

**CITY OF SYLVANIA, OHIO**

Basic Financial Statements

Year Ended December 31, 2017

With Independent Auditor's Report





# Dave Yost • Auditor of State

City Council  
City of Sylvania  
6730 Monroe St  
Sylvania, OH 43560

We have reviewed the *Independent Auditors' Report* of the City of Sylvania, Lucas County, prepared by Clark, Schaefer, Hackett & Co., for the audit period January 1, 2017 through December 31, 2017. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost  
Auditor of State

August 7, 2018

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## **INDEPENDENT AUDITORS' REPORT**

To the City Council  
City of Sylvania, Ohio:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sylvania, Ohio ("the City"), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

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

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

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

## **Summary of Opinions**

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Unmodified
Business-Type Activities	Unmodified
General Fund	Qualified
City Services Fund	Unmodified
G.O. Debt Service Fund	Unmodified
Capital Improvement Fund	Qualified
Water Fund	Unmodified
Sewer Fund	Unmodified
Resource Recovery Fund	Unmodified
Aggregate Remaining Fund Information	Unmodified

### ***Basis for Qualified Opinions on General Fund and Capital Improvement Fund***

Findings for adjustment were issued by the Auditor of State of Ohio in the audits of the 2013 and 2014 financial statements to eliminate improper transfers made by the City from the Capital Improvement Fund to the General Fund in the amount of \$7,411,132. However, these adjustments were not made by the City at that time. During 2017, the City repaid \$700,000 to the Capital Improvement Fund from the General Fund. As a result, the beginning and ending fund balances reported in the accompanying financial statements for the General Fund are overstated by \$6,711,132 and understated in the Capital Improvement Fund by \$6,711,132, respectively. Had these adjustments been fully made, the effect would have been a decrease in the General Fund's ending fund balance of \$6,711,132 and an increase in the Capital Improvement Fund's ending fund balance of \$6,711,132. This also would have resulted in a decrease of \$6,711,132 in the fund balance of the General Fund in the budgetary comparison.

### ***Qualified Opinions***

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinions on General Fund and Capital Improvement Fund" paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the General Fund and Capital Improvement Fund of the City as of December 31, 2017, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Unmodified Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund other than the General Fund and Capital Improvement Fund, and the aggregate remaining fund information of the City as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the City Services Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.



## **Other Matters**

### *Required Supplementary Information*

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

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2018 on our consideration of City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's 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 City's internal control over financial reporting and compliance.

*Clark, Schaefer, Hackett & Co.*

Toledo, Ohio  
June 26, 2018

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# CITY OF SYLVANIA, OHIO

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## *Management's Discussion and Analysis For the Year Ended December 31, 2017*

*Unaudited*

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The discussion and analysis of the City of Sylvania's financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2017. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the City's financial performance.

### **FINANCIAL HIGHLIGHTS**

Key financial highlights for 2017 are as follows:

- ❑ In total, net position increased \$2,201,718. Net position of governmental activities increased \$1,528,833 from 2016. Net position of business-type activities increased \$672,885 from 2016.
- ❑ General revenues accounted for \$14.3 million in revenue or 50% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for 50% of total revenues of \$28.5 million.
- ❑ The City had \$18.1 million in expenses related to governmental activities; only \$5.4 million of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily taxes) of \$14.3 million provided for these programs.
- ❑ Among major funds, the general fund had \$13.9 million in revenues. The general fund had \$13.9 million in expenditures including \$2,717,222 in transfers out to other funds. The general fund's fund balance increased \$31,547 to \$5,438,984.
- ❑ Net position for enterprise funds increased by \$644,980. This increase resulted primarily from increases in charges for services from customers.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

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

These statements are as follows:

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

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

# CITY OF SYLVANIA, OHIO

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*Management's Discussion and Analysis  
For the Year Ended December 31, 2017*

*Unaudited*

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## **Government-Wide Statements**

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

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

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

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

- Governmental Activities – Most of the City's programs and services are reported here including security of persons and property, public health and welfare services, leisure time activities, community environment, transportation and general government.
- Business-Type Activities – These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The City's water, sewer and resource recovery services are reported as business-type activities.

## **Fund Financial Statements**

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

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

## CITY OF SYLVANIA, OHIO

**Management's Discussion and Analysis  
For the Year Ended December 31, 2017**

**Unaudited**

Proprietary Funds – Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match.

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

### FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The following table provided a comparison of the City's net position between December 31, 2017 and 2016:

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$28,250,363	\$25,948,968	\$4,131,480	\$3,013,948	\$32,381,843	\$28,962,916
Capital assets, Net	35,795,660	36,414,044	18,055,288	18,538,192	53,850,948	54,952,236
Total assets	<u>64,046,023</u>	<u>62,363,012</u>	<u>22,186,768</u>	<u>21,552,140</u>	<u>86,232,791</u>	<u>83,915,152</u>
Deferred outflows of resources	<u>4,360,178</u>	<u>3,885,975</u>	<u>814,892</u>	<u>591,949</u>	<u>5,175,070</u>	<u>4,477,924</u>
Net pension liability	14,182,083	12,900,329	1,998,699	1,547,751	16,180,782	14,448,080
Other long-term liabilities	17,692,063	18,420,468	2,732,858	2,838,537	20,424,921	21,259,005
Other liabilities	894,873	993,912	341,619	496,982	1,236,492	1,490,894
Total liabilities	<u>32,769,019</u>	<u>32,314,709</u>	<u>5,073,176</u>	<u>4,883,270</u>	<u>37,842,195</u>	<u>37,197,979</u>
Deferred inflows of resources	<u>2,191,300</u>	<u>2,017,229</u>	<u>24,686</u>	<u>29,906</u>	<u>2,215,986</u>	<u>2,047,135</u>
Net position:						
Net investment in capital assets	19,657,223	19,178,963	15,633,569	15,965,128	35,290,792	35,144,091
Restricted	2,519,855	2,478,714	0	0	2,519,855	2,478,714
Unrestricted	<u>11,268,804</u>	<u>10,259,372</u>	<u>2,270,229</u>	<u>1,265,785</u>	<u>13,539,033</u>	<u>11,525,157</u>
Total net position	<u>\$33,445,882</u>	<u>\$31,917,049</u>	<u>\$17,903,798</u>	<u>\$17,230,913</u>	<u>\$51,349,680</u>	<u>\$49,147,962</u>

During 2015, the City adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions— an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. 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 SYLVANIA, OHIO***

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***Management's Discussion and Analysis  
For the Year Ended December 31, 2017***

***Unaudited***

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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 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.

## ***CITY OF SYLVANIA, OHIO***

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***Management's Discussion and Analysis  
For the Year Ended December 31, 2017***

***Unaudited***

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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.

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.

A portion of the City's net position, \$2,519,855, represents resources that are subject to external restriction on how they may be used. Excluding the effect of implementing GASB 68, the City has approximately \$21 million in unrestricted net position for governmental activities which may be used to meet the City's ongoing obligations to the public and creditors.

At fiscal year-end for governmental activities, capital assets represented 56% of total assets. Capital assets include land, land improvements, infrastructure, buildings and improvements, machinery and equipment, and vehicles. Net investment in capital assets, at December 31, 2017 was \$19,657,223. These capital assets are used to provide services to the public and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

## CITY OF SYLVANIA, OHIO

### Management's Discussion and Analysis For the Year Ended December 31, 2017

*Unaudited*

Changes in Net position – The following table shows the changes in net position for the fiscal year 2017 and 2016:

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues						
Program Revenues:						
Charges for Services and Sales	\$3,043,297	\$1,778,682	\$8,771,707	\$7,228,842	\$11,815,004	\$9,007,524
Operating Grants and Contributions	2,141,111	2,190,275	0	0	2,141,111	2,190,275
Capital Grants and Contributions	226,242	390,524	0	0	226,242	390,524
Total Program Revenues	<u>5,410,650</u>	<u>4,359,481</u>	<u>8,771,707</u>	<u>7,228,842</u>	<u>14,182,357</u>	<u>11,588,323</u>
General Revenues:						
Property Taxes	1,762,588	1,727,597	0	0	1,762,588	1,727,597
Income Taxes	10,859,156	10,807,644	0	0	10,859,156	10,807,644
Intergovernmental Grant, Unrestricted	954,384	1,042,465	0	0	954,384	1,042,465
Investment Earnings	233,133	238,971	20,786	26,476	253,919	265,447
Miscellaneous	482,973	414,123	0	0	482,973	414,123
Total General Revenues	<u>14,292,234</u>	<u>14,230,800</u>	<u>20,786</u>	<u>26,476</u>	<u>14,313,020</u>	<u>14,257,276</u>
Total Revenues	<u>19,702,884</u>	<u>18,590,281</u>	<u>8,792,493</u>	<u>7,255,318</u>	<u>28,495,377</u>	<u>25,845,599</u>
Program Expenses						
Security of Persons and Property	6,392,099	6,185,354	0	0	6,392,099	6,185,354
Public Health and Welfare Services	123,935	126,906	0	0	123,935	126,906
Leisure Time Activities	992,275	931,644	0	0	992,275	931,644
Community Environment	760,429	721,018	0	0	760,429	721,018
Basic Utility Services	1,236,483	1,033,857	0	0	1,236,483	1,033,857
Transportation	2,627,896	3,111,544	0	0	2,627,896	3,111,544
General Government	5,180,091	4,766,122	0	0	5,180,091	4,766,122
Interest and Fiscal Charges	755,843	583,293	0	0	755,843	583,293
Water	0	0	5,083,094	4,974,654	5,083,094	4,974,654
Sewer	0	0	2,947,661	2,591,081	2,947,661	2,591,081
Resource Recovery	0	0	193,853	198,616	193,853	198,616
Total Expenses	<u>18,069,051</u>	<u>17,459,738</u>	<u>8,224,608</u>	<u>7,764,351</u>	<u>26,293,659</u>	<u>25,224,089</u>
Change in Net Position before Transfers	1,633,833	1,130,543	567,885	(509,033)	2,201,718	621,510
Transfers	(105,000)	(50,000)	105,000	50,000	0	0
Total Change in Net Position	1,528,833	1,080,543	672,885	(459,033)	2,201,718	621,510
Beginning Net Position	31,917,049	30,836,506	17,230,913	17,689,946	49,147,962	48,526,452
Ending Net Position	<u>\$33,445,882</u>	<u>\$31,917,049</u>	<u>\$17,903,798</u>	<u>\$17,230,913</u>	<u>\$51,349,680</u>	<u>\$49,147,962</u>

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## CITY OF SYLVANIA, OHIO

**Management's Discussion and Analysis  
For the Year Ended December 31, 2017**

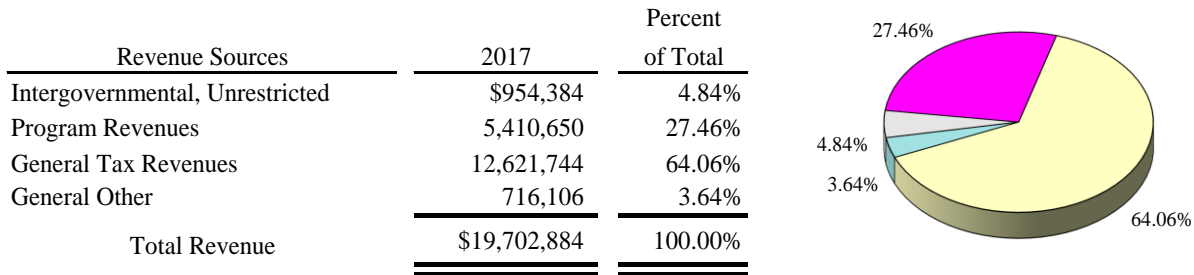
**Unaudited**

**Governmental Activities**

Net position of the City's governmental activities increased by \$1,528,233. This increase can be mostly attributed to an increase in charges for services and the sale of capital assets.

The City also receives an income tax, which is based on 1.5% of all salaries, wages, commissions and other compensation earned from residents living within the City and from nonresidents for work done or services performed or rendered in the City.

Property taxes and income taxes made up 9% and 55%, respectively, of revenues for governmental activities for the City in fiscal year 2017. The City's reliance upon tax revenues is demonstrated by the following graph indicating 64.06% of total revenues from general tax revenues:



**Business-Type Activities**

Net position of the business-type activities increased by \$672,885. Operating revenues increased by 21% from 2016 to 2017 related to an increase in charges for services. Expenditures remained consistent from 2016 to 2017.

**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

The City's governmental funds reported a combined fund balance of \$21,753,424, which is an increase from last year's balance of \$19,491,076. The schedule below indicates the fund balance and the total change in fund balance by major fund as of December 31, 2017 and 2016:

	Fund Balance December 31, 2017	Restated Fund Balance December 31, 2016	Increase (Decrease)
General	\$5,438,984	\$4,707,437	\$731,547
City Services	636,163	566,707	69,456
G.O. Debt Service	792,316	520,506	271,810
Capital Improvement	13,004,622	11,811,321	1,193,301
Other Governmental	1,881,339	1,885,105	(3,766)
Total	<u>\$21,753,424</u>	<u>\$19,491,076</u>	<u>\$2,262,348</u>

The increase in the general fund balance can be attributed to the increase in income tax revenue compared to 2016.

## **CITY OF SYLVANIA, OHIO**

**Management's Discussion and Analysis  
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**Unaudited**

The increase in fund balance in the City Services Fund was mostly due to a decrease in expenditures during 2017.

The increase in fund balance in the G.O. Debt Service Fund was mostly due to the issuance of debt proceeds related to a debt refunding that the City undertook during 2017, along with a slight increase in property tax revenue during 2017.

The increase in fund balance in the Capital Improvement Fund can be attributed to the sale of capital assets along with a slight increase income tax revenue and intergovernmental revenue for the year.

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

	2017 Revenues	2016 Revenues	Increase (Decrease)
Taxes	\$10,907,889	\$10,740,350	\$167,539
Intergovernmental Revenue	740,323	831,370	(91,047)
Charges for Services	515,993	470,928	45,065
Licenses, Permits and Fees	382,583	397,088	(14,505)
Fines and Forfeitures	969,867	882,702	87,165
Investment Earnings	101,539	77,667	23,872
All Other Revenue	308,795	170,281	138,514
<b>Total</b>	<b>\$13,926,989</b>	<b>\$13,570,386</b>	<b>\$356,603</b>

General Fund revenues in 2017 increased compared to revenues in fiscal year 2016. The most significant factor contributing to this increase was an increase in tax revenue related to greater income tax collections during 2017.

