with essential information about the nature and magnitude of the reduction in tax revenues through tax abatement programs in order to better assess (a) whether current-year revenues were sufficient to pay for current-year services, (b) compliance with finance-related legal or contractual requirements, (c) where a government's financial resources come from and how it uses them, and (d) financial position and economic condition and how they have changed over time. The implementation of GASB Statement No. 77 did not have an effect on the financial statement of the City.

GASB Statement No. 79, "Certain External Investment Pools and Pool Participants" establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure for financial reporting purposes all of their investments at amortized cost. This Statement provides accounting and financial reporting guidance and also establishes additional note disclosure requirements for governments that participate in those pools. The City participates in STAR Ohio which implemented GASB Statement No. 79 for the fiscal year 2016. The City incorporated the corresponding GASB 79 guidance into their fiscal year 2016 financial statements; however, there is no effect on beginning net position/fund balance.

B. RESTATEMENT OF NET POSITION

In fiscal year 2015, the City implemented GASB 68, Accounting and Financial Reporting for Pensions and GASB 71, Pension Transition for Contributions Made Subsequent to the Measurement Date, which required the reporting of pension liability associated with pension plans. During fiscal year 2016, the Ohio Police and Fire Pension Fund (OP&F) provided a revision to a census file to its actuary. This resulted in an adjustment to the Net Pension Liability reported in a prior year. The adjustment reduced the net position in the Entity Wide Governmental Activities by \$ 85,351.

	Governmental Activities
Net position at 12/31/2015	
As previously presented	\$ 11,419,279
Adjustments:	
Net pension liability	(85,351)
Net position at 12/31/2015, as restated	\$ 11,333,928

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 4 BUDGETARY BASIS OF ACCOUNTING

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

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

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

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

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

	Net Change in Fund Balance
	General Fund
Budget basis	\$ 521,646
Adjustments, increase (decrease)	
Revenue accruals	26,055
Expenditure accruals	(184,353)
Funds budgeted elsewhere **	1,541
Encumbrances	(31,362)
GAAP basis, as reported	\$ 333,527

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

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 5 – FUND BALANCES

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

	General Fund	Shoreway Capital Project Fund	Other Governmental Funds	Total
Nonspendable:				
Inventories and supplies	\$ 15,081	\$ -	\$ 22,441	\$ 37,522
Prepaid expenses	47,508	-	8,800	56,308
Shoreway capital project	-	1,093,947	-	1,093,947
Total nonspendable	<u>62,589</u>	<u>1,093,947</u>	<u>31,241</u>	<u>1,187,777</u>
Restricted for:				
Debt service	-	-	43,668	43,668
Highways and streets	-	-	302,428	302,428
Public safety	-	-	22,880	22,880
Recreation	-	-	9,077	9,077
Community environment	-	-	14,966	14,966
Other	-	-	8,449	8,449
Total restricted	<u>-</u>	<u>-</u>	<u>431,149</u>	<u>431,149</u>
Assigned for:				
Next year's appropriations	169,660	-	-	169,660
Refuse services	168,600	-	-	168,600
Total assigned	<u>338,260</u>	<u>-</u>	<u>-</u>	<u>338,260</u>
Unassigned	<u>1,706,673</u>	<u>-</u>	<u>(261,800)</u>	<u>1,444,873</u>
Total fund balances	<u>\$ 2,107,522</u>	<u>\$ 1,093,947</u>	<u>\$ 200,590</u>	<u>\$ 3,402,059</u>

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 6 - DEPOSITS AND INVESTMENTS

A. LEGAL REQUIREMENTS

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

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

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

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

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

Interim monies may be invested in the following securities:

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

CITY OF SHEFFIELD LAKE, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

A. LEGAL REQUIREMENTS (continued)

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

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

B. DEPOSITS AND CASH ON HAND

Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits may not be returned. The City does not have a deposit policy for custodial credit risk. At fiscal year end, the carrying amount of the City's deposits was \$ 217,364 and the bank balance was \$ 259,043. Of the bank balance, \$ 250,000 was covered by federal depository insurance and \$ 9,043 by collateral held by third party trustees in accordance with the Ohio Revised Code, in collateral pools securing all public funds on deposit with specific depository institutions, which amount is considered uncollateralized as defined by the Governmental Accounting Standards Board.

Cash on hand at December 31, 2016 amounted to \$ 200.

C. INVESTMENTS

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

	<u>Maturities</u>	<u>Fair Value</u>
STAR Ohio	<u>51.6 days</u>	<u>\$ 3,737,969</u>

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs. The above table identifies the City's recurring fair value measurements as of December 31, 2016. As discussed further in Note 1G, STAR Ohio is reported at its share price. All other investments of the City are valued using quoted market prices (Level 1 inputs).

