

**CITY OF AVON LAKE  
LORAIN COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED DECEMBER 31, 2004**



**Auditor of State  
Betty Montgomery**





Mary Taylor, CPA  
Auditor of State

April 10, 2007

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 8, 2007. Thus, I am certifying this audit report for release under the signature of my predecessor.

*Mary Taylor*

MARY TAYLOR, CPA  
Auditor of State

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**CITY OF AVON LAKE  
LORAIN COUNTY**

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

City of Avon Lake  
Lorain County  
150 Avon Belden Road  
Avon Lake, Ohio 44012

To City Council:

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 Avon Lake, Lorain County, Ohio (the City), as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Avon Lake, Lorain County, Ohio, as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the General Fund and Income Tax Transfer Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 4, the City restated Net Assets and Changes in Net Assets for Governmental Type Activities as of December 31, 2003 and for the year then ended.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2006, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquires of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

November 16, 2006



City of Avon Lake  
Lorain County  
Management's Discussion and Analysis  
For the Year Ended December 31, 2004

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Our discussion and analysis of the City of Avon Lake's financial performance provides an overview of the City's financial activities for the fiscal year ended December 31, 2004. Please read it in conjunction with the City's basic financial statements, which begin on page 15.

**FINANCIAL HIGHLIGHTS**

- The City's net assets increased \$2.8 million for the year ending December 31, 2004. The net assets of our governmental activities increased by \$.5 million, or 1.0 percent, and the net assets of business-type activities increased by \$2.3 million, or 7.7 percent.

**USING THIS ANNUAL FINANCIAL REPORT**

This annual financial report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 15 and 16) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements begin on page 17. For governmental activities, these statements tell how these services were financed in the short-term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most financially significant funds.

**Reporting the City as a Whole**

*The Statement of Net Assets and the Statement of Activities*

Our analysis of the City as a whole begins on page 15. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. Accrual of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These 2 statements report the City's *net assets* and changes in them. You can think of the City's net assets, the difference between assets, what the citizens own, and liabilities, what the citizens owe, as one way to measure the City's financial health, or *financial position*. Over time, *increases or decreases* in the City's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors; however, such as changes in the City's property tax base, income tax base, and the condition of the City's capital assets (land, roads, building, water and sewer lines, etc...) to assess the *overall health* of the City.

In the Statement of Net Assets and the Statement of Activities, we divide the City into 2 types of activities:

*Governmental Activities:* Most of the City's basic services are reported here, including the police, fire, street and highway maintenance, capital improvement, vehicle acquisition, parks and recreation, and general administrative. Income taxes, property taxes, undivided local government, fees, licenses and permits, and state and federal grants finance most of these activities.

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Management's Discussion and Analysis  
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*Business-Type Activities:* The City charges a fee to customers to help cover all or most of the cost of certain services it provides. The City's water and sewer operations are reported here.

## **Reporting the City's Most Significant Funds**

### *Fund Financial Statements*

Our analysis of the City's major funds begins on page 17. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. Some funds are required to be established by State law. However, City Council establishes many other funds to help it control and manage money for particular purposes (ie. Income Tax Transfer Fund) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (ie. grants received from the U.S. Department of Justice). The City's two kinds of funds, governmental and proprietary, use different accounting approaches.

**Governmental funds:** Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. 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 one determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation alongside the fund financial statements.

**Proprietary funds:** When the City charges customers for the full cost of the services it provides whether to outside customers or to other units of the City, these services are reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds (a component of business type funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

## **THE CITY AS A WHOLE**

The City's *combined* net assets changed from a year ago, *increasing* from \$81.9 million to \$84.7 million. Looking at the net assets and net expenses of governmental and business-type activities separately, different stories emerge. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the City's governmental and business-type activities.

City of Avon Lake  
Lorain County  
Management's Discussion and Analysis  
For the Year Ended December 31, 2004

Table 1  
Net Assets  
(In Millions)