	2017 Expenditures	2016 Expenditures	Increase (Decrease)
Security of Persons and Property	\$4,514,954	\$4,441,578	\$73,376
Public Health and Welfare Services	115,191	121,136	(5,945)
Leisure Time Activities	834,852	824,400	10,452
Community Environment	468,581	444,490	24,091
Basic Utility Services	844,805	741,823	102,982
Transportation	149,942	157,263	(7,321)
General Government	4,261,495	4,077,807	183,688
<b>Total</b>	<b>\$11,189,820</b>	<b>\$10,808,497</b>	<b>\$381,323</b>

General Fund expenditures increased by \$381,323 or 3.5%. The largest portion of this increase came in the basic utilities expenditures.

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

During the course of fiscal year 2017 the City amended its General Fund budget several times, none significant.

## CITY OF SYLVANIA, OHIO

**Management's Discussion and Analysis  
For the Year Ended December 31, 2017**

**Unaudited**

For the General Fund, final budget basis revenue of \$14.2 million did not change from the original budget estimates of \$14.2.

### CAPITAL ASSETS AND DEBT ADMINISTRATION

#### Capital Assets

At the end of 2017 the City had \$53,850,948 net of accumulated depreciation invested in land, improvements, infrastructure, buildings, machinery and equipment and construction in progress. Of this total, \$35,795,660 was related to governmental activities and \$18,055,288 to the business-type activities. The following table shows fiscal year 2017 and 2016 balances:

	Governmental Activities		Increase (Decrease)
	2017	2016	
Land	\$10,190,738	\$10,190,738	\$0
Land Improvements	3,349,060	3,349,060	0
Buildings	8,981,058	9,799,569	(818,511)
Machinery and Equipment	5,798,469	5,285,913	512,556
Infrastructure	34,836,468	34,490,447	346,021
Less: Accumulated Depreciation	(27,360,133)	(26,701,683)	(658,450)
Totals	\$35,795,660	\$36,414,044	(\$618,384)

	Business-Type Activities		Increase (Decrease)
	2017	2016	
Buildings	\$619,633	\$619,633	\$0
Machinery and Equipment Improvements	1,559,408	1,536,702	22,706
	40,996,981	40,597,183	399,798
Less: Accumulated Depreciation	(25,120,734)	(24,215,326)	(905,408)
Totals	\$18,055,288	\$18,538,192	(\$482,904)

Additional information on the City's capital assets can be found in Note 10.

## **CITY OF SYLVANIA, OHIO**

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***Management's Discussion and Analysis  
For the Year Ended December 31, 2017***

***Unaudited***

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### ***Debt***

At December 31, 2017, the City had \$18.6 million in bonds outstanding, \$1,673,264 due within one year. The following table summarizes the City's debt outstanding as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Governmental Activities:		
General Obligation Bonds	\$16,240,891	\$17,054,367
OPWC Loan Payable	217,933	229,403
Compensated Absences	1,233,239	1,136,698
Net Pension Liability	14,182,083	12,900,329
Total Governmental Activities	<u>31,874,146</u>	<u>31,320,797</u>
Business-Type Activities:		
General Obligation Bonds	2,315,390	2,420,000
OPWC Loan Payable	148,426	153,064
Compensated Absences	269,042	265,473
Net Pension Liability	1,998,699	1,547,751
Total Business-Type Activities	<u>4,731,557</u>	<u>4,386,288</u>
Totals	<u><u>\$36,605,703</u></u>	<u><u>\$35,707,085</u></u>

State statutes limit the amount of unvoted general obligation debt the City may issue. The aggregate amount of the City's unvoted debt is also subject to overlapping debt restrictions with other political subdivisions. The actual aggregate amount of the City's unvoted debt, when added to that of other political subdivisions within the respective counties in which Sylvania lies, is limited to fifteen mills. At December 31, 2017, the City's outstanding debt was below the legal limit. Additional information on the City's long-term debt can be found in Note 14.

### **ECONOMIC FACTORS**

The City's economic base continues to be very stable since it is based on primarily commercial and retail with little manufacturing. Medical, education and financial interests provide a relatively predictable income source.

City Council has the ability to increase income tax revenues by eliminating or reducing the 100% credit for taxes paid by residents to other cities in which they work.

## ***CITY OF SYLVANIA, OHIO***

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***Management's Discussion and Analysis  
For the Year Ended December 31, 2017***

***Unaudited***

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### **REQUESTS FOR INFORMATION**

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information contact the Finance Department by calling 419-885-8934 or writing to City of Sylvania Finance Department, 6730 Monroe Street, Sylvania, Ohio 43560.

**CITY OF SYLVANIA, OHIO**

**Statement of Net Position**  
**December 31, 2017**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Assets:</b>			
Cash and Cash Equivalents	\$ 5,620,621	\$ 417,847	\$ 6,038,468
Investments	15,076,251	2,768,382	17,844,633
Receivables:			
Taxes	3,481,277	0	3,481,277
Accounts	284,719	769,561	1,054,280
Intergovernmental	830,099	0	830,099
Interest	75,348	10,629	85,977
Special Assessments	1,216,615	0	1,216,615
Internal Balances	28,289	(28,289)	0
Inventory of Supplies at Cost	506,793	165,649	672,442
Prepaid Items	55,288	27,701	82,989
Investment in Joint Venture	1,074,000	0	1,074,000
Restricted Assets:			
Cash and Cash Equivalents	1,063	0	1,063
Capital Assets:			
Capital Assets Not Being Depreciated	10,190,738	0	10,190,738
Capital Assets Being Depreciated, Net	25,604,922	18,055,288	43,660,210
<b>Total Assets</b>	<b>64,046,023</b>	<b>22,186,768</b>	<b>86,232,791</b>
<b>Deferred Outflows of Resources:</b>			
Deferred Loss on Debt Refunding	320,387	42,097	362,484
Pension	4,039,791	772,795	4,812,586
<b>Total Deferred Outflows of Resources</b>	<b>4,360,178</b>	<b>814,892</b>	<b>5,175,070</b>
<b>Liabilities:</b>			
Accounts Payable	214,935	294,345	509,280
Accrued Wages and Benefits	370,320	42,966	413,286
Claims Payable	278,900	0	278,900
Accrued Interest Payable	30,718	4,308	35,026
Noncurrent liabilities:			
Due within one year	1,651,958	181,538	1,833,496
Net Pension Liability	14,182,083	1,998,699	16,180,782
Due in more than one year	16,040,105	2,551,320	18,591,425
<b>Total Liabilities</b>	<b>32,769,019</b>	<b>5,073,176</b>	<b>37,842,195</b>

**CITY OF SYLVANIA, OHIO**

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	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Deferred Inflows of Resources:</b>			
Property Tax Levy for Next Fiscal Year	1,914,681	0	1,914,681
Pension	276,619	24,686	301,305
<b>Total Deferred Inflows of Resources</b>	<u>2,191,300</u>	<u>24,686</u>	<u>2,215,986</u>
<b>Net Position:</b>			
Net Investment in Capital Assets	19,657,223	15,633,569	35,290,792
Restricted For:			
Capital Projects	74,064	0	74,064
Other Purposes	2,445,791	0	2,445,791
Unrestricted	11,268,804	2,270,229	13,539,033
<b>Total Net Position</b>	<u>\$ 33,445,882</u>	<u>\$ 17,903,798</u>	<u>\$ 51,349,680</u>

See accompanying notes to the basic financial statements

**CITY OF SYLVANIA, OHIO**

**Statement of Activities**  
**For the Year Ended December 31, 2017**

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental Activities:</b>				
Current:				
Security of Persons and Property	\$ 6,392,099	\$ 355,059	\$ 534,573	\$ 0
Public Health and Welfare Services	123,935	19,094	0	0
Leisure Time Activities	992,275	0	0	0
Community Environment	760,429	21,078	242,231	0
Basic Utility Services	1,236,483	491,811	276,667	0
Transportation	2,627,896	22,574	1,070,551	0
General Government	5,180,091	2,133,681	17,089	226,242
Interest and Fiscal Charges	755,843	0	0	0
<b>Total Governmental Activities</b>	<b>18,069,051</b>	<b>3,043,297</b>	<b>2,141,111</b>	<b>226,242</b>
<b>Business-Type Activities:</b>				
Water	5,083,094	6,034,350	0	0
Sewer	2,947,661	2,668,061	0	0
Resource Recovery	193,853	69,296	0	0
<b>Total Business-Type Activities</b>	<b>8,224,608</b>	<b>8,771,707</b>	<b>0</b>	<b>0</b>
<b>Totals</b>	<b>\$ 26,293,659</b>	<b>\$ 11,815,004</b>	<b>\$ 2,141,111</b>	<b>\$ 226,242</b>

**General Revenues**

Property Taxes  
Municipal Income Taxes  
Grants and Entitlements not Restricted to Specific Programs  
Investment Earnings  
Miscellaneous  
Transfers  
Total General Revenues and Transfers

Change in Net Position

Net Position Beginning of Year  
Net Position End of Year

See accompanying notes to the basic financial statements



## *CITY OF SYLVANIA, OHIO*

Net (Expense) Revenue  
and Changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (5,502,467)	\$ 0	\$ (5,502,467)
(104,841)	0	(104,841)
(992,275)	0	(992,275)
(497,120)	0	(497,120)
(468,005)	0	(468,005)
(1,534,771)	0	(1,534,771)
(2,803,079)	0	(2,803,079)
(755,843)	0	(755,843)
(12,658,401)	0	(12,658,401)
0	951,256	951,256
0	(279,600)	(279,600)
0	(124,557)	(124,557)
0	547,099	547,099
(12,658,401)	547,099	(12,111,302)
1,762,588	0	1,762,588
10,859,156	0	10,859,156
954,384	0	954,384
233,133	20,786	253,919
482,973	0	482,973
(105,000)	105,000	0
14,187,234	125,786	14,313,020
1,528,833	672,885	2,201,718
31,917,049	17,230,913	49,147,962
\$ 33,445,882	\$ 17,903,798	\$ 51,349,680

**CITY OF SYLVANIA, OHIO**

**Balance Sheet**  
**Governmental Funds**  
**December 31, 2017**

	General	City Services	G.O. Debt Service
<b>Assets:</b>			
Cash and Cash Equivalents	\$ 556,828	\$ 678,812	\$ 792,316
Investments	3,726,528	0	0
Receivables:			
Taxes	2,369,511	0	573,067
Accounts	267,477	0	0
Intergovernmental	249,388	0	31,573
Interest	20,965	0	0
Special Assessments	0	917,780	0
Inventory of Supplies, at Cost	402,785	0	0
Prepaid Items	44,797	790	0
Restricted Assets:			
Cash and Cash Equivalents	0	0	0
<b>Total Assets</b>	<b>\$ 7,638,279</b>	<b>\$ 1,597,382</b>	<b>\$ 1,396,956</b>
<b>Liabilities:</b>			
Accounts Payable	\$ 108,642	\$ 32,636	\$ 0
Accrued Wages and Benefits Payable	251,912	10,803	0
Compensated Absences Payable	33,308	0	0
<b>Total Liabilities</b>	<b>393,862</b>	<b>43,439</b>	<b>0</b>
<b>Deferred Inflows of Resources:</b>			
Unavailable Amounts	866,025	917,780	39,213
Property Tax for Next Fiscal Year	939,408	0	565,427
<b>Total Deferred Inflows of Resources</b>	<b>1,805,433</b>	<b>917,780</b>	<b>604,640</b>
<b>Fund Balances:</b>			
Nonspendable	447,582	790	0
Restricted	0	635,373	0
Committed	0	0	0
Assigned	0	0	792,316
Unassigned	4,991,402	0	0
<b>Total Fund Balances</b>	<b>5,438,984</b>	<b>636,163</b>	<b>792,316</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 7,638,279</b>	<b>\$ 1,597,382</b>	<b>\$ 1,396,956</b>

See accompanying notes to the basic financial statements

**CITY OF SYLVANIA, OHIO**

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Capital Improvement	Other Governmental Funds	Total Governmental Funds
\$ 1,684,793	\$ 1,632,512	\$ 5,345,261
11,275,354	74,369	15,076,251
123,251	415,448	3,481,277
2,084	13,835	283,396
0	549,138	830,099
54,087	296	75,348
298,835	0	1,216,615
0	104,008	506,793
0	8,120	53,707
0	1,063	1,063
<u>\$ 13,438,404</u>	<u>\$ 2,798,789</u>	<u>\$ 26,869,810</u>
\$ 49,784	\$ 23,873	\$ 214,935
0	101,680	364,395
0	0	33,308
<u>49,784</u>	<u>125,553</u>	<u>612,638</u>
383,998	382,051	2,589,067
0	409,846	1,914,681
<u>383,998</u>	<u>791,897</u>	<u>4,503,748</u>
0	113,191	561,563
0	1,693,962	2,329,335
13,004,622	74,815	13,079,437
0	62,159	854,475
0	(62,788)	4,928,614
<u>13,004,622</u>	<u>1,881,339</u>	<u>21,753,424</u>
<u>\$ 13,438,404</u>	<u>\$ 2,798,789</u>	<u>\$ 26,869,810</u>

## CITY OF SYLVANIA, OHIO

### ***Reconciliation Of Total Governmental Fund Balances To Net Position Of Governmental Activities December 31, 2017***