D. INTEREST RATE RISK

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

E. CREDIT RISK

The City follows the Ohio Revised Code that limits its investment choices

F. CONCENTRATION OF CREDIT RISK

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

CITY OF SHEFFIELD LAKE, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 7 RECEIVABLES

Receivables at December 31, 2016 consisted primarily of municipal income taxes, property and other taxes, intergovernmental receivables arising from entitlements, shared revenues, interest, and accounts (billings for utility service).

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

A. PROPERTY TAXES

Property taxes include amounts levied against all real and public utility tangible personal property located in the City. Property tax revenue received during 2016 for real and public utility property taxes represents collections of the 2015 taxes. Property tax payments received during 2016 for tangible personal property (other than public utility property) is for 2016 taxes.

2016 real property taxes are levied after October 1, 2016, on the assessed value as of January 1, 2016, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2016 real property taxes are collected in and intended to finance 2017.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2016 public utility property taxes became a lien December 31, 2015, are levied after October 1, 2016, and are collected in 2017 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2016 was \$ 19.36 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2016 property tax receipts were based are as follows:

Property valuation consisted of:	
Real property	
Residential/agricultural	\$ 130,955,000
Commercial/industrial	14,333,960
Tangible personal property	
Public utilities	2,398,570
Total valuation	<u>\$ 147,687,530</u>

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

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City of Sheffield Lake. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real property taxes, public utility personal property taxes and outstanding delinquencies which are measurable as of December 31, 2016 and for which there is an enforceable legal claim. In the governmental funds, the entire receivable has been offset by a credit to deferred inflows of resources since the current taxes were not levied to finance 2016 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, delinquent property taxes have been recorded as revenue while the remainder of the receivable is recorded to deferred inflows of resources.

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 7 RECEIVABLES (continued)

B. INCOME TAXES

The City levies an income tax of 2.0% on substantially all income earned within the City. In addition, residents are required to pay City income tax on income earned outside the City with a certain credit for income taxes paid to other municipalities. Employers within the City are required to withhold income tax on employee compensation and remit at least quarterly. Corporations and other individual taxpayers are also required to pay their estimated taxes at least quarterly and file a final return annually.

C. DUE FROM OTHER GOVERNMENTS

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

	Amount
Governmental Activities	
Local government assistance	\$ 153,227
Gasoline tax	168,566
Permissive tax	50,465
Homestead and rollback	70,300
Ohio Department of Development Grant	245,157
Miscellaneous	13,442
Total governmental activities	701,157
Agency Fund	
Homestead and rollback	21,800
Total due from other governments	\$ 722,957

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 8 CAPITAL ASSETS

A summary of changes in capital assets during 2016 follows:

	Balance January 1	Additions	Disposals	Balance December 31
<u>Governmental activities</u>				
Capital assets, not being depreciated				
Land	\$ 484,539	\$ -	\$ -	\$ 484,539
Construction in progress	-	233,688	-	233,688
Total capital assets, not being depreciated	<u>484,539</u>	<u>233,688</u>	<u>-</u>	<u>718,227</u>
Capital assets, being depreciated				
Buildings and improvements	3,827,185	111,736	8,400	3,930,521
Equipment and vehicles	2,520,029	342,942	79,825	2,783,146
Infrastructure	38,263,896	-	-	38,263,896
Total capital assets being depreciated	<u>44,611,110</u>	<u>454,678</u>	<u>88,225</u>	<u>44,977,563</u>
Less accumulated depreciation				
Buildings and improvements	1,527,133	65,927	2,898	1,590,162
Equipment and vehicles	1,599,883	127,302	76,154	1,651,031
Infrastructure	29,940,604	464,682	-	30,405,286
Total accumulated depreciation	<u>33,067,620</u>	<u>657,911</u>	<u>79,052</u>	<u>33,646,479</u>
Total capital assets being depreciated, net	<u>11,543,490</u>	<u>(203,233)</u>	<u>9,173</u>	<u>11,331,084</u>
Total governmental capital assets, net	<u>\$ 12,028,029</u>	<u>\$ 30,455</u>	<u>\$ 9,173</u>	<u>\$ 12,049,311</u>
<u>Business-type activities</u>				
Capital assets, not being depreciated				
Land	\$ 153,910	\$ -	\$ -	\$ 153,910
Construction in progress	993,150	299,117	993,150	299,117
Total capital assets, not being depreciated	<u>1,147,060</u>	<u>299,117</u>	<u>993,150</u>	<u>453,027</u>
Capital assets, being depreciated				
Buildings and improvements	150,818	-	-	150,818
Equipment and vehicles	631,400	1,022,699	11,400	1,642,699
Infrastructure	11,880,736	-	-	11,880,736
Total capital assets being depreciated	<u>12,662,954</u>	<u>1,022,699</u>	<u>11,400</u>	<u>13,674,253</u>
Less accumulated depreciation				
Buildings and improvements	44,945	2,715	-	47,660
Equipment and vehicles	444,031	43,060	10,260	476,831
Infrastructure	6,335,831	170,167	-	6,505,998
Total accumulated depreciation	<u>6,824,807</u>	<u>215,942</u>	<u>10,260</u>	<u>7,030,489</u>
Total capital assets being depreciated, net	<u>5,838,147</u>	<u>806,757</u>	<u>1,140</u>	<u>6,643,764</u>
Total business-type capital assets, net	<u>\$ 6,985,207</u>	<u>\$ 1,105,874</u>	<u>\$ 994,290</u>	<u>\$ 7,096,791</u>