	Governmental Activities		Business-Type Activities		Total	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
<b>Assets</b>						
Current and Other Assets	\$ 20.9	\$ 23.6	\$ 13.7	\$ 16.8	\$ 34.6	\$ 40.4
Capital Assets, Net	<u>50.1</u>	<u>46.9</u>	<u>55.0</u>	<u>48.0</u>	<u>105.1</u>	<u>94.9</u>
Total Assets	<u>\$ 71.0</u>	<u>\$ 70.5</u>	<u>\$ 68.7</u>	<u>\$ 64.8</u>	<u>\$ 139.7</u>	<u>\$ 135.3</u>
<b>Liabilities</b>						
Current and Other Liabilities	\$ 6.3	\$ 5.7	\$ 0.8	\$ 1.5	\$ 7.1	\$ 7.2
Long-Term Liabilities:						
Due Within One Year	1.1	1.0	1.9	1.9	3.0	2.9
Due Within More Than One Year	<u>10.9</u>	<u>11.6</u>	<u>34.0</u>	<u>31.7</u>	<u>44.9</u>	<u>43.3</u>
Total Liabilities	<u>18.3</u>	<u>18.3</u>	<u>36.7</u>	<u>35.1</u>	<u>55.0</u>	<u>53.4</u>
<b>Net Assets</b>						
Invested in Capital Assets Net of Debt	40.3	36.7	19.5	14.8	59.8	51.5
Restricted:						
Special Revenue	1.8	2.6	-	-	1.8	2.6
Debt Services	0.5	0.5	1.4	1.3	1.9	1.8
Capital Projects	2.4	3.4	-	-	2.4	3.4
Unrestricted	<u>7.7</u>	<u>9.0</u>	<u>11.1</u>	<u>13.6</u>	<u>18.8</u>	<u>22.6</u>
Total Net Assets	<u>\$ 52.7</u>	<u>\$ 52.2</u>	<u>\$ 32.0</u>	<u>\$ 29.7</u>	<u>\$ 84.7</u>	<u>\$ 81.9</u>

Net assets of the City's governmental activities increased by 1.0 percent (\$52.7 million compared to \$52.2 million). Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, decreased from \$9.0 million at December 31, 2003 to \$7.7 million at the end of 2004. Restricted net assets, those restricted mainly for debt services, special revenue funds and capital projects, decreased from \$6.5 million at December 31, 2003 to \$4.7 million at the end of 2004. The investment in capital assets, net of debt category increased by \$3.6 million.

The net assets of our business-type activities increased by 7.7 percent (\$29.7 million compared to \$32.0 million) in 2004 due mainly to decrease in total liabilities as of year end. Table 2 shows the changes in net assets for the year ended December 31, 2004.

City of Avon Lake  
Lorain County  
Management's Discussion and Analysis  
For the Year Ended December 31, 2004

Table 2  
Net Assets  
(In Millions)

	Governmental Activities		Business-Type Activities		Total	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Revenues						
Program Revenues:						
Charges for Services	\$ 1.4	\$ 1.3	\$ 12.4	\$ 10.7	\$ 13.8	\$ 12.0
Operating Grants & Contributions	0.0	0.2	0.0	0.0	0.0	0.2
Capital Grants & Contributions	<u>2.5</u>	<u>0.3</u>	<u>0.8</u>	<u>0.3</u>	<u>3.3</u>	<u>0.6</u>
Total Program Revenue	<u>3.9</u>	<u>1.8</u>	<u>13.2</u>	<u>11.0</u>	<u>17.1</u>	<u>12.8</u>
General Revenue						
City Income Tax	7.2	6.4	0.0	0.0	7.2	6.4
Property Taxes/Spec. Assessments	5.6	5.5	0.0	0.0	5.6	5.5
Intergovernmental	2.2	2.2	0.0	0.0	2.2	2.2
Interest and Investment Earnings	0.2	0.3	0.1	0.2	0.3	0.5
Other	0.0	0.1	0.0	0.1	0.0	0.2
Transfers	<u>(0.5)</u>	<u>(0.3)</u>	<u>0.2</u>	<u>0.3</u>	<u>(0.3)</u>	<u>0.0</u>
Total General Revenues	<u>14.7</u>	<u>14.2</u>	<u>0.3</u>	<u>0.6</u>	<u>15.0</u>	<u>14.8</u>
Total Revenues	<u>\$ 18.6</u>	<u>\$ 16.0</u>	<u>\$ 13.5</u>	<u>\$ 11.6</u>	<u>\$ 32.1</u>	<u>\$ 27.6</u>

City of Avon Lake  
Lorain County  
Management's Discussion and Analysis  
For the Year Ended December 31, 2004

Table 2  
Net Assets (continued)  
(In Millions)