<b>Total Governmental Fund Balances</b>	\$	21,753,424
 <i>Amounts reported for governmental activities in the statement of net position are different because</i>		
Capital Assets used in governmental activities are not resources and therefore are not reported in the funds.		35,795,660
The government's explicit, measurable equity interest in a joint venture is not a financial asset to the government, therefore it is not reported in the governmental funds. However, the government is required to report the equity interest as an asset in connection with governmental activities in the government-wide statement of net position.		1,074,000
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Municipal Income Taxes	723,041	
Property Taxes	25,975	
Interest	37,808	
Special Assessments	1,216,615	
Intergovernmental	585,628	2,589,067
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:		
Deferred Outflows - Pension	3,945,123	
Deferred Inflows - Pension	(273,602)	
Net Pension Liability	(13,937,826)	(10,266,305)
Accrued interest on outstanding debt is not due and payable in the current period and, therefore, is not reported in the funds: it is reported when due.		(30,718)
Internal service funds are used by management to charge the costs of insurance to individual funds. The assets, liabilities and deferred inflows/outflows of the internal service funds are included in governmental activities in the statement of net position.		(172,787)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
General Obligation Bonds Payable	(15,968,500)	
Deferred Loss on Debt Refunding	320,387	
OPWC Loan Payable	(217,933)	
Premium on General Obligation Bonds Payable	(272,391)	
Compensated Absences Payable	(1,158,022)	(17,296,459)
<b><i>Net Position of Governmental Activities</i></b>	<b>\$</b>	<b><u>33,445,882</u></b>

See accompanying notes to the basic financial statements

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**CITY OF SYLVANIA, OHIO**

**Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended December 31, 2017**

	General	City Services	G.O. Debt Service
<b>Revenues:</b>			
Property Taxes	\$ 874,422	\$ 0	\$ 526,119
Municipal Income Taxes	10,033,467	0	0
Intergovernmental Revenues	740,323	0	73,759
Charges for Services	515,993	0	0
Licenses, Permits and Fees	382,583	0	0
Investment Earnings	101,539	0	0
Special Assessments	0	912,995	0
Fines and Forfeitures	969,867	0	0
All Other Revenue	308,795	2,193	100,500
<b>Total Revenue</b>	13,926,989	915,188	700,378
<b>Expenditures:</b>			
Current:			
Security of Persons and Property	4,514,954	377,434	0
Public Health and Welfare Services	115,191	0	0
Leisure Time Activities	834,852	0	0
Community Environment	468,581	204,322	0
Basic Utility Services	844,805	263,976	0
Transportation	149,942	0	0
General Government	4,261,495	0	72,227
Capital Outlay	0	0	0
Debt Service:			
Principal Retirement	0	0	1,280,000
Interest & Fiscal Charges	0	0	769,099
<b>Total Expenditures</b>	11,189,820	845,732	2,121,326
Excess (Deficiency) of Revenues			
Over Expenditures	2,737,169	69,456	(1,420,948)
<b>Other Financing Sources (Uses):</b>			
Sale of Capital Assets	0	0	0
Premium on General Obligation Bonds Issued	0	0	238,867
General Obligation Bonds Issued	0	0	12,768,500
Transfers In	0	0	1,450,000
Transfers Out	(2,017,222)	0	0
Payments to Refunding Bond Escrow Agent	0	0	(12,764,609)
<b>Total Other Financing Sources (Uses)</b>	(2,017,222)	0	1,692,758
Net Change in Fund Balances	719,947	69,456	271,810
<b>Fund Balances at Beginning of Year, as Restated</b>	4,707,437	566,707	520,506
Increase in Inventory Reserve	11,600	0	0
<b>Fund Balances End of Year</b>	\$ 5,438,984	\$ 636,163	\$ 792,316

See accompanying notes to the basic financial statements

**CITY OF SYLVANIA, OHIO**

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Capital Improvement	Other Governmental Funds	Total Governmental Funds
\$ 0	\$ 385,820	\$ 1,786,361
872,475	0	10,905,942
246,815	1,138,325	2,199,222
0	0	515,993
0	0	382,583
111,999	9,912	223,450
31,305	0	944,300
0	228,152	1,198,019
226,242	26,300	664,030
<u>1,488,836</u>	<u>1,788,509</u>	<u>18,819,900</u>
0	706,899	5,599,287
0	0	115,191
0	0	834,852
0	0	672,903
0	0	1,108,781
0	1,431,233	1,581,175
0	25,138	4,358,860
1,278,285	50,000	1,328,285
11,470	50,000	1,341,470
0	0	769,099
<u>1,289,755</u>	<u>2,263,270</u>	<u>17,709,903</u>
199,081	(474,761)	1,109,997
994,220	0	994,220
0	0	238,867
0	0	12,768,500
0	462,222	1,912,222
0	0	(2,017,222)
0	0	(12,764,609)
<u>994,220</u>	<u>462,222</u>	<u>1,131,978</u>
1,193,301	(12,539)	2,241,975
11,811,321	1,885,105	19,491,076
0	8,773	20,373
<u>\$ 13,004,622</u>	<u>\$ 1,881,339</u>	<u>\$ 21,753,424</u>

**CITY OF SYLVANIA, OHIO**

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***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, 2017***

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**Net Change in Fund Balances - Total Governmental Funds** \$ 2,241,975

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

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

Capital Outlay	995,438	
Depreciation	<u>(1,613,822)</u>	(618,384)

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

Municipal Income Taxes	(46,786)	
Property Taxes	(23,773)	
Interest	9,683	
Special Assessments	(32,020)	
Intergovernmental	<u>(18,340)</u>	(111,236)

Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows. 1,095,441

Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities. (2,289,282)

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

OPWC Loan Principal	11,470	
General Obligation Bonds Principal	13,795,000	
General Obligation Bonds Issued	(12,768,500)	
Premium on Bonds Issued	(238,867)	
Deferred Loss on Debt Refunding	299,609	
Amortization of Deferred Loss on Debt Refunding	<u>(27,911)</u>	1,070,801

(Continued)



**CITY OF SYLVANIA, OHIO**

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Interest is reported as an expenditure when due in the governmental funds but is accrued on outstanding debt on the statement of net position. Premiums are reported as revenues when the debt is first issued; however, these amounts are deferred and amortized on the statement of net position.

Amortization of Premium	25,843	
Accrued Interest Payable	<u>15,324</u>	41,167

Some expenses reported on the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Increase in Supplies Inventory	20,373	
Increase in Compensated Absences Payable	<u>(83,686)</u>	(63,313)

The internal service funds are used by management to charge the costs of services to individual funds and is not reported in the statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service funds are allocated among the governmental activities.

161,664

***Change in Net Position of Governmental Activities***

\$ 1,528,833

See accompanying notes to the basic financial statements

**CITY OF SYLVANIA, OHIO**

**Statement of Revenues, Expenditures and Changes in  
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)  
General Fund  
For the Year Ended December 31, 2017**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>				
Property Taxes	\$ 850,000	\$ 850,000	\$ 874,422	\$ 24,422
Municipal Income Taxes	10,300,000	10,300,000	10,028,838	(271,162)
Intergovernmental Revenue	785,000	785,000	747,350	(37,650)
Charges for Services	513,000	513,000	511,808	(1,192)
Licenses, Permits and Fees	408,000	408,000	393,007	(14,993)
Investment Earnings	60,000	60,000	118,443	58,443
Fines and Forfeitures	997,000	997,000	954,785	(42,215)
All Other Revenues	332,000	332,000	250,582	(81,418)
Total Revenues	<u>14,245,000</u>	<u>14,245,000</u>	<u>13,879,235</u>	<u>(365,765)</u>
<b>Expenditures:</b>				
Current:				
Security of Persons and Property	4,723,000	4,675,466	4,537,466	138,000
Public Health and Welfare Services	125,000	125,000	116,223	8,777
Leisure Time Activities	922,000	882,000	853,909	28,091
Community Environment	514,000	497,000	468,910	28,090
Basic Utility Services	810,000	864,000	842,597	21,403
Transportation	119,000	160,000	147,467	12,533
General Government	4,339,000	4,376,834	4,209,642	167,192
Total Expenditures	<u>11,552,000</u>	<u>11,580,300</u>	<u>11,176,214</u>	<u>404,086</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,693,000	2,664,700	2,703,021	38,321
<b>Other Financing Sources (Uses):</b>				
Transfers Out	(1,991,000)	(2,018,000)	(2,017,222)	778
Total Other Financing Sources (Uses):	<u>(1,991,000)</u>	<u>(2,018,000)</u>	<u>(2,017,222)</u>	<u>778</u>
Net Change In Fund Balance	702,000	646,700	685,799	39,099
Fund Balance at Beginning of Year, as Restated	3,611,439	3,611,439	3,611,439	0
Prior Year Encumbrances	18,335	18,335	18,335	0
Fund Balance at End of Year	<u>\$ 4,331,774</u>	<u>\$ 4,276,474</u>	<u>\$ 4,315,573</u>	<u>\$ 39,099</u>

See accompanying notes to the basic financial statements

**CITY OF SYLVANIA, OHIO**

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**Statement of Revenues, Expenditures and Changes in  
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)  
Special Revenue Fund - City Services Fund  
For the Year Ended December 31, 2017**

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	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>				
Special Assessments	\$ 938,000	\$ 938,000	\$ 912,995	\$ (25,005)
All Other Revenues	7,000	7,000	2,228	(4,772)
Total Revenues	945,000	945,000	915,223	(29,777)
<b>Expenditures:</b>				
Current:				
Security of Persons and Property	400,000	421,708	378,256	43,452
Community Environment	250,000	250,000	193,846	56,154
Basic Utility Services	275,000	275,000	264,453	10,547
Total Expenditures	925,000	946,708	836,555	110,153
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	20,000	(1,708)	78,668	80,376
Fund Balance at Beginning of Year				
Prior Year Encumbrances	578,436	578,436	578,436	0
	21,708	21,708	21,708	0
Fund Balance at End of Year	\$ 620,144	\$ 598,436	\$ 678,812	\$ 80,376

See accompanying notes to the basic financial statements

**CITY OF SYLVANIA, OHIO**

**Statement of Net Position  
Proprietary Funds  
December 31, 2017**

	Business-Type Activities		
	Enterprise Funds		
	Water	Sewer	Resource Recovery
<b>ASSETS</b>			
Current assets:			
Cash and Cash Equivalents	\$ 328,178	\$ 85,480	\$ 4,189
Investments	2,196,311	572,071	0
Accounts Receivable	465,653	303,908	0
Interest Receivable	6,253	4,376	0
Inventory of Supplies at Cost	100,839	64,810	0
Prepaid Items	17,689	9,453	559
Total current assets	<u>3,114,923</u>	<u>1,040,098</u>	<u>4,748</u>
Noncurrent assets:			
Capital assets:			
Property, Plant and Equipment	16,825,664	26,186,125	164,233
Less accumulated depreciation	(7,749,173)	(17,207,328)	(164,233)
Total capital assets (net of accumulated depr)	<u>9,076,491</u>	<u>8,978,797</u>	<u>0</u>
Total noncurrent assets	<u>9,076,491</u>	<u>8,978,797</u>	<u>0</u>
Total assets	<u>12,191,414</u>	<u>10,018,895</u>	<u>4,748</u>
<b>Deferred Outflows of Resources:</b>			
Deferred Loss on Debt Refunding	42,097	0	0
Pension	401,532	322,977	48,286
<b>Total Deferred Outflows of Resources</b>	<u>443,629</u>	<u>322,977</u>	<u>48,286</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts Payable	274,597	17,524	2,224
Accrued Wages and Benefits	21,506	19,860	1,600
Claims Payable	0	0	0
Accrued Interest Payable	4,308	0	0
General Obligation Bonds Payable - Current	157,671	0	0
Compensated Absences Payable - Current	10,217	9,012	0
OPWC Loans Payable - Current	4,638	0	0
Total Current Liabilities	<u>472,937</u>	<u>46,396</u>	<u>3,824</u>

**CITY OF SYLVANIA, OHIO**

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	Governmental		Governmental
Total	Internal Service	Funds	Funds
\$ 417,847	\$ 275,360		
2,768,382	0		
769,561	1,323		
10,629	0		
165,649	0		
27,701	1,581		
4,159,769	278,264		
43,176,022	15,985		
(25,120,734)	(15,985)		
18,055,288	0		
18,055,288	0		
22,215,057	278,264		
42,097	0		
772,795	94,668		
814,892	94,668		
294,345	0		
42,966	5,925		
0	278,900		
4,308	0		
157,671	0		
19,229	5,335		
4,638	0		
523,157	290,160		

(Continued)

**CITY OF SYLVANIA, OHIO**

**Statement of Net Position  
Proprietary Funds  
December 31, 2017**

	Business-Type Activities		
	Enterprise Funds		
	Water	Sewer	Resource Recovery
Noncurrent Liabilities:			
General Obligation Bonds Payable	2,157,719	0	0
OPWC Loans Payable	143,788	0	0
Net Pension Liability	1,037,807	834,634	126,258
Compensated Absences Payable	129,501	120,312	0
Total noncurrent liabilities	<u>3,468,815</u>	<u>954,946</u>	<u>126,258</u>
<b>Total Liabilities</b>	<u>3,941,752</u>	<u>1,001,342</u>	<u>130,082</u>
<b>Deferred Inflows of Resources:</b>			
Pension	<u>12,817</u>	<u>10,308</u>	<u>1,561</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	6,654,772	8,978,797	0
Unrestricted	<u>2,025,702</u>	<u>351,425</u>	<u>(78,609)</u>
Total Net Position	<u>\$ 8,680,474</u>	<u>\$ 9,330,222</u>	<u>\$ (78,609)</u>

Adjustment to reflect the consolidation of internal  
service fund activities related to the enterprise funds.  
Net Position of Business-type Activities

See accompanying notes to the basic financial statements

**CITY OF SYLVANIA, OHIO**

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<u>Total</u>	<u>Governmental Activities Internal Service Funds</u>
2,157,719	0
143,788	0
1,998,699	244,257
<u>249,813</u>	<u>36,574</u>
4,550,019	280,831
<u>5,073,176</u>	<u>570,991</u>
<u>24,686</u>	<u>3,017</u>
15,633,569	0
<u>2,298,518</u>	<u>(201,076)</u>
<u>17,932,087</u>	<u>\$ (201,076)</u>
<u>(28,289)</u>	
<u>\$ 17,903,798</u>	

**CITY OF SYLVANIA, OHIO**

**Statement of Revenues, Expenses and Changes in Fund Net Position  
Proprietary Funds  
For the Year Ended December 31, 2017**

	Business-Type Activities		
	Enterprise Funds		
	Water	Sewer	Resource Recovery
<b>Operating Revenues:</b>			
Charges for Services	\$ 5,932,530	\$ 2,174,090	\$ 69,296
Other Operating Revenues	101,820	493,971	0
<b>Total Operating Revenues</b>	<u>6,034,350</u>	<u>2,668,061</u>	<u>69,296</u>
<b>Operating Expenses:</b>			
Personal Services	1,001,333	818,952	103,054
Materials and Supplies	124,288	69,712	45,406
Contractual Services	3,504,023	1,568,351	45,393
Depreciation	401,686	503,722	0
<b>Total Operating Expenses</b>	<u>5,031,330</u>	<u>2,960,737</u>	<u>193,853</u>
<b>Operating Income (Loss)</b>	1,003,020	(292,676)	(124,557)
<b>Non-Operating Revenue (Expenses):</b>			
Interest Income	14,564	6,222	0
Interest and Fiscal Charges	(66,593)	0	0
Other Nonoperating Revenue	0	0	0
<b>Total Non-Operating Revenues (Expenses)</b>	<u>(52,029)</u>	<u>6,222</u>	<u>0</u>
<b>Income (Loss) Before Transfers</b>	950,991	(286,454)	(124,557)
<b>Transfers:</b>			
Transfers In	0	0	105,000
<b>Total Transfers</b>	<u>0</u>	<u>0</u>	<u>105,000</u>
<b>Change in Net Position</b>	950,991	(286,454)	(19,557)
Net Position Beginning of Year	7,729,483	9,616,676	(59,052)
<b>Net Position End of Year</b>	<u>\$ 8,680,474</u>	<u>\$ 9,330,222</u>	<u>\$ (78,609)</u>

Change in Net Position - Total Enterprise Funds

Adjustment to reflect the consolidation of internal  
service fund activities related to the enterprise funds.