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 8 CAPITAL ASSETS (continued)

Depreciation expense was charged to governmental functions as follows:

Security of persons and property	\$	103,159
Leisure time activities		51,074
Basic utility services		465,222
Transportation		20,687
General government		17,769
		\$ 657,911

NOTE 9 NOTES PAYABLE

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

	Balance, 12/31/15	Additions	Reductions	Balance, 12/31/16
Governmental activities				
Short-term notes payable				
Bond anticipation notes				
Shoreway Capital Project fund				
1.375% issued 11/5/15, due 11/3/16	\$ 2,945,000	\$ -	\$ 2,945,000	\$ -
Shoreway Capital Project fund				
2.000% issued 11/2/16, due 11/2/17	-	2,845,000	-	2,845,000
Safety service building improvements				
1.200% issued 7/7/16, due 8/15/17	-	15,000	-	15,000
City building improvements				
1.270% issued 6/17/16, due 8/15/17	-	260,000	-	260,000
	\$ 2,945,000	\$ 3,120,000	\$ 2,945,000	\$ 3,120,000

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 10 LONG-TERM DEBT

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

<u>Debt Issue</u>	<u>Original Issue Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Original Issue Amount</u>
<u>Governmental activities</u>				
General obligation bonds				
Building improvements	1996	2016	6.20%	\$ 200,000
Street improvements	2003	2018	3.60 - 5.00%	1,200,000
Street improvements	1998	2018	5.00 - 5.20%	500,000
Tax anticipation note	2007	2027	4.78%	800,000
Bond anticipation note	2015	2016	1.03%	550,000
Bond anticipation note	2016	2017	1.20%	235,000
Bond anticipation note	2016	2017	1.27%	180,000
Highway improvement note	2006	2017	0.00%	175,908
911 system improvement note	2012	2022	0.00%	54,705
Ohio Public Works loan	2001	2017	0.00%	35,371
Ohio Public Works loan	2007	2028	0.00%	99,190
Ohio Public Works loan	2007	2028	0.00%	25,264
Ohio Public Works loan	2010	2030	0.00%	100,000
Ohio Public Works loan	2010	2030	0.00%	118,172
<u>Business-type activities</u>				
General obligation bonds				
Storm water improvements	2011	2021	1.00 - 3.70%	1,575,000
Ohio Public Works loan	2000	2020	0.00%	124,842
Ohio Public Works loan	2003	2024	0.00%	140,949
Ohio Public Works loan	2003	2024	0.00%	81,187
Ohio Public Works loan	2003	2024	0.00%	97,793
Ohio Water Development Authority loan	2016	2036	1.310%	299,117

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 10 LONG-TERM DEBT (continued)

Changes in the City's long-term obligations during 2016 were as follows:

	Restated Outstanding 12/31/15	Additions	Reductions	Outstanding 12/31/16	Due in One Year
<u>Governmental activities</u>					
General obligation bonds					
Building improvement (1996) 6.20% through 2016	\$ 15,000	\$ -	\$ 15,000	\$ -	\$ -
Street improvement (2003) 3.60% - 5.00% through 2018	305,000	-	100,000	205,000	100,000
Street improvement (1998) 5.00% - 5.20% through 2018	110,000	-	35,000	75,000	35,000
Total general obligation bonds	<u>430,000</u>	<u>-</u>	<u>150,000</u>	<u>280,000</u>	<u>135,000</u>
Net pension liability					
OPERS	1,014,211	342,283	-	1,356,494	-
OP&F	3,547,890	619,389	-	4,167,279	-
Total net pension liability	<u>4,562,101</u>	<u>961,672</u>	<u>-</u>	<u>5,523,773</u>	<u>-</u>
Tax anticipation note	441,905	-	40,000	401,905	40,000
Bond anticipation notes	550,000	415,000	550,000	415,000	415,000
Highway improvement note	38,053	-	19,027	19,026	19,026
911 system improvement note	43,827	-	5,470	38,357	5,470
OPWC loans	248,123	-	19,370	228,753	17,012
Accrued leave benefits	954,763	83,183	10,332	1,027,614	123,355
Total governmental activities	<u>\$ 7,268,772</u>	<u>\$ 1,459,855</u>	<u>\$ 794,199</u>	<u>\$ 7,934,428</u>	<u>\$ 754,863</u>
<u>Business-type activities</u>					
General obligation bonds					
Storm water improvement 1.00% - 3.70% through 2021	\$ 735,000	\$ -	\$ 175,000	\$ 560,000	\$ 100,000
Premium	(8,155)	1,359	-	(6,796)	-
Total general obligation bonds	<u>726,845</u>	<u>1,359</u>	<u>175,000</u>	<u>553,204</u>	<u>100,000</u>
Net pension liability - OPERS					
Water	128,976	73,934	-	202,910	-
Sewer	179,989	77,407	-	257,396	-
Storm Water	51,839	10,161	-	62,000	-
Total net pension liability	<u>360,804</u>	<u>161,502</u>	<u>-</u>	<u>522,306</u>	<u>-</u>
OPWC loans	156,066	-	22,238	133,828	22,239
OWDA loan	-	299,117	7,592	291,525	13,885
Capital leases	993,150	-	51,392	941,758	53,202
Accrued leave benefits	43,119	7,944	-	51,063	-
Total business-type activities	<u>\$ 2,279,984</u>	<u>\$ 469,922</u>	<u>\$ 256,222</u>	<u>\$ 2,493,684</u>	<u>\$ 189,326</u>

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 10 LONG-TERM DEBT (continued)

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

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

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

OWDA loan payments are paid from the Sewer Fund.

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

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2016, excluding accrued leave benefits, are as follows:

Year	Governmental Activities				
	General Obligation Bonds		Highway Improvement Note	911 System Improvement Note	OPWC Loans
	Principal	Interest	Principal	Principal	Principal
2017	\$ 135,000	\$ 14,150	\$ 19,026	\$ 5,470	\$ 17,012
2018	145,000	7,330	-	5,471	17,012
2019	-	-	-	5,471	17,012
2020	-	-	-	5,471	17,012
2021	-	-	-	5,471	17,012
2022-2026	-	-	-	11,003	85,062
2027-2031	-	-	-	-	51,307
2032-2033	-	-	-	-	7,324
	<u>\$ 280,000</u>	<u>\$ 21,480</u>	<u>\$ 19,026</u>	<u>\$ 38,357</u>	<u>\$ 228,753</u>

Year	Governmental Activities					
	Tax Anticipation Note		Bond Anticipation Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 40,000	\$ 19,211	\$ 415,000	\$ 5,806	\$ 631,508	\$ 39,167
2018	40,000	17,299	-	-	207,483	24,629
2019	40,000	15,387	-	-	62,483	15,387
2020	40,000	13,475	-	-	62,483	13,475
2021	40,000	11,563	-	-	62,483	11,563
2022-2026	200,000	29,135	-	-	296,065	29,135
2027-2031	1,905	30	-	-	53,212	30
2032-2033	-	-	-	-	7,324	-
	<u>\$ 401,905</u>	<u>\$ 106,100</u>	<u>\$ 415,000</u>	<u>\$ 5,806</u>	<u>\$ 1,383,041</u>	<u>\$ 133,386</u>

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 10 LONG-TERM DEBT (continued)

Year	Business-Type Activities						
	General Obligation Bonds		OPWC Loans	OWDA Loan		Total	
	Principal	Interest	Principal	Principal	Interest	Principal	Interest
2017	\$ 100,000	\$ 18,346	\$ 22,239	\$ 13,885	\$ 3,774	\$ 136,124	\$ 22,120
2018	105,000	15,596	22,239	14,068	3,591	141,307	19,187
2019	115,000	12,446	22,240	14,253	3,406	151,493	15,852
2020	115,000	8,650	19,119	14,440	3,219	148,559	11,869
2021	125,000	4,624	15,997	14,630	3,029	155,627	7,653
2022-2026	-	-	31,994	76,084	12,211	108,078	12,211
2027-2031	-	-	-	81,217	7,078	81,217	7,078
2032-2033	-	-	-	62,948	1,735	62,948	1,735
	<u>\$ 560,000</u>	<u>\$ 59,662</u>	<u>\$ 133,828</u>	<u>\$ 291,525</u>	<u>\$ 38,043</u>	<u>\$ 985,353</u>	<u>\$ 97,705</u>

NOTE 11 CAPITAL LEASES

The City is obligated under certain leases accounted for as a capital leases. The leased assets are included in capital assets and the related obligations are included under long-term debt. At December 31, 2016, assets under capital lease totaled \$993,150 in business-type activities, with related accumulated depreciation of \$17,877. The leases are in effect until 2030. The following is the schedule of future minimum lease payments under the capital lease together with the net present value of the minimum lease payments as of December 31, 2016.

Year Ending December 31,	Business-type Activities
2017	\$ 85,609
2018	85,609
2019	85,609
2020	85,609
2021	85,609
2022-2026	428,044
2027-2031	342,436
Total minimum lease payments	1,198,525
Less amount representing interest	(256,767)
Net present value of minimum lease payments	<u>\$ 941,758</u>

NOTE 12 OPERATING LEASES

The City is obligated under leases accounted for as operating leases. Total lease expense for the year ended December 31, 2016 was \$12,016. The following is a schedule of future minimum lease payments required under operating leases that have initial or remaining noncancellable lease terms in excess of one year as of December 31, 2016.

Year ending December 31	Amount
2017	\$ 8,767
2018	7,286
2019	6,048
2020	1,408
Total minimum payments	<u>\$ 23,509</u>

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 13 DEFINED BENEFIT PENSION PLANS

A. NET PENSION LIABILITY

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

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

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

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

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

B. PLAN DESCRIPTION – OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

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

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 13 DEFINED BENEFIT PENSION PLANS (continued)

B. PLAN DESCRIPTION – OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS) (continued)

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

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

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

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

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

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

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

CITY OF SHEFFIELD LAKE, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 13 DEFINED BENEFIT PENSION PLANS (continued)

B. PLAN DESCRIPTION – OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS) (continued)

	State and Local
2016 Statutory maximum contribution rates	
Employer	14.0%
Employee	10.0%
2016 Actual contribution rates	
Employer	
Pension	12.0%
Post-employment health care benefits	2.0%
Total employer	14.0%
Employee	10.0%

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City’s contractually required contribution was \$ 176,766 for 2016. Of this amount, \$ 27,112 is reported as due to other governments.

C. PLAN DESCRIPTION – OHIO POLICE & FIRE PENSION FUND (OPF)

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

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

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

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

CITY OF SHEFFIELD LAKE, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 13 - DEFINED BENEFIT PENSION PLANS (continued)

C. PLAN DESCRIPTION – OHIO POLICE & FIRE PENSION FUND (OPF) (continued)

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

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

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

	Police	Firefighters
2016 Statutory maximum contribution rates		
Employer	19.50%	24.00%
Employee	12.25%	12.25%
2016 Actual contribution rates		
Employer		
Pension	19.00%	23.50%
Post-employment health care benefits	0.50%	0.50%
Total employer	19.50%	24.00%
Employee	12.25%	12.25%

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OPF was \$ 309,671 for 2016. Of this amount \$ 56,875 is reported as due to other governments.

D. PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS

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

CITY OF SHEFFIELD LAKE, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 13 - DEFINED BENEFIT PENSION PLANS (continued)

D. PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS (continued)

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Proportionate share of the net pension liability	\$ 1,878,800	\$ 4,167,279	\$ 6,046,079
Pension expense	\$ 244,846	\$ 462,568	\$ 707,414
Proportion of the net pension liability			
Prior measurement date	0.0114030%	0.0668390%	
Current measurement date	0.0108490%	0.0647790%	
	<u>-0.0005540%</u>	<u>-0.0020600%</u>	

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

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Deferred outflows of resources			
Net difference between projected and actual earnings on pension plan investments	\$ 555,203	\$ 681,723	\$ 1,236,926
Changes in proportionate share and difference between City's contributions and proportionate share of contributions	-	13,458	13,458
City contributions subsequent to the measurement date	176,766	309,671	486,437
Total deferred outflows of resources	<u>\$ 731,969</u>	<u>\$ 1,004,852</u>	<u>\$ 1,736,821</u>
Deferred inflows of resources			
Net difference between expected and actual experience	\$ 37,121	\$ 14,339	\$ 51,460
Changes in proportionate share and difference between City's contributions and proportionate share of contributions	48,075	94,151	142,226
Total deferred intflows of resources	<u>\$ 85,196</u>	<u>\$ 108,490</u>	<u>\$ 193,686</u>

\$ 486,437 reported as deferred outflows of resources related to pension resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

CITY OF SHEFFIELD LAKE, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 13 - DEFINED BENEFIT PENSION PLANS (continued)

D. PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS (continued)

Year Ending December 31:	OPERS	OP&F	Total
2017	\$ 99,040	\$ 160,361	\$ 259,401
2018	108,322	160,361	268,683
2019	137,720	160,362	298,082
2020	125,015	124,108	249,123
2021	(91)	(15,548)	(15,639)
Thereafter	-	(2,953)	(2,953)
Total	<u>\$ 470,006</u>	<u>\$ 586,691</u>	<u>\$ 1,056,697</u>

E. ACTUARIAL ASSUMPTIONS – OPERS

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

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

Wage Inflation	3.75 percent
Future Salary Increases, including inflation	4.25 to 10.05 percent including wage inflation
COLA or Ad Hoc COLA	3 percent, simple
Investment Rate of Return	8 percent
Actuarial Cost	Individual Entry Age

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

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

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

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 13 - DEFINED BENEFIT PENSION PLANS (continued)

E. ACTUARIAL ASSUMPTIONS – OPERS (continued)

OPERS manages investments in four investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan and the VEBA Trust. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money weighted rate of return, net of investments expense, for the Defined Benefit portfolio is .4 percent for 2015.

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

Asset Class	Target Allocation	Weighted Average Long-term Expected Real Rate of Return (Arithmetic)
Fixed income	23.00%	2.31%
Domestic equities	20.70%	5.84%
Real estate	10.00%	4.25%
Private equity	10.00%	9.25%
International equities	18.30%	7.40%
Other investments	18.00%	4.59%
Total	<u>100.00%</u>	<u>5.28%</u>

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

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

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
City's proportionate share of the net pension liability	<u>\$ 2,993,999</u>	<u>\$ 1,878,800</u>	<u>\$ 938,872</u>

CITY OF SHEFFIELD LAKE, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 13 - DEFINED BENEFIT PENSION PLANS (continued)

E. ACTUARIAL ASSUMPTIONS – OPERS (continued)

Changes Between Measurement Date and Report Date - In October 2016, the OPERS Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of December 1, 2016. The most significant change is a reduction in the discount rate from 8.0 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact to the Government's net pension liability is expected to be significant.

F- ACTUARIAL ASSUMPTIONS – OPF

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

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

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

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

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

The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OPF's target asset allocation as of December 31, 2015 are summarized below:

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 13 - DEFINED BENEFIT PENSION PLANS (continued)

F- ACTUARIAL ASSUMPTIONS – OPF (continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-term Expected Real Rate of Return (Arithmetic)</u>
Cash and cash equivalents	0.00%	-0.25%
Domestic equity	16.00%	4.47%
Non-US equity	16.00%	4.47%
Core fixed income *	20.00%	1.62%
Global inflation protected *	20.00%	1.33%
High yield	15.00%	3.39%
Real estate	12.00%	3.93%
Private markets	8.00%	6.98%
Timber	5.00%	4.92%
Master limited partnerships	8.00%	7.03%
Total	<u>120.00%</u>	

* levered 2x

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

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

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

	<u>1% Decrease (7.25%)</u>	<u>Current Discount Rate (8.25%)</u>	<u>1% Increase (9.25%)</u>
City's proportionate share of the net pension liability	<u>\$ 5,496,082</u>	<u>\$ 4,167,279</u>	<u>\$ 3,041,651</u>

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 14 – POSTEMPLOYMENT BENEFITS

A. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM

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

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

In order to qualify for health care coverage, age-and-service retirees under the Traditional Pension and Combined plans must have 20 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. Please see the Plan Statement in the OPERS 2016 CAFR for details.

The Ohio Revised Code permits, but does not require, OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the Board in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/financial/reports.shtml#CAFR>, by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

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

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2016, State and Local employers contributed at a rate of 14.0% of earnable salary and Public Safety and Law Enforcement employers contributed at 18.1%. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

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

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 14 – POSTEMPLOYMENT BENEFITS (continued)

A. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (continued)

The City contributions to fund postemployment benefits for the years ended December 31, 2016, 2015, and 2014, were \$ 29,461, \$ 27,063, and \$ 30,150, respectively. For 2016, \$ 25,602 (86.9 percent) has been contributed. The balance was subsequently contributed in 2017. The full amount has been contributed for 2015 and 2014.

B. OHIO POLICE AND FIRE PENSION FUND

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

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

The Ohio Revised Code allows, but does not mandate OPF to provide OPEB benefits. Authority for the OPF Board of Trustees to provide health care coverage to eligible participants and to establish and amend benefits are codified in Chapter 742 of the Ohio Revised Code.

OPF issues a publicly available financial report that includes financial information and required supplementary information for the Plan. That report may be obtained by writing to OPF, 140 East Town Street, Columbus, Ohio 43215-5164. That report is also available on OPF's website at www.op-f.org.