Change in Net Position - Business-type Activities

See accompanying notes to the basic financial statements



**CITY OF SYLVANIA, OHIO**

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Total	Governmental Activities Internal Service Funds
\$ 8,175,916	\$ 2,494,038
595,791	0
8,771,707	2,494,038
1,923,339	1,824,401
239,406	195,611
5,117,767	415,178
905,408	0
8,185,920	2,435,190
585,787	58,848
20,786	0
(66,593)	0
0	130,721
(45,807)	130,721
539,980	189,569
105,000	0
105,000	0
644,980	189,569
17,287,107	(390,645)
\$ 17,932,087	\$ (201,076)
644,980	
27,905	
\$ 672,885	

**CITY OF SYLVANIA, OHIO**

**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended December 31, 2017**

	Business-Type Activities		
	Enterprise Funds		
	Water	Sewer	Resource Recovery
<u>Cash Flows from Operating Activities:</u>			
Cash Received from Customers	\$5,964,045	\$2,652,032	\$69,296
Cash Payments for Goods and Services	(3,633,430)	(1,659,034)	(88,745)
Cash Payments to Employees	(874,993)	(707,926)	(85,572)
Net Cash Provided (Used) by Operating Activities	<u>1,455,622</u>	<u>285,072</u>	<u>(105,021)</u>
<u>Cash Flows from Noncapital Financing Activities:</u>			
Transfers In from Other Funds	0	0	105,000
Miscellaneous Nonoperating Revenue	0	0	0
Net Cash Provided by Noncapital Financing Activities	<u>0</u>	<u>0</u>	<u>105,000</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>			
Acquisition and Construction of Assets	(11,353)	(533,615)	0
General Obligation Bonds Issued	2,011,500	0	0
Premium on General Obligation Bonds Issued	36,311	0	0
Principal Paid on General Obligation Bonds	(135,000)	0	0
Payments to Refunding Bond Escrow Agent	(2,060,104)	0	0
Principal Paid on OPWC Loan	(4,638)	0	0
Interest Paid on All Debt	(68,426)	0	0
Net Cash Used for Capital and Related Financing Activities	<u>(231,710)</u>	<u>(533,615)</u>	<u>0</u>
<u>Cash Flows from Investing Activities:</u>			
Sale of Investments	0	232,451	0
Purchase of Investments	(1,058,484)	0	0
Receipts of Interest	28,170	7,401	0
Net Cash Provided (Used) by Investing Activities	<u>(1,030,314)</u>	<u>239,852</u>	<u>0</u>
Net Increase (Decrease) in Cash and Cash Equivalents	193,598	(8,691)	(21)
Cash and Cash Equivalents at Beginning of Year	<u>134,580</u>	<u>94,171</u>	<u>4,210</u>
Cash and Cash Equivalents at End of Year	<u>\$328,178</u>	<u>\$85,480</u>	<u>\$4,189</u>

**CITY OF SYLVANIA, OHIO**

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Totals	Governmental Activities Internal Service Funds
\$8,685,373	\$2,494,209
(5,381,209)	(624,433)
(1,668,491)	(1,839,207)
1,635,673	30,569
105,000	0
0	137,892
105,000	137,892
(544,968)	0
2,011,500	0
36,311	0
(135,000)	0
(2,060,104)	0
(4,638)	0
(68,426)	0
(765,325)	0
232,451	0
(1,058,484)	0
35,571	0
(790,462)	0
184,886	168,461
232,961	106,899
\$417,847	\$275,360

(Continued)

**CITY OF SYLVANIA, OHIO**

**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended December 31, 2017**

	Business-Type Activities		
	Enterprise Funds		
	Water	Sewer	Resource Recovery
<u>Reconciliation of Operating Income (Loss) to Net Cash</u>			
<u>Provided (Used) by Operating Activities:</u>			
Operating Income (Loss)	\$1,003,020	(\$292,676)	(\$124,557)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	401,686	503,722	0
Changes in Assets, Liabilities and Deferred Inflows/Outflows:			
Decrease (Increase) in Accounts Receivable	(70,305)	(16,029)	0
Decrease (Increase) in Inventory	3,905	(9,486)	0
Decrease (Increase) in Prepaid Items	954	(2,481)	(51)
Increase in Deferred Outflows of Resources	(93,553)	(76,862)	(10,431)
Increase (Decrease) in Accounts Payable	(9,978)	(9,004)	2,105
Increase (Decrease) in Accrued Wages and Benefits	(8,559)	(6,031)	987
Decrease in Claims Payable	0	0	0
Increase in Net Pension Liability	232,543	191,127	27,278
Decrease in Deferred Inflows of Resources	(2,742)	(2,126)	(352)
Increase (Decrease) in Compensated Absences	(1,349)	4,918	0
Total Adjustments	452,602	577,748	19,536
Net Cash Provided (Used) by Operating Activities	\$1,455,622	\$285,072	(\$105,021)

Schedule of Noncash Investing, Capital and Financing Activities:

During 2017 the fair value of investments decreased by \$18,988 and \$4,946 in the Water and Sewer Funds respectively.

See accompanying notes to the basic financial statements

**CITY OF SYLVANIA, OHIO**

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<u>Totals</u>	<u>Governmental Activities Internal Service Funds</u>
\$585,787	\$58,848
905,408	0
(86,334)	171
(5,581)	0
(1,578)	(538)
(180,846)	(22,414)
(16,877)	(13,106)
(13,603)	(588)
0	(53,100)
450,948	55,335
(5,220)	(633)
3,569	6,594
<u>1,049,886</u>	<u>(28,279)</u>
<u>\$1,635,673</u>	<u>\$30,569</u>

**CITY OF SYLVANIA, OHIO**

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**Statement of Fiduciary Net Position**  
**December 31, 2017**

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	<u>Agency</u>
<b>Assets:</b>	
Cash and Cash Equivalents	\$ 84,589
<b>Total Assets</b>	<u>84,589</u>
<b>Liabilities:</b>	
Due to Others	<u>84,589</u>
<b>Total Liabilities</b>	<u>\$ 84,589</u>

See accompanying notes to the basic financial statements

## **CITY OF SYLVANIA, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2017***

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Sylvania, Ohio (the "City") is a home-rule municipal corporation created under the laws of the State of Ohio. The City operates under its own Charter. The current Charter which provides for a Council/Mayor form of government, was adopted in 1961 and has been amended 3 times (1968, 1984, 1985).

The accompanying basic financial statements of the City present the financial position of the various fund types, the results of operations of the various fund types, and the cash flows of the proprietary funds. The financial statements are presented as of December 31, 2017 and for the year then ended and have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to local governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification).

##### **A. Reporting Entity**

The accompanying basic financial statements comply with the provisions of GASB Statement No. 14, "*The Financial Reporting Entity*," as amended by GASB Statement No. 61 "*The Financial Reporting Entity: Omnibus; an amendment of GASB Statements No. 14 and No. 34*," in that the financial statements include all organizations, activities, functions and component units for which the City (the primary government) is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing body and either (1) the City's ability to impose its will over the organization, or (2) the potential that the organization will provide a financial benefit to, or impose a financial burden on, the City.

Based on the foregoing, there are no potential component units that meet the criteria imposed by GASB Statement No. 14 to be included in the City's reporting entity. The reporting entity of the City includes all funds, agencies, boards and commissions that are part of the primary government, which includes the following services: public safety, highways and streets, sanitation, cemetery, health and social services, culture and recreation, public improvements, planning and zoning and general administrative services. In addition, the City owns the water distribution and wastewater collection systems and a resource recovery operation, which are reported as enterprise funds. Water treatment services are provided by the City of Toledo. Wastewater treatment services are provided by Lucas County.

##### **1. Joint Venture with Equity Interest**

###### ***Community Center:***

The City is a participant with the Township of Sylvania in a joint venture to enhance the programs and services available to senior citizen residents in the City and the Township. The City and the Township have agreed to jointly pay to construct a community center under the authority of Ohio Revised Code Section 173.11. The original agreement is for the City to bear (40) percent of the construction costs and the Township to bear (60) percent of the construction costs, resulting in a 40/60 split in equity interest between the two. The community center is managed by Sylvania Community Services Center, Inc. (SCS), an Ohio nonprofit corporation. See Note 17 "Joint Venture."

## **CITY OF SYLVANIA, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2017***

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **A. Reporting Entity** (Continued)

##### **2. Jointly Governed Organization**

###### ***Sylvania Area Joint Recreation District:***

The City in conjunction with the Sylvania Township Trustees and the Sylvania City School District formed the Sylvania Area Joint Recreation District (the "SAJRD") under the authority of Ohio Revised Code Section 755.14 (C). The SAJRD Board of Trustees is composed of twelve members, four of whom are appointed by each of the three separate governmental entities identified above. Funding for the SAJRD is provided by a voter approved tax levy on all real property located within Sylvania Township. Taxes are collected by the County Auditor and remitted to the SAJRD Board of Trustees. The SAJRD is fiscally independent of the City and the SAJRD's financial statements have not been included within the City's reporting entity.

##### **B. Basis of Presentation - Fund Accounting**

The accounting policies and financial reporting practices of the City conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of its significant accounting policies:

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

###### ***Governmental Funds***

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



## ***CITY OF SYLVANIA, OHIO***

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2017***

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **B. Basis of Presentation - Fund Accounting (Continued)**

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

City Services Fund - This fund is used to account for the revenues received from special assessments for tree repair and replacement, ditch maintenance and street lighting.

G.O. Debt Service Fund – This fund is used to account for the accumulation of resources for the payments of general obligation debt of the City including self-supporting obligations not otherwise paid from proprietary funds.

Capital Improvement Fund - This fund is used to account for financial resources, primarily income taxes, to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

##### ***Proprietary Funds***

All proprietary funds are accounted for on an "economic resources" measurement focus. This measurement focus provides that all assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of these funds are included on the balance sheet. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in total net position.

Enterprise Funds - These funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, whereby the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The City's major enterprise funds are:

Water Fund – This fund is used to account for the operation of the City's water service.

Sewer Fund – This fund is used to account for the operation of the City's sanitary sewer service.

Resource Recovery Fund – This fund is used to account for the operation of the City's resource recovery.

Internal Service Funds - These funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments, on a cost-reimbursement basis. The City has two internal service funds, the Self Insurance Fund, which is used to account for monies received from City departments to cover the cost of health care for employees of the City's departments and the Information Technology Fund, which is used to account for the costs of the City's information technology personnel along with the services provided by them to the City's various departments.

## **CITY OF SYLVANIA, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2017***

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **B. Basis of Presentation - Fund Accounting (Continued)**

###### ***Fiduciary Funds***

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary 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 therefore not available to support the City's own programs. The agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operation. These funds operate on a full accrual basis of accounting. The City has one agency fund. The fund is the Municipal Court Fund, which accounts for monies that flow through the municipal court office.

##### **C. Basis of Presentation – Financial Statements**

**Government-wide Financial Statements** – The statement of net position and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities. The internal service funds are eliminated to avoid “doubling up” revenues and expenses; however, the interfund services provided and used are not eliminated in the process of consolidation.

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

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

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

## **CITY OF SYLVANIA, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2017***

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **C. Basis of Presentation – Financial Statements (Continued)**

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

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of these funds are included on the statement of 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.

Fiduciary funds are reported using the economic resources measurement focus.

##### **D. Basis of Accounting**

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

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

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

## **CITY OF SYLVANIA, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2017***

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **D. Basis of Accounting** (Continued)

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

Special assessment installments, which are measurable, but not available at December 31, are recorded as deferred inflow of resources – unavailable amount. Property taxes measurable as of December 31, 2017, but which are not intended to finance 2017 operations and delinquent property taxes, whose availability is indeterminate, are recorded as deferred inflow of resources as further described in Note 6.

The accrual basis of accounting is utilized for reporting purposes by the proprietary funds and fiduciary funds. Revenues are recognized when they are earned and expenses recognized when incurred. Government-Wide Statements are also prepared using the accrual basis of accounting.

##### **E. Deferred Inflows/Outflows of Resources**

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expenses/expenditures) until then. For the City, deferred outflows of resources are reported on the government-wide statement of net position for deferred loss on debt refunding and pension and explained in note 10.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. On the government-wide statement of net position and governmental funds balance sheet, property taxes that are intended to finance future fiscal periods are reported as deferred inflows. In addition, the governmental funds balance sheet reports deferred inflows which arise only under a modified accrual basis of accounting. Accordingly, the item, *unavailable amounts*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable amounts for delinquent property taxes, income taxes, special assessments, and state levied shared taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide statement of net position. (See note 11)

##### **F. Budgetary Process**

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the certificate of estimated resources and the appropriation ordinance, which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation ordinance are subject to amendment throughout the year.