The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OPF (defined benefit pension plan). Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.5% and 24% of covered payroll for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.5% of covered payroll for police employer units and 24% of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

OPF 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 OPF 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. The portion of employer contributions allocated to health care was .5% of covered payroll from January 1, 2016 thru December 31, 2016. 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).

CITY OF SHEFFIELD LAKE, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 14 – POSTEMPLOYMENT BENEFITS (continued)

B. OHIO POLICE AND FIRE PENSION FUND (continued)

The OPF 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 to fund postemployment health care benefits for police and firefighters were \$ 2,735 and \$ 4,363 for the year ended December 31, 2016, \$ 2,370 and \$ 2,404 for the year ended December, 31, 2015, and \$ 2,282 and \$ 4,098 for the year ended December 31, 2014. The full amount has been contributed for 2015 and 2014. For 2016, \$ 2,198 (80.3%) and \$ 3,618 (82.9%) has been contributed for police and firefighters, respectively. The balance was subsequently paid in 2017.

NOTE 15 RISK MANAGEMENT

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

NOTE 16 FEDERAL GRANTS AND ENTITLEMENTS

For the year ended December 31, 2016, the City recognized federal grants and entitlements. These programs generally require compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2016.

NOTE 17 INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2016 were made to account for payment of short term anticipation notes and consisted of the following:

	Transferred from:
	General Fund
<u>Transferred to:</u>	
Shoreway Capital Project Fund	\$ 133,634

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 18 JOINTLY GOVERNED ORGANIZATIONS

A. LORAIN COUNTY GENERAL HEALTH DISTRICT

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

B. NORTHEAST OHIO PUBLIC ENERGY COUNCIL

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

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each county then elect one person to serve on the eight member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. The City did not contribute to NOPEC during 2016. Financial information can be obtained by contacting the Ronald McVoy, Board Chairman, 31320 Solon Road, Suite 33, Solon, Ohio 44139.

NOTE 19 CONTINGENCIES

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

NOTE 20 COMPLIANCE AND ACCOUNTABILITY

Not apparent in the basic financial statements are deficit fund balances in the Capital Improvement Fund and Bond Construction Fund of \$ 206,719 and \$ 443,000, respectively. These deficits result from reflect short-term bond anticipation notes on the modified accrual basis.

CITY OF SHEFFIELD LAKE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 21 PROPERTY ON LEASE TO OTHERS

The City leases building space in the Shoreway Shopping Center to various commercial enterprises. The leases in effect as of December 31, 2016 have varying lease terms through 2020. All leases include renewal options that are not reflected in the amounts noted here. The Shoreway Shopping Center is accounted for as property held for resale at a cost of \$ 3,948,147. Rental income from the leases totaled \$ 390,054 during the year ended December 31, 2016.

Future minimum rentals to be received under these leases as of December 31, 2016 are as follows:

<u>Year ending December 31</u>	<u>Amount</u>
2017	\$ 341,470
2018	215,560
2019	58,125
2020	3,500
	<u>\$ 618,655</u>

NOTE 22 SUBSEQUENT EVENTS

On August 14, 2017, the City issued \$ 600,000 of bond anticipation notes (BANS). The BANS have a 1.9% interest rate and will mature August 14, 2018. The proceeds of the BANS were used to retire a portion of existing debt and to finance equipment repairs and purchases.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SHEFFIELD LAKE, OHIO

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM – TRADITIONAL PLAN

LAST THREE YEARS (1)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
City's proportion of the net pension liability	0.0108490%	0.011403%	0.011403%
City's proportionate of the net pension liability	\$ 1,878,800	\$ 1,375,015	\$ 1,344,179
City's covered-employee payroll	\$ 1,353,132	\$ 1,400,930	\$ 1,332,876
City's proportionate share of the net pension liability as a percentage of its covered -employee payroll	138.85%	98.15%	100.85%
Plan fiduciary net position as a percentage of the total pension liability	81.08%	86.45%	86.36%

(1) Information prior to 2013 is not available

Amounts presented as of the City's measurement date, which is the prior fiscal year end.

CITY OF SHEFFIELD LAKE, OHIO

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
OHIO POLICE AND FIRE PENSION FUND

LAST THREE YEARS (1)

	<u>2015</u>	<u>2014 (2)</u>	<u>2013</u>
City's proportion of the net pension liability	0.0647790%	0.0668390%	0.0668390%
City's proportionate of the net pension liability	\$ 4,167,279	\$ 3,547,890	\$ 3,255,269
City's covered-employee payroll	\$ 1,302,997	\$ 1,250,429	\$ 1,311,619
City's proportionate share of the net pension liability as a percentage of its covered -employee payroll	319.82%	283.73%	248.19%
Plan fiduciary net position as a percentage of the total pension liability	66.77%	71.71%	73.00%

(1) Information prior to 2013 is not available

(2) The City's Proportionate Share of the Net Pension Liability for 2014 has changed due to a restatement by the Ohio Police and Fire Pension Fund.