# ***CITY OF SYLVANIA, OHIO***

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## ***Notes to the Basic Financial Statements For the Year Ended December 31, 2017***

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### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **F. Budgetary Process (Continued)**

All funds other than agency funds are legally required to be budgeted and appropriated; however, only governmental funds are required to be reported. The primary level of budgetary control is at the object level within each department. Budgetary modifications may only be made by ordinance of the City Council.

#### **1. Estimated Resources**

The County Budget Commission reviews estimated revenue and determines if the budget substantiates a need to levy all or part of previously authorized taxes. The Budget Commission then certifies its actions to the City by September 1 of each year. As part of the certification process, the City receives an official certificate of estimated resources stating the projected receipts by fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year do not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure.

On or about January 1, the certificate of estimated resources is amended to include any unencumbered fund balances from the previous year. The certificate may be further amended during the year if a new source of revenue is identified or if actual receipts exceed current estimates. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 2017.

#### **2. Appropriations**

A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 through March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 through December 31. The appropriation ordinance establishes spending controls at the fund, department and object level. The appropriation ordinance may be amended during the year as additional information becomes available, provided that total fund appropriations do not exceed the current estimated resources as certified by the county budget commission. The allocation of appropriations among departments and objects within a fund may be modified during the year only by an ordinance of City Council. The Finance Director is authorized to transfer appropriations between objects of expenditure budgeted within the same function, so long as total appropriations for each function do not exceed the amount approved by Council. During the year, several supplemental appropriations were necessary to budget for capital improvements, vehicle purchases, community service programs, and various incidental expenditures. The budgetary figures which appear in the "Statement of Revenues, Expenditures, and Changes in Fund Balances--Budget and Actual—General Fund," and in the "Statement of Revenues, Expenditures, and Changes in Fund Balances--Budget and Actual—Special Revenue Fund-City Services Fund" are provided on the budgetary basis to provide a comparison of actual results to the final budget, including all amendments and modifications.

## **CITY OF SYLVANIA, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2017***

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **F. Budgetary Process (Continued)**

##### **3. Encumbrances**

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

##### **4. Lapsing of Appropriations**

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

##### **5. Budgetary Basis of Accounting**

The City's budgetary process accounts for certain transactions on a basis other than generally accepted accounting principles (GAAP). The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recorded. Under the budgetary basis, revenues and expenditures are recognized on a cash basis. Utilizing the cash basis, revenues are recorded when received in cash and expenditures when paid. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting. On the budgetary basis investment earnings are recognized when realized, whereas on a GAAP basis unrealized gains and losses are recognized when investments are adjusted to fair value.

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**CITY OF SYLVANIA, OHIO**

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**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2017**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**F. Budgetary Process (Continued)**

**5. Budgetary Basis of Accounting (Continued)**

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

	Net Change In Fund Balance	
	General Fund	City Services Fund
GAAP Basis (as reported)	\$719,947	\$69,456
Increase (Decrease):		
Accrued Revenues at December 31, 2017 received during 2018	(1,069,691)	0
Accrued Revenues at December 31, 2016 received during 2017	1,021,937	35
Accrued Expenditures at December 31, 2017 paid during 2018	393,862	43,439
Accrued Expenditures at December 31, 2016 paid during 2017	(381,682)	(34,261)
2016 Prepays for 2017	46,223	789
2017 Prepays for 2018	(44,797)	(790)
Outstanding Encumbrances	0	0
Budget Basis	\$685,799	\$78,668

**G. Cash and Cash Equivalents**

Cash and cash equivalents include amounts in demand deposits, the State Treasury Asset Reserve (STAR Ohio), and investments with original maturities of less than three months. The STAR Ohio is reported as a cash equivalent in the basic financial statements because it is a highly liquid instrument which is readily convertible to cash. The City pools its cash for investment and resource management purposes. Each fund's equity in pooled cash and investments represents the balance on hand as if each fund maintained its own cash and investment account. For purposes of the statement of cash flows, the proprietary funds' share of equity in pooled certificates of deposit are considered to be cash equivalents. See Note 5, "Cash, Cash Equivalents and Investments."

## **CITY OF SYLVANIA, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2017***

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **H. Investments**

Investment procedures and interest allocations are restricted by provisions of the Ohio Constitution and the Ohio Revised Code. In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools" and GASB Statement No. 72, "Fair Value Measurement and Application", the City records all its investments at fair value except for nonparticipating investment contracts (certificates of deposit) which are reported at cost, which approximates fair value. All investment income, including changes in the fair value of investments, are recognized as revenue in the operating statements. The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. During fiscal year 2017, investments were limited to Certificates of Deposit, FNMA, FHLMC, FHLB, FFCB, Freddie MAC, STAR Ohio, Sylvania Township Notes and the Toledo Community Foundation, Inc. Mutual Funds. See Note 5, "Cash, Cash Equivalents and Investments."

Interest revenue credited to the General Fund during fiscal year 2017 amounted to \$101,539, which includes \$83,259 assigned from other City funds.

During 2017, the City invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The City measures their investment in STAR Ohio 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.

For 2017, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

##### **I. Inventory**

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

##### **J. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond December 31, 2017, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.



## ***CITY OF SYLVANIA, OHIO***

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2017***

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **K. Capital Assets and Depreciation**

Capital assets are defined by the City as assets with an initial, individual cost of more than \$10,000, except for computer software which is capitalized if the purchase price, including license fees and installation, exceed \$50,000.

##### **1. Property, Plant and Equipment - Governmental Activities**

Governmental activities capital assets are those not directly related to the business-type funds. These generally are acquired or constructed for governmental activities and are recorded as expenditures in the governmental funds and are capitalized at cost (or estimated historical cost for assets not purchased in recent years). These assets are reported in the Governmental Activities column of the Government-wide Statement of Net Position, but they are not reported in the Fund Financial Statements. All infrastructure acquired prior to the implementation of GASB Statement No. 34, “*Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*”, has been reported.

Contributed capital assets are recorded at acquisition value at the date received. Capital assets include land, buildings, building improvements, machinery, equipment and infrastructure. Infrastructure is defined as long-lived capital assets that normally are stationary in nature and normally can be preserved for a significant number of years. Examples of infrastructure include roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems. Estimated historical costs for governmental activities capital asset values were initially determined by identifying historical costs when such information was available. In cases where information supporting original cost was not obtainable, estimated historical costs were developed. For certain capital assets, the estimates were arrived at by indexing estimated current costs back to the estimated year of acquisition.

##### **2. Property, Plant and Equipment – Business Type Activities**

Property, plant and equipment acquired by the proprietary funds are stated at cost (or estimated historical cost), including interest capitalized during construction and architectural and engineering fees where applicable. Contributed capital assets are recorded at acquisition value at the date received. These assets are reported in both the Business-Type Activities column of the Government-wide Statement of Net Position and in the respective funds.

**CITY OF SYLVANIA, OHIO**

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***Notes to the Basic Financial Statements  
For the Year Ended December 31, 2017***

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**K. Capital Assets and Depreciation** (Continued)

3. Depreciation

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

Description	Governmental and Business-Type Activities Estimated Lives (in years)
Buildings	30
Improvements other than Buildings	20
Infrastructure	10-100
Machinery, Equipment, Furniture and Fixtures	5 - 20

**L. Long-Term Obligations**

Long-term liabilities are being repaid from the following funds:

Obligation	Fund
General Obligation Bonds	General Obligation Debt Service Fund Water Fund
OPWC Loans Payable	Capital Improvement Fund Water Fund
Compensated Absences	General Fund Street Construction, Maintenance and Repair Fund Water Fund Sewer Fund Information Technology Fund

## ***CITY OF SYLVANIA, OHIO***

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2017***

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **M. Compensated Absences**

Employees of the City earn vacation leave at various rates within limits specified under collective bargaining agreements or under statute. Vacation earned in a calendar year must be used during the following year. Vacation time cannot carry over into the subsequent year, unless written permission is granted from the Mayor. At termination or retirement, employees are paid at their full rate for 100% of their unused vacation leave.

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

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

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

##### **N. Net Position**

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

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

## ***CITY OF SYLVANIA, OHIO***

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2017***

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **O. Fund Balances**

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

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

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

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

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

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

When both restricted and unrestricted resources are available for use, it is the City’s policy to use restricted resources first (committed, assigned and unassigned), then unrestricted resources as they are needed. Within unrestricted fund balance, committed amounts are reduced first followed by assigned and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

## ***CITY OF SYLVANIA, OHIO***

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2017***

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **P. Pensions**

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

##### **Q. Interfund Activity**

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds 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.

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues. In addition, interfund transfers between governmental funds are eliminated for reporting on the government-wide financial statements. Only transfers between governmental activities and business-type activities are reported on the statement of activities.

##### **R. Estimates**

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

##### **S. Operating Revenues and Expenses**

Proprietary funds distinguish operating revenues and expenses from nonoperating items. 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 for water treatment and distribution, wastewater collection and treatment, maintenance of storm water collection systems and collection of solid waste refuse. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

## ***CITY OF SYLVANIA, OHIO***

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2017***

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **T. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Council and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2017.

##### **U. Fair Value**

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.

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## **CITY OF SYLVANIA, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2017***

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#### **NOTE 2 – CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND BALANCES**

For fiscal year 2017, the City has implemented GASB Statement No. 74, “Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans”, GASB Statement No. 80 “Blending Requirements for Certain Component Units-an amendment of GASB Statement No. 14”, GASB Statement No. 81, “Irrevocable Split-Interest Agreements”, and GASB Statement No. 82, “Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73.”

GASB Statement No. 74 improves the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The implementation of GASB Statement No. 74 did not have an effect on the financial statements of the City.

GASB Statement No. 80 improves financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. The implementation of GASB Statement No. 80 did not have an effect on the financial statements of the City.

GASB Statement No. 81 improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The implementation of GASB Statement No. 81 did not have an effect on the financial statements of the City.

GASB Statement No. 82 addresses certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and 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*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The implementation of GASB Statement No. 82 did not have an effect on the financial statements of the City.

**CITY OF SYLVANIA, OHIO**

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**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2017**

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**NOTE 2 – CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND BALANCES (Continued)**

In 2014, the Auditor of State of Ohio issued a finding for adjustment against the General Fund and in favor of the Capital Improvements Fund for \$7,411,732 based upon Ohio Revised Code 5705.14 and Ohio Revised Code 5705.14(B). The City does not agree with this finding as it has been a long-standing practice of the City to transfer the monies from the Capital Improvements Fund to the General fund as well as being approved by City Council since 1967. In order to be compliant, the City has agreed to move money from the General Fund to the Capital Improvements fund up to the \$7,411,732 that is owed, as it becomes available and is able to do so.

The movement of these monies had the following effect on fund balance as reported December 31, 2016:

	General Fund	Capital Improvement Fund
Fund Balance December 31, 2016	\$5,407,437	\$11,111,321
Adjustments:		
Reclass of Transfer for Income Taxes	(700,000)	700,000
Restated Fund Balance December 31, 2016	<u>\$4,707,437</u>	<u>\$11,811,321</u>

**NOTE 3 - COMPLIANCE AND ACCOUNTABILITY**

**Fund Deficit** - The fund deficits at December 31, 2017 of \$62,788 in the Police Pension Fund (special revenue fund), \$78,609 in the Resource Recovery Fund (enterprise fund), \$2,217 in the Self-Insurance Fund and \$198,859 in the Information Technology Fund (internal service funds) arose from the recognition of expenditures on the modified accrual basis which are greater than expenditures recognized on the budgetary/cash basis. A deficit does not exist under the budgetary/cash basis of accounting. Transfers are provided when cash is required, not when accruals occur.



## CITY OF SYLVANIA, OHIO

### Notes to the Basic Financial Statements For the Year Ended December 31, 2017

#### NOTE 4 – FUND BALANCE CLASSIFICATION

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

Fund Balances	General Fund	City Services Fund	General Obligation Bond Retirement Fund	Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
Nonspendable:						
Principal	\$0	\$0	\$0	\$0	\$1,063	\$1,063
Prepaid Items	44,797	790	0	0	8,120	53,707
Supplies Inventory	402,785	0	0	0	104,008	506,793
Total Nonspendable	<u>447,582</u>	<u>790</u>	<u>0</u>	<u>0</u>	<u>113,191</u>	<u>561,563</u>
Restricted:						
City Services	0	635,373	0	0	0	635,373
Street Construction and Maintenance	0	0	0	0	414,084	414,084
City Permissive Tax	0	0	0	0	518,357	518,357
State Highway Improvement	0	0	0	0	213,097	213,097
Law Enforcement	0	0	0	0	168,527	168,527
Indigent Driver	0	0	0	0	231,601	231,601
Federal Equitable Sharing	0	0	0	0	34,808	34,808
Indigent Support	0	0	0	0	39,424	39,424
Court Capital Improvement	0	0	0	0	74,064	74,064
Total Restricted	<u>0</u>	<u>635,373</u>	<u>0</u>	<u>0</u>	<u>1,693,962</u>	<u>2,329,335</u>
Committed:						
Capital Improvements	0	0	0	13,004,622	0	13,004,622
War Memorial	0	0	0	0	150	150
Parks/Recreation	0	0	0	0	74,665	74,665
Total Committed	<u>0</u>	<u>0</u>	<u>0</u>	<u>13,004,622</u>	<u>74,815</u>	<u>13,079,437</u>
Assigned:						
Police Community Affairs	0	0	0	0	62,159	62,159
Debt Service	0	0	792,316	0	0	792,316
Total Assigned	<u>0</u>	<u>0</u>	<u>792,316</u>	<u>0</u>	<u>62,159</u>	<u>854,475</u>
Unassigned	4,991,402	0	0	0	(62,788)	4,928,614
Total Fund Balances	<u>\$5,438,984</u>	<u>\$636,163</u>	<u>\$792,316</u>	<u>\$13,004,622</u>	<u>\$1,881,339</u>	<u>\$21,753,424</u>

## ***CITY OF SYLVANIA, OHIO***

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2017***

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#### **NOTE 5 - CASH, CASH EQUIVALENTS AND INVESTMENTS**

Cash resources of several individual funds are combined to form a pool of cash, cash equivalents and investments. In addition, investments are separately held by a number of individual funds.

Statutes require the classification of funds held by the City into three categories:

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

Category 2 consists of "inactive" funds - those funds not required for use within the current five year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing no later than the end of the current period of designation of depositories.

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## ***CITY OF SYLVANIA, OHIO***

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2017***

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#### **NOTE 5 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)**

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

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

## **CITY OF SYLVANIA, OHIO**

### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2017***

#### **NOTE 5 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)**

##### **A. Deposits**

Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits may not be returned. The City's policy is to place deposits with major local banks.

Ohio law requires that deposits be either insured or be protected by eligible securities pledged to the City and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105 percent of the deposits being secured, or participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State.

At year end the carrying amount of the City's deposits was \$8,127,394 and the bank balance was \$8,433,523. Federal depository insurance covered \$750,000 of the bank balance and \$7,683,523 was exposed to custodial risk and was collateralized with securities held by the pledging financial institutions trust department or agent but not in the City's name and securities held in the Ohio Pooled Collateral System.

##### **B. Investments**

The City's investments at December 31, 2017 are summarized below:

	Fair Value	Fair Value Hierarchy	Investment Maturities (in Years)			Greater Than 5
			less than 1	1-3	3-5	
Toledo Community Foundation, Inc. (mutual fund)	\$74,369	N/A	\$74,369	\$0	\$0	\$0
STAR Ohio	78,301	N/A	78,301	0	0	0
Sylvania Township Bonds	440,000	Level 2	0	150,000	145,000	145,000
Negotiable CD's	7,741,680	Level 2	749,518	4,749,281	2,242,881	0
FNMA	2,762,483	Level 2	1,098,642	664,051	999,790	0
FHLMC	943,967	Level 2	645,749	298,218	0	0
FHLB	1,600,764	Level 2	364,786	794,672	441,306	0
FFCB	1,804,552	Level 2	0	1,555,620	248,932	0
Freddie MAC	395,243	Level 2	0	395,243	0	0
<b>Total Investments</b>	<b>\$15,841,359</b>		<b>\$3,011,365</b>	<b>\$8,607,085</b>	<b>\$4,077,909</b>	<b>\$145,000</b>

**Interest Rate Risk** – The City's policy states that all investments must mature within five years from the date of settlement, unless the investment is matched to a specific obligation or debt of the City and is specifically approved by the Treasury Investment Board. Notwithstanding this limitation, in no case will the City funds be invested in securities with a term to maturity that exceeds the expected disbursement date of those funds.

## **CITY OF SYLVANIA, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2017***

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#### **NOTE 5 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)**

##### **B. Investments (Continued)**

*Credit Risk* – The City’s investments in FNMA, FHLMC, FHLB, FFCB and Freddie MAC securities were rated AAA and Aaa by Standard & Poor’s and Moody’s Investor Services, respectively. Standard and Poor’s has assigned STAR Ohio an AAA money market rating.

*Custodial Credit Risk* – For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City’s investments in Negotiable CD’s, FNMA, FHLMC, FHLB, FFCB and Freddie MAC securities in the amounts of \$7,741,680, \$2,762,483, \$943,967, \$1,600,764, \$1,804,552 and \$395,243, respectively, are uninsured and unregistered with securities held by the counterparty’s trust department or agent in the City’s name. The City has no investment policy dealing with investments’ custodial risk beyond the requirement in State statute that prohibits payments for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

*Concentration of Credit Risk* – Of the City’s investments, 49% are Negotiable CD’s, 17% are FNMA, 6% are FHLMC, 10% are FHLB, 11% are FFCB and 2% are Freddie MAC. The City’s policy states the portfolio shall be structured to diversify investments to reduce the risk of loss resulting from over-concentration of assets in a specific maturity, a specific issuer or specific type of security. The maximum percentage of the portfolio (book value at the date of acquisition) permitted in each eligible security type is as follows:

• U.S. Treasury	100% Maximum
• Federal Agency	100% Maximum
• Repurchase Agreements	20% Maximum
• Commercial Paper and Bankers Acceptances Combined	25% Maximum
• Certificates of Deposits	50% Maximum
• Municipal Obligations	10% Maximum
• STAR Ohio	50% Maximum

The City’s portfolio will be further diversified to limit the exposure to any one issuer. No more than 5% of the City’s total portfolio will be invested in the securities of any single issuer with the following exceptions:

• U.S. Government Obligations	100% Maximum
• Federal Agency Obligations	100% Maximum
• STAR Ohio	100% Maximum

## ***CITY OF SYLVANIA, OHIO***

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2017***

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#### **NOTE 6 - TAXES**

##### **A. Property Taxes**

Property taxes include amounts levied against all real estate and public utility property, and tangible personal property used in business and located in the City. Real property taxes (other than public utility) collected during 2017 were levied after October 1, 2016 on assessed values as of January 1, 2016, the lien date. Assessed values were established by the County Auditor at 35% of appraised market value. All property is required to be reappraised every six years, and equalization adjustments are made in the third year following reappraisal. The last revaluation was completed in 2012 and the equalization adjustment was completed in 2015. Real property taxes are payable annually or semi-annually. The first payment is due in January; the remainder is payable by July.

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

The County Treasurer collects property taxes on behalf of all taxing districts in the County including the City of Sylvania. The County Auditor periodically remits to the City its portion of the taxes collected. The full tax rate for all City operations for the year ended December 31, 2017 was \$5.10 per \$1,000 of assessed value. The assessed value upon which the 2017 receipts were based was \$403,174,960. This amount constitutes \$397,617,300 in real property assessed value and \$5,557,660 in public utility assessed value.

Ohio law prohibits taxation of property from all taxing authorities in excess of 1% of assessed value without a vote of the people. Under current procedures, the City's share is .510% (5.10 mills) of assessed value.

## ***CITY OF SYLVANIA, OHIO***

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2017***

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#### **NOTE 6 - TAXES (Continued)**

##### **B. Income Tax**

The City levies a tax of 1.5% on all salaries, wages, commissions and other compensation and on net profits earned within the City as well as on incomes of residents earned outside the City. In the latter case, the City allows a credit of 100% of the tax paid to another municipality to a maximum of the total amount assessed.

Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly, as required. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually.

# CITY OF SYLVANIA, OHIO

## Notes to the Basic Financial Statements For the Year Ended December 31, 2017

### NOTE 7 – TAX ABATEMENT DISCLOSURES

As of December 31, 2017, the City of Sylvania provides tax incentives under a Community Reinvestment Area (CRA).

#### Income Tax Abatements

The City of Sylvania created the Economic Development Grant for the purpose of maintaining Sylvania's competitiveness as a site for location of new businesses and the expansion of existing businesses. Pursuant to Ohio Revised Code Chapter 718 and City ordinance, the City provides an incentive to the company based upon the company's gross annual payroll, the amount of income tax generated annually and the number of jobs created or retained by the business. The abatement is administered as a refund based upon the company's payroll taxes. The City currently has three income tax abatements in place.

#### Real Estate Tax Abatements

Pursuant to Ohio Revised Code Chapter 5709, the City established a Community Reinvestment area in 1994. The City of Sylvania authorizes incentives through the passage of public ordinances, based upon each businesses investment criteria, and through a contractual application process with each business, including proof that the improvements have been made. The abatement equals an agreed upon percentage of the additional property tax resulting from the increase in assessed value as a result of the improvements. The amount of the abatement is deducted from the recipient's property tax bill. The establishment of the CRA gives the City the ability to maintain and expand businesses located in the City and create new jobs by abating or reducing assessed valuation of properties, resulting in abated taxes, from new or improved business real estate for office and industrial uses. The City currently has one real estate abatement in place.

Below is the information relevant to the disclosure of those programs for the year ended December 31, 2017.

Tax Abatement	Total Amount of Taxes Abated (Incentives Abated For the Year 2017 In Actual Dollars)
<i>Root Learning (2007 - 2017)</i>	
- Gross Dollar amount of income taxes abated during 2017	\$59,994
<i>Interrupt, LLC (2012 - 2018)</i>	
- Gross Dollar amount of income taxes abated during 2017	8,906
<i>Northern Ohio Investment Company (2015 - 2019)</i>	
- Gross Dollar amount of income taxes abated during 2017	7,307
<i>Gubbio Properties, LLC (2016 - 2025)</i>	
- Gross Dollar amount of property taxes abated during 2017	0
Total	<u>\$76,207</u>



**CITY OF SYLVANIA, OHIO**

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***Notes to the Basic Financial Statements  
For the Year Ended December 31, 2017***

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**NOTE 8 - RECEIVABLES**

Receivables at December 31, 2017 consisted of taxes, intergovernmental receivables, special assessments, accounts receivable and interest.

**NOTE 9 - TRANSFERS**

Following is a summary of transfers in and out for all funds for 2017:

	Transfers In:			
Transfers Out:	G.O. Debt Service Fund	Other Governmental Funds	Resource Recovery Fund	Total
General Fund	\$1,450,000	\$462,222	\$105,000	\$2,017,222
	\$1,450,000	\$462,222	\$105,000	\$2,017,222

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

Transfers from the General Fund to the Debt Service Fund are to retire bonds issued for building construction that house these operations.

**CITY OF SYLVANIA, OHIO**

**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2017**

**NOTE 10 - CAPITAL ASSETS**

**A. Governmental Activities Capital Assets**

Summary by category of changes in governmental activities capital assets at December 31, 2017:

**Historical Cost:**

Class	December 31, 2016	Additions	Disposals	December 31, 2017
<b>Capital assets not being depreciated:</b>				
Land	\$10,190,738	\$0	\$0	\$10,190,738
<b>Capital assets being depreciated:</b>				
Land Improvements	3,349,060	0	0	3,349,060
Buildings	9,799,569	99,872	(918,383)	8,981,058
Machinery and Equipment	5,285,913	549,545	(36,989)	5,798,469
Infrastructure	34,490,447	346,021	0	34,836,468
Total Cost	<u>\$63,115,727</u>	<u>\$995,438</u>	<u>(\$955,372)</u>	<u>\$63,155,793</u>

**Accumulated Depreciation:**

Class	December 31, 2016	Additions	Disposals	December 31, 2017
Land Improvements	(\$1,447,123)	(\$85,918)	\$0	(\$1,533,041)
Buildings	(6,064,757)	(473,880)	918,383	(5,620,254)
Machinery and Equipment	(4,728,760)	(169,042)	36,989	(4,860,813)
Infrastructure	(14,461,043)	(884,982)	0	(15,346,025)
Total Depreciation	<u>(\$26,701,683)</u>	<u>(\$1,613,822) *</u>	<u>\$955,372</u>	<u>(\$27,360,133)</u>
<b>Net Value:</b>	<u>\$36,414,044</u>			<u>\$35,795,660</u>

\* Depreciation expenses were charged to governmental functions as follows:

Security of Persons and Property	\$328,063
Public Health and Welfare Services	6,361
Leisure Time Activities	50,927
Community Environment	39,028
Basic Utility Services	63,460
Transportation	860,125
General Government	265,858
Total Depreciation Expense	<u>\$1,613,822</u>

**CITY OF SYLVANIA, OHIO**

**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2017**

**NOTE 10 - CAPITAL ASSETS (continued)**

**B. Business-Type Activities Capital Assets**

Summary by Category at December 31, 2017:

*Historical Cost:*

Class	December 31, 2016	Additions	Disposals	December 31, 2017
<i>Capital assets being depreciated:</i>				
Buildings	619,633	0	0	619,633
Machinery and Equipment	1,536,702	22,706	0	1,559,408
Improvements	40,597,183	399,798	0	40,996,981
Total Cost	<u>\$42,753,518</u>	<u>\$422,504</u>	<u>\$0</u>	<u>\$43,176,022</u>

*Accumulated Depreciation:*

Class	December 31, 2016	Additions	Disposals	December 31, 2017
Buildings	(\$571,267)	\$0	\$0	(\$571,267)
Machinery and Equipment	(1,311,868)	(218,875)	0	(1,530,743)
Improvements	(22,332,191)	(686,533)	0	(23,018,724)
Total Depreciation	<u>(\$24,215,326)</u>	<u>(\$905,408)</u>	<u>\$0</u>	<u>(\$25,120,734)</u>
<i>Net Value:</i>	<u>\$18,538,192</u>			<u>\$18,055,288</u>

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## **CITY OF SYLVANIA, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2017***

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#### **NOTE 11 – DEFINED BENEFIT PENSION PLANS**

##### ***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 *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

##### ***Plan Description – Ohio Public Employees Retirement System (OPERS)***

Plan Description - City employees other than full-time police 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 SYLVANIA, OHIO**

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**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2017**

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**NOTE 11 – DEFINED BENEFIT PENSION PLANS (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):

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

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**CITY OF SYLVANIA, OHIO**

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**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2017**

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**NOTE 11 – DEFINED BENEFIT PENSION PLANS (Continued)**

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:

	<u>State and Local</u>
<b>2017 Statutory Maximum Contribution Rates</b>	
Employer	14.0 %
Employee	10.0 %
<b>2017 Actual Contribution Rates</b>	
Employer:	
Pension	12.0 %
Post-employment Health Care Benefits	<u>1.0</u>
Total Employer	<u>13.0 %</u>
Employee	<u>10.0 %</u>

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$732,954 for 2017.

## ***CITY OF SYLVANIA, OHIO***

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2017***

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#### **NOTE 11 – DEFINED BENEFIT PENSION PLANS (Continued)**

##### ***Plan Description – Ohio Police & Fire Pension Fund (OPF)***

Plan Description - City full-time police 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 may be obtained by visiting the OPF website at [www.op-f.org](http://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.

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.

**CITY OF SYLVANIA, OHIO**

**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2017**

**NOTE 11 – DEFINED BENEFIT PENSION PLANS (Continued)**

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

	Police
<b>2017 Statutory Maximum Contribution Rates</b>	
Employer	19.50 %
Employee:	
January 1, 2017 through December 31, 2017	12.25 %
<b>2017 Actual Contribution Rates</b>	
Employer:	
Pension	19.00 %
Post-employment Health Care Benefits	0.50
Total Employer	19.50 %
Employee:	
January 1, 2017 through December 31, 2017	12.25 %

Employer contribution rates are expressed as a percentage of covered payroll. The City’s contractually required contribution to OPF was \$537,122 for 2017.