Amounts presented as of the City's measurement date, which is the prior fiscal year end.

CITY OF SHEFFIELD LAKE, OHIO

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE CITY CONTRIBUTIONS
OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM – TRADITIONAL PLAN

LAST FOUR YEARS (1)

	2016	2015	2014	2013
Contractually required contribution	\$ 176,766	\$ 162,376	\$ 168,112	\$ 173,274
Contributions in relation to the contractually required contributions	<u>(176,766)</u>	<u>(162,376)</u>	<u>(168,112)</u>	<u>(173,274)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City covered-employee payroll	\$ 1,473,055	\$ 1,353,132	\$ 1,400,930	\$ 1,332,876
Contributions as a percentage of covered-employee payroll	12.00%	12.00%	12.00%	13.00%

(1) Information prior to 2013 is not available

CITY OF SHEFFIELD LAKE, OHIO
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE CITY CONTRIBUTIONS
 OHIO POLICE AND FIRE PENSION FUND
 LAST TEN YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 309,671	\$ 284,869	\$ 274,427	\$ 205,354
Contributions in relation to the contractually required contributions	<u>(309,671)</u>	<u>(284,869)</u>	<u>(274,427)</u>	<u>(205,354)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City covered-employee payroll	\$ 1,422,505	\$ 1,302,997	\$ 1,250,429	\$ 1,311,619
Contributions as a percentage of covered-employee payroll	21.77%	21.86%	21.95%	15.66%

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 227,286	\$ 220,550	\$ 211,219	\$ 249,927	\$ 254,787	\$ 249,474
<u>(227,286)</u>	<u>(220,550)</u>	<u>(211,219)</u>	<u>(249,927)</u>	<u>(254,787)</u>	<u>(249,474)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 1,464,683	\$ 1,426,637	\$ 1,371,051	\$ 1,627,395	\$ 1,672,617	\$ 1,688,920
15.52%	15.46%	15.41%	15.36%	15.23%	14.77%

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

City of Sheffield Lake
Lorain County
609 Harris Road
Sheffield Lake, Ohio 44054

To the City Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sheffield Lake, Lorain County, (the City) as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 22, 2017

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the City's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the City's financial statements. 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 internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a significant deficiency. We consider finding 2016-001 to be a significant deficiency.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Entity's Response to Findings

The City's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the City's response and, accordingly, we express no opinion on it.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

September 22, 2017

**CITY OF SHEFFIELD LAKE
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2016**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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1. Financial Reporting

<i>Finding Number</i>	2016-001
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SIGNIFICANT DEFICIENCY

Sound financial reporting is the responsibility of the Finance Director and the City and is essential to ensure the information provided to the readers of the financial statements is complete and accurate. When the accounting system provides a structure in which to break out receipts and expenditures to specific categories, the Finance Director should review posting to the system to ensure the proper classification of revenues and expenditures. In addition, the Finance Director should review all financial statements prepared by the independent accounting firm for accuracy and completeness.

The following errors were noted and subsequent adjustments and reclassification were made to the financial statements and, where applicable, to the City's accounting records:

- o \$690,000 of debt was improperly excluded from the Net Investment in Capital Assets calculation in the Governmental Activities;
- o \$214,497 of Intergovernmental receipts in the General Fund were improperly classified as Miscellaneous receipts;
- o \$99,949 of vehicles and equipment were excluded from the capital asset presentation in the Governmental Activities;
- o \$222,443 of Construction in Progress was moved over to the Buildings classification prior to the project actually being placed into service;
- o \$431,527 of Charges for Services, Fines and Permits, and Fees reported was improperly classified as Miscellaneous Revenue in the Governmental Activities' Statement of Activities;

In addition to the adjustments listed above, we also identified additional misstatements ranging from \$500 to \$79,741 that we have brought to the City's attention.

The lack of controls over the posting of financial transactions and financial reporting can result in errors and irregularities that may go undetected and decreases the reliability of financial data throughout the year.

We recommend the City Council adopt policies and procedures for controls over recording of financial transactions and over financial reporting to help ensure the information accurately reflects the activity of the City and thereby increasing the reliability of the financial data throughout the year.

Official's Response:

The City strives to ensure financial statements are accurate and complete. In order to do this the City has made the appropriate adjustments and reclassification to the financial statements and will perform more detailed reviews of the statements in future periods.

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Dave Yost • Auditor of State

CITY OF SHEFFIELD LAKE

LORAIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
OCTOBER 10, 2017