***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, 2016, 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, 2016, and was determined by rolling forward the total pension liability as of January 1, 2016, to December 31, 2016. 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:

	OPERS	OP&F	Total
Proportionate Share of the Net Pension Liability	\$9,294,108	\$6,886,674	\$16,180,782
Proportion of the Net Pension Liability-2017	0.040928%	0.108727%	
Proportion of the Net Pension Liability-2016	0.041629%	0.112505%	
Percentage Change	(0.000700%)	(0.003777%)	
Pension Expense	\$1,945,870	\$815,218	\$2,761,088



**CITY OF SYLVANIA, OHIO**

**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2017**

**NOTE 11 – DEFINED BENEFIT PENSION PLANS (Continued)**

At December 31, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>OPERS</u>	<u>OP&amp;F</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Net difference between projected and actual earnings on pension plan investments	\$1,384,105	\$669,699	\$2,053,804
Changes in assumptions	1,474,160	0	1,474,160
Differences between expected and actual experience	12,598	1,948	14,546
City contributions subsequent to the measurement date	<u>732,954</u>	<u>537,122</u>	<u>1,270,076</u>
Total Deferred Outflows of Resources	<u>\$3,603,817</u>	<u>\$1,208,769</u>	<u>\$4,812,586</u>
<b>Deferred Inflows of Resources</b>			
Differences between expected and actual experience	\$55,313	\$15,856	\$71,169
Change in proportionate share	<u>59,472</u>	<u>170,664</u>	<u>230,136</u>
Total Deferred Inflows of Resources	<u>\$114,785</u>	<u>\$186,520</u>	<u>\$301,305</u>

\$1,270,076 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>OPERS</u>	<u>OP&amp;F</u>	<u>Total</u>
Year Ending December 31:			
2018	\$1,132,847	\$220,676	\$1,353,523
2019	1,174,224	220,676	1,394,900
2020	489,580	159,987	649,567
2021	(40,573)	(79,105)	(119,678)
2022	0	(33,801)	(33,801)
2023	<u>0</u>	<u>(3,306)</u>	<u>(3,306)</u>
Total	<u>\$2,756,078</u>	<u>\$485,127</u>	<u>\$3,241,205</u>

**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.

## *CITY OF SYLVANIA, OHIO*

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### *Notes to the Basic Financial Statements For the Year Ended December 31, 2017*

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#### **NOTE 11 – DEFINED BENEFIT PENSION PLANS (Continued)**

In 2016, the Board's actuarial consultants conducted an experience study for the period 2011 through 2015, comparing assumptions to actual results. The experience study incorporates both a historical review and forward-looking projections to determine the appropriate set of assumptions to keep the plan on a path toward full funding. Information from this study led to changes in both demographic and economic assumptions, with the most notable being a reduction in the actuarially assumed rate of return from 8.0% down to 7.5%, for the defined benefit investments. Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	3.25 to 10.75 percent including wage inflation
COLA or Ad Hoc COLA (Pre 1/7/13 retirees)	3 percent simple
COLA or Ad Hoc COLA (Post 1/7/13 retirees)	3 percent simple through 2018. 2.15 percent simple, thereafter
Investment Rate of Return	7.5 percent
Actuarial Cost Method	Individual Entry Age

Mortality rates are based on the RP-2014 Healthy Annuitant mortality table. For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables.

The most recent experience study was completed for the five year period ended December 31, 2015.

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.

During 2016, OPERS managed investments in four investment portfolios: the Defined Benefit portfolio, the 401(h) Health Care Trust portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The 401(h) Health Care Trust portfolio was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. The Defined Benefit portfolio contains the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan and the annuitized accounts of the Member-Directed Plan. The Defined Benefit portfolio historically included the assets of the Member-Directed retiree medical accounts funded through the VEBA Trust. However, the VEBA Trust was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. 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 annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio is 8.3% for 2016.

**CITY OF SYLVANIA, OHIO**

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**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2017**

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**NOTE 11 – DEFINED BENEFIT PENSION PLANS (Continued)**

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 2016 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 %	2.75 %
Domestic Equities	20.70	6.34
Real Estate	10.00	4.75
Private Equity	10.00	8.97
International Equities	18.30	7.95
Other investments	18.00	4.92
<b>Total</b>	<b>100.00 %</b>	<b>5.66 %</b>

**Discount Rate** The discount rate used to measure the total pension liability was 7.5 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 7.5 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 (6.5 percent) or one-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
City's proportionate share of the net pension liability	\$14,198,829	\$9,294,108	\$5,206,892

**CITY OF SYLVANIA, OHIO**

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***Notes to the Basic Financial Statements  
For the Year Ended December 31, 2017***

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**NOTE 11 – DEFINED BENEFIT PENSION PLANS (Continued)**

***Actuarial Assumptions – OPF***

OPF’s total pension liability as of December 31, 2016 is based on the results of an actuarial valuation date of January 1, 2016, 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, 2016, are presented below:

Valuation Date	January 1, 2016
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.

## CITY OF SYLVANIA, OHIO

### *Notes to the Basic Financial Statements For the Year Ended December 31, 2017*

#### NOTE 11 – DEFINED BENEFIT PENSION PLANS (Continued)

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, 2016 are summarized below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash and Cash Equivalents	0.00 %	0.00 %
Domestic Equity	16.00	5.21
Non-US Equity	16.00	5.40
Core Fixed Income *	20.00	2.37
Global Inflation Protected *	20.00	2.33
High Yield	15.00	4.48
Real Estate	12.00	5.65
Private Markets	8.00	7.99
Real Assets	5.00	6.87
Master Limited Partnerships	8.00	7.36
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.

**Changes Between Measurement Date and Report Date** In October 2017, the OPF Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of December 31, 2017. The most significant change is a reduction in the discount rate from 8.25 percent to 8.0 percent. Although the exact amount of these changes is not known, the impact to the City’s net pension liability is expected to be significant.

**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.

**CITY OF SYLVANIA, OHIO**

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**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2017**

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**NOTE 11 – DEFINED BENEFIT PENSION PLANS (Continued)**

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
City's proportionate share of the net pension liability	\$9,172,234	\$6,886,674	\$4,949,631

**NOTE 12 - POSTEMPLOYMENT BENEFITS**

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

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

OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care 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. This trust is also used to fund health care for Member Directed Plan participants, in the form of a Retiree Medical Account (RMA). At retirement or refund, Member-Directed Plan participants may be eligible for reimbursement of 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 is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 45. Please see the Plan Statement in the OPERS 2016 CAFR for details.

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

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

Funding Policy – The ORC provides the statutory authority requiring public employers to fund post retirement health care coverage through their contributions to OPERS. A portion of each employer’s contribution to OPERS may be set aside for the funding of post retirement health care benefits. Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2017, local government employers contributed at a rate of 14.00% of covered payroll. The ORC currently limits the employer contribution to a rate not to exceed 14.0% of covered payroll for local government employers. Active members do not make contributions to the OPEB plan.

## **CITY OF SYLVANIA, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2017***

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#### **NOTE 12 - POSTEMPLOYMENT BENEFITS (Continued)**

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

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 1.0% during calendar year 2017. As recommended by OPERS’ actuary, the portion of employer contributions allocated to health care beginning January 1, 2018 decreased to 0.0% 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 for Member-Directed Plan participants for 2017 was 4.0%.

The City's contributions for health care to the OPERS for the years ending December 31, 2017, 2016, and 2015 were \$52,354, \$106,381 and \$110,277, respectively, which were equal to the required contributions for each year.

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

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

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

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

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

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

## ***CITY OF SYLVANIA, OHIO***

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2017***

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#### **NOTE 12 - POSTEMPLOYMENT BENEFITS (Continued)**

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

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For 2017, the portion of employer contributions allocated to health care was 0.5% of covered payroll for police officers. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h). The OP&F Board of Trustees also is authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions for health care to the OP&F for the years ending December 31, 2017, 2016, and 2015 were \$13,772, \$12,987 and \$12,702 for police, which were equal to the required contributions for each year.



***CITY OF SYLVANIA, OHIO***

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***Notes to the Basic Financial Statements  
For the Year Ended December 31, 2017***

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**NOTE 13 – COMPENSATED ABSENCES**

All City employees earn vacation at varying rates based upon length of service. Vacation time cannot be carried over from one year to the next without approval from the Mayor.

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

At December 31, 2017, the City's accumulated, unpaid compensated absences amounted to \$1,502,281, of which \$1,233,239 is recorded as a liability of the Governmental Activities and \$269,042 is recorded as a liability of the Business-Type Activities.

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**CITY OF SYLVANIA, OHIO**

**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2017**

**NOTE 14 - LONG-TERM DEBT**

Long-term debt and other long-term obligations of the City at December 31, 2017 were as follows:

		Balance December 31, 2016	Additions	(Reductions)	Balance December 31, 2017	Amount Due Within One Year
<b>Governmental Activities:</b>						
Ohio Public Works Commission Loan:						
0.000% Northbrook Pavement Improvements	2016	\$229,403	\$0	(\$11,470)	\$217,933	\$11,470
General Obligation Bonds:						
3.0-5.05% Senior Center/Field House	2002	295,000	0	(45,000)	250,000	45,000
3.5-4.00% Various Improvements	2008	5,430,000	0	(5,430,000)	0	0
2-4.00% Various Improvements	2011	5,935,000	0	(5,470,000)	465,000	465,000
3-4.00% Various Improvements	2011	2,880,000	0	(2,550,000)	330,000	165,000
2-2.125% Street Improvement	2012	2,455,000	0	(300,000)	2,155,000	300,000
Premium		59,367	0	(7,421)	51,946	7,421
2-4.00% Refunding Various Improvements	2017	0	5,210,000	0	5,210,000	450,000
Premium		0	132,034	(11,003)	121,031	11,003
2-3.00% Refunding Various Improvements	2017	0	5,100,000	0	5,100,000	40,000
Premium		0	62,455	(4,461)	57,994	4,461
3-4.00% Refunding Various Improvements	2017	0	2,458,500	0	2,458,500	24,750
Premium		0	44,378	(2,958)	41,420	2,958
Total General Obligation Bonds		17,054,367	13,007,367	(13,820,843)	16,240,891	1,515,593
Compensated Absences		1,136,698	1,233,239	(1,136,698)	1,233,239	124,895
Net Pension Liability		12,900,329	1,281,754	0	14,182,083	0
Total Governmental Activities Long-Term Debt		<u>\$31,320,797</u>	<u>\$15,522,360</u>	<u>(\$14,969,011)</u>	<u>\$31,874,146</u>	<u>\$1,651,958</u>
<b>Business-Type Activities:</b>						
General Obligation Bond:						
2-4.00% Water Tower Bond	2011	\$2,420,000	\$0	(\$2,150,000)	\$270,000	\$135,000
2-4.00% Refunding Water Tower Bond	2017	0	2,011,500	0	2,011,500	20,250
Premium		0	36,311	(2,421)	33,890	2,421
Total General Obligation Bonds		2,420,000	2,047,811	(2,152,421)	2,315,390	157,671
Ohio Public Works Commission Loan (OPWC):						
Water Tower	2013	153,064	0	(4,638)	148,426	4,638
Compensated Absences		265,473	269,042	(265,473)	269,042	19,229
Net Pension Liability		1,547,751	450,948	0	1,998,699	0
Total Business-Type Long-Term Debt		<u>\$4,386,288</u>	<u>\$2,767,801</u>	<u>(\$2,422,532)</u>	<u>\$4,731,557</u>	<u>\$181,538</u>

## **CITY OF SYLVANIA, OHIO**

### **Notes to the Basic Financial Statements For the Year Ended December 31, 2017**

#### **NOTE 14 - LONG-TERM DEBT (Continued)**

On September 9, 2017, the City refunded \$5,060,000 of outstanding bonds (the "2008 Bonds") with an interest rate of 3.50% with \$5,210,000 refunding bonds issued in September 2017. The refunding was undertaken for the purpose of reducing interest rates and debt service on the prior bonds. This transaction resulted in a savings to the City of \$433,868.

On September 9, 2017, the City refunded \$5,010,000 of outstanding bonds (the "2011 Bonds") with an interest rate of 2.50% with \$5,100,000 refunding bonds issued in September 2017. The refunding was undertaken for the purpose of reducing interest rates and debt service on the prior bonds. This transaction resulted in a savings to the City of \$283,245.

On September 9, 2017, the City refunded \$4,545,000 of outstanding bonds (the "2011 Bonds") with an interest rate of 3.00% with \$4,470,000 refunding bonds issued in September 2017. The refunding was undertaken for the purpose of reducing interest rates and debt service on the prior bonds. This transaction resulted in a savings to the City of \$501,541.

A summary of the City's future long-term debt funding requirements, including principal and interest payments as of December 31, 2017, follows:

Years	General Obligation Bonds		OPWC Loan Payable		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$1,645,000	\$733,138	\$16,108	\$0	\$1,661,108	\$733,138
2019	1,495,000	526,549	32,217	0	1,527,217	526,549
2020	1,530,000	337,669	32,217	0	1,562,217	337,669
2021	1,540,000	305,569	32,217	0	1,572,217	305,569
2022	1,495,000	273,244	32,217	0	1,527,217	273,244
2023-2027	6,700,000	923,093	161,083	0	6,861,083	923,093
2028-2032	3,845,000	240,290	60,300	0	3,905,300	240,290
Totals	<u>\$18,250,000</u>	<u>\$3,339,552</u>	<u>\$366,359</u>	<u>\$0</u>	<u>\$18,616,359</u>	<u>\$3,339,552</u>

#### **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. The City has contracted with various private carriers for the provision of property damage, general liability, automotive damage, public officials liability, police liability, boiler and machinery damage/loss, umbrella liability, and crime and employee dishonesty. Deductible levels for the various policies have been selected so as not to expose the City to excessive "first dollars" loss in the case of a claim. Deductibles range between \$250 and \$1,000 per loss for property damage. In the professional liability areas, no deductible exceeds \$10,000.

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

**CITY OF SYLVANIA, OHIO**

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***Notes to the Basic Financial Statements  
For the Year Ended December 31, 2017***

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**NOTE 15 - RISK MANAGEMENT (Continued)**

The City continues to carry commercial insurance for other risks of loss, including employee life insurance. There has been no significant reduction in insurance coverages from coverages in the prior year. In addition, settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

The City maintains a self-funded health insurance program with claims processed by Paramount Care, Inc. A separate Self Insurance Fund (an internal service fund) was created in 2004 to account for and finance the health insurance program. As an integral part of the health insurance program, a reinsurance policy has been purchased covering claims in excess of \$170,000 per individual per year. Settled claims have not exceeded the commercial coverage limits in either of the past three fiscal years.

All funds of the City from which employee salaries are paid, participate in the health insurance program and make payments to the Self Insurance Fund based on actuarial estimates of the amounts needed to pay prior and current year claims and to establish a reserve for catastrophic losses. Total contributions to the program during the year were \$1,994,038. The claims liability of \$278,900 reported in the Self Insurance Fund at December 31, 2017 is based on the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues," as amended by GASB Statement No. 30 "Risk Management Omnibus," which requires that a liability for claims be reported if information prior to issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and if the amount of the loss can be reasonably estimated. Changes in the Fund's claims liability amount in fiscal 2016 and 2017 were:

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claims Payments</u>	<u>Balance at Fiscal Year End</u>
2016	\$322,400	\$2,252,805	(\$2,243,205)	\$332,000
2017	332,000	1,527,869	(1,580,969)	278,900

## **CITY OF SYLVANIA, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2017***

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#### **NOTE 16 - CONTINGENCIES**

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

#### **NOTE 17 - JOINT VENTURE**

**Community Center** - The City is a participant with the Township of Sylvania in a joint venture to enhance the programs and services available to senior citizen residents in the City and the Township. The City and the Township agreed to jointly pay to construct a community center under the authority of Ohio Revised Code Section 173.11. The original agreement required the City to bear (40) percent of the construction costs and the Township to bear (60) percent of the construction costs, resulting in a 40/60 split in equity interest between the two. The community center is managed by Sylvania Community Services Center, Inc. (SCS), an Ohio nonprofit corporation. During 2002 the City issued \$4,110,000 in General Obligation Bonds, \$740,000 of which, were used to help in the construction of the community center. The City also donated \$334,000 worth of land towards the construction of the community center. The issuance of the general obligation bonds along with the donated land total \$1,074,000 worth of equity interest that the City has in the community center. In addition to the (40) percent equity interest that the City owns in the community center, the City also has an option to purchase on or after January 1, 2022, the Township's equity interest in the community center.

#### **NOTE 18 - CONDUIT DEBT OBLIGATIONS**

On March 28, 2012, the City of Sylvania issued \$4,395,000 of Ohio Health Care Revenue bonds on behalf of the Rosery Care Center, an Ohio nonprofit corporation. The bonds were issued pursuant to a Trust Indenture between the City, Rosery Care Center, and Huntington National Bank. For financial reporting purposes, the bonds are considered "conduit" debt, and are not an obligation of the City of Sylvania. As of December 31, 2017, the balance outstanding on the debt obligation is \$3,725,000.

*CITY OF SYLVANIA, OHIO*

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*REQUIRED SUPPLEMENTAL INFORMATION*

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**CITY OF SYLVANIA, OHIO**

***Schedule of City's Proportionate Share of the Net Pension Liability  
Last Four Years***

**Ohio Public Employees Retirement System**

Year	2014	2015	2016	2017
City's proportion of the net pension liability	0.041953%	0.041953%	0.041629%	0.040928%
City's proportionate share of the net pension liability	\$4,945,711	\$5,060,001	\$7,210,585	\$9,294,108
City's covered payroll	\$5,792,592	\$5,242,517	\$5,235,567	\$5,319,050
City's proportionate share of the net pension liability as a percentage of its covered payroll	85.38%	96.52%	137.72%	174.73%
Plan fiduciary net position as a percentage of the total pension liability	86.36%	86.45%	81.08%	77.25%

Source: Finance Director's Office and the Ohio Public Employees Retirement System

**Ohio Police and Fire Pension Fund**

Year	2014	2015	2016	2017
City's proportion of the net pension liability	0.1151829%	0.1151829%	0.112505%	0.108727%
City's proportionate share of the net pension liability	\$5,609,769	\$5,966,955	\$7,237,495	\$6,886,674
City's covered payroll	\$2,438,326	\$2,536,605	\$2,540,321	\$2,597,379
City's proportionate share of the net pension liability as a percentage of its covered payroll	230.07%	235.23%	284.90%	265.14%
Plan fiduciary net position as a percentage of the total pension liability	73.00%	72.20%	66.77%	68.36%

Source: Finance Director's Office and the Ohio Police and Fire Pension Fund

Notes: The City implemented GASB Statement 68 in 2015.

Information prior to 2014 is not available.

The schedule is reported as of the measurement date of the Net Pension Liability, which is the prior year end.

## **CITY OF SYLVANIA, OHIO**

### ***Schedule of City Contributions Last Five Years***

#### **Ohio Public Employees Retirement System**

Year	2013	2014	2015	2016	2017
Contractually required contribution	\$753,037	\$629,102	\$628,268	\$638,286	\$732,954
Contributions in relation to the contractually required contribution	<u>753,037</u>	<u>629,102</u>	<u>628,268</u>	<u>638,286</u>	<u>732,954</u>
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City's covered-employee payroll	\$5,792,592	\$5,242,517	\$5,235,567	\$5,319,050	\$6,107,950
Contributions as a percentage of covered-employee payroll	13.00%	12.00%	12.00%	12.00%	12.00%

Source: Finance Director's Office and the Ohio Public Employees Retirement System

#### **Ohio Police and Fire Pension Fund**

Year	2013	2014	2015	2016	2017
Contractually required contribution	\$416,466	\$481,955	\$482,661	\$493,502	\$537,122
Contributions in relation to the contractually required contribution	<u>416,466</u>	<u>481,955</u>	<u>482,661</u>	<u>493,502</u>	<u>537,122</u>
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City's covered-employee payroll	\$2,438,326	\$2,536,605	\$2,540,321	\$2,597,379	\$2,826,958
Contributions as a percentage of covered-employee payroll	17.08%	19.00%	19.00%	19.00%	19.00%

Source: Finance Director's Office and the Ohio Police and Fire Pension Fund

Notes: The City implemented GASB Statement 68 in 2015.

Information prior to 2013 is not available.



## ***CITY OF SYLVANIA, OHIO***

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### ***Notes to the Required Supplemental Information For the Year Ended December 31, 2017***

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#### **OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)**

There were no recent significant changes of benefit terms, investment policies, the size or composition of the population covered by the benefit terms impacting the actuarial valuation study for the year ended December 31, 2016.

In 2016, a five-year experience study was completed on the period January 1, 2011 through December 31, 2015. The Board adopted changes to both the demographic and economic assumptions as a result of the study. The most notable change in demographic assumptions is an increased life expectancy of the members and the most notable change in economic assumptions is the reduction in the actuarially assumed rate of return from 8.00% down to 7.50% for the defined benefit investments. The new assumptions are included in the 2016 actuarial valuation.

In 2016, OPERS, in conjunction with the Board's investment consultants, also completed an asset liability study. Periodically, the System engages in a more comprehensive study that examines the nature of the pension liabilities the plan will ultimately pay and the characteristics of the asset allocation projections and the associated level of risk. As a result of this study, OPERS modified the asset allocation slightly, but not substantively.

#### **OHIO POLICE AND FIRE (OP&F) PENSION FUND**

In October 2017, the OPF Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of December 31, 2017. The most significant change is a reduction in the discount rate from 8.25 percent to 8.0 percent. Although the exact amount of these changes is not known, the impact to the City's net pension liability is expected to be significant.

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

To the City Council  
City of Sylvania, Ohio:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sylvania, Ohio ("the City") as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 26, 2018, wherein we qualified our opinions on the General Fund and Capital Improvement Fund for prior audit findings for adjustment which were not made.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the schedule of findings and responses as item 2017-001 that we consider to be a material weakness.

## **Compliance and Other Matters**

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

## **City's Response to the Finding**

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

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

*Clark, Schaefer, Hackett & Co.*

Cincinnati, Ohio  
June 26, 2018

**2017-001      Material Weakness/Prior Audit Findings for Adjustment**

The Auditor of State of Ohio issued a finding for adjustment in the 2014 financial statement audit against the General Fund and in favor of the Capital Improvement Fund for \$7,411,732 as a result of the Auditor of State of Ohio's determination that transfers made from the Capital Improvement Fund to the General Fund in 2013 and 2014 were improper. The finding referenced the following sections of Ohio Revised Code:

**Ohio Revised Code § 5705.14** provides that no transfer shall be made from one fund of a subdivision to any other fund, by order of the court or otherwise, except for as provided under Ohio Revised Code § 5705.14.

**Ohio Revised Code § 5705.14(B)** requires the unexpended balance in any specific permanent improvement fund, other than a bond fund, after the payment of all obligations incurred in the acquisition of such improvement, shall be transferred to the sinking fund or bond retirement fund of the subdivision. However, if such money is not required to meet the obligations payable from such funds, it may be transferred to a special fund for the acquisition of permanent improvements, or, with the approval of the court of common pleas of the county in which such subdivision is located, to the general fund of the subdivision. Following policies previously enacted by the City, the City transferred \$7,411,732 from the Capital Improvement Fund to the General Fund without the approval of the court of common pleas of the county in which such subdivision is located. This resulted in an improper transfer being made by the City because Ohio Revised Code § 5705.14 does not provide statutory authority for a transfer from the City's Capital Improvement Fund to its General Fund under these circumstances.

In addition, the Auditor of State of Ohio recommended the City obtain the approval of the Lucas County Court of Common Pleas before transferring funds from the Capital Improvement Fund to the General Fund.

In 2017, the City repaid \$700,000 from the General Fund to the Capital Improvement Fund in connection with this finding for adjustment and plans to make future additional repayments.

*Views of Responsible Officials: The City objected to the Finding for Adjustment for the following reasons:*

- *The transfer of monies from the City's Capital Improvement Fund to the City's General Fund has been a long-standing practice of the City and has previously been approved in audits performed by the State Auditor and private auditors. Inter-fund transfers have been authorized and approved by our Council from the City's Capital Improvement Fund annually since the City first began collecting an income tax in 1967.*

Views of Responsible Officials (continued):

- *The City's Capital Improvement Fund is not a "Specific Permanent Improvement Fund" that is subject to the restrictions in Ohio Revised Code Section 5705.14(B). That Section provides as follows: "The unexpended balance in any specific permanent improvement fund, other than a bond fund, after the payment of all obligations incurred in the acquisition of such improvement, shall be transferred into the sinking fund or bond retirement fund of the subdivision; provided that if such money is not required to meet obligations payable from such funds, it may be transferred to a special fund for the acquisition of permanent improvements, or, with the approval of the court of common pleas of the county in which such subdivision is located, to the general fund of the subdivision."*

*It is the Auditor's assertion that the City's Capital Improvement Fund is a "Specific Permanent Improvement Fund" and its use is therefore limited. This is simply not that case and is not supported in the Revised Code, our City ordinances, or our City policies. Sylvania Municipal Code Section 171.14(a)(5) allocates any remaining balance in the Income Tax Fund to the Capital Improvement Fund and provides those funds are to be used "...for equipment and improvements in City departments, including utilities, acquiring lands for municipal and park purposes, preparation of a master plan, zoning and building code, construction of a municipal building and maintenance and equipment building, and providing facilities and equipment for recreation." The Ohio Revised Code does not define "specific permanent improvement fund" although "permanent improvement" is defined as "...any property, assets, or improvement with an estimated life or usefulness of five years or more, including land and interests therein, and reconstructions, enlargements, and extensions thereof having and estimated life or usefulness of five years or more." The City's Municipal Code Section more comprehensively describes and outlines the intents and purpose of its Capital Improvement Fund and is distinguishable from the Ohio Revised Code's definition of "permanent improvement" in that most of the items delineated to be paid out of the City's Capital Improvement Fund do not meet the definition of "permanent improvement" under the Ohio Revised Code. Expenditures authorized from the Capital Improvement Fund that are not "permanent improvements" include (1) equipment and improvements in all city departments, (2) building maintenance, (3) preparation of a master plan and zoning and building codes, and (4) facilities and equipment for recreation. All these items are not permanent improvements under the Revised Code. Moreover the purpose of the City's Capital Improvement Fund is not in any way "specific." The fund was not created to pay for any specific improvement. The Capital Improvement Fund was created by City Council to address a wide range of appropriate and necessary needs of the City and was never intended to be restricted to expenditures on permanent improvements, let alone any specific permanent improvement. Finally, Council never intended to limit the uses of the Capital Improvement Fund to permanent improvements. The intent of Council is demonstrated in part by the long standing practice of inter-fund transfers as mentioned above. It is further confirmed by City Council's Resolution No. 11-2010, passed March 15, 2010, which approved the City's Financial and Debt policy. The Finance and Debt Policy expressly anticipates inter-fund transfers from the Capital Improvement Fund to other funds created by Council upon action by a majority of City Council. Based on the foregoing, the Auditor's characterization and assertion that the City's Capital Improvement Fund is a "specific permanent improvement fund" subject to limitations of the Ohio Revised Code Section 5705.14 is erroneous and unfounded.*

**City of Sylvania, Ohio**  
Schedule of Prior Audit Findings  
Year Ended December 31, 2017

**2016-001      Finding for Adjustment/Material Weakness**

A finding for adjustment and material weakness against Ohio Revised Code § 5705.14 and § 5705.14(B) for making improper transfers from the Capital Improvement Fund to the General Fund in 2013 and 2014 totaling \$7,411,732.

**Status:** The City did not make similar transfers during 2015-2017. However, the finding for adjustment has not been fully made by the City and was repeated as Finding 2017-001.



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# Dave Yost • Auditor of State

CITY OF SYLVANIA

LUCAS COUNTY

## CLERK'S CERTIFICATION

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
AUGUST, 21 2018