	Governmental Activities		Business-Type Activities		Total	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Expenses						
Program Expenses						
General Government	\$2.8	\$ 2.7	\$ 0.0	\$ 0.0	\$ 2.8	\$ 2.7
Security of Persons and Property	6.8	5.3	0.0	0.0	6.8	5.3
Public Health	0.1	0.1	0.0	0.0	0.1	0.1
Transportation	6.1	4.6	0.0	0.0	6.1	4.6
Community Environment	0.3	0.3	0.0	0.0	0.3	0.3
Basic Utility Services	0.1	0.1	0.0	0.0	0.1	0.1
Leisure Time Activities	1.4	0.4	0.0	0.0	1.4	0.4
Interest on Long Term Debt	0.5	0.5	0.0	0.0	0.5	0.5
Water	0.0	0.0	7.4	8.4	7.4	8.4
Sewer	<u>0.0</u>	<u>0.0</u>	<u>3.8</u>	<u>3.6</u>	<u>3.8</u>	<u>3.6</u>
Total Program Expenses	<u>18.1</u>	<u>14.0</u>	<u>11.2</u>	<u>12.0</u>	<u>29.3</u>	<u>26.0</u>
Increase (Decrease) in Net Assets	\$ <u>0.5</u>	\$ <u>2.0</u>	<u>2.3</u>	\$ <u>(0.4)</u>	\$ <u>2.8</u>	\$ <u>1.6</u>

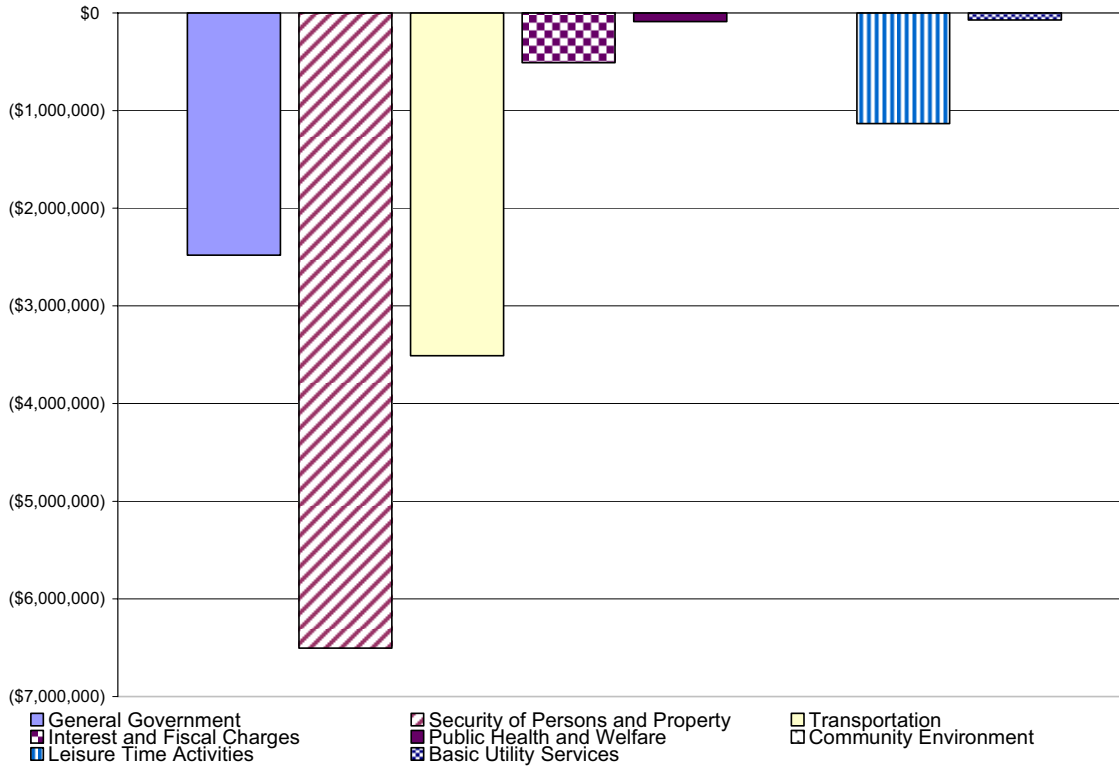
***Governmental Activities***

The 1.5 percent income tax is the largest revenue source for the City. Designated by ordinance, the Capital Acquisition and Improvement Fund receives 20 percent of net income tax received. In addition, the Sewer System Construction Fund receives 5 percent of net income tax received. The remaining 75 percent is allocated to the General Fund and is used for such things as Police and Fire Protection, Street Maintenance, etc. Income tax revenues are reported as "municipal income tax" in the Income Tax Transfer Fund, and as part of transfers into the Capital Acquisition and Improvement Fund, the Sewer System Construction Fund, and the General Fund.

Graph 1 represents the net cost (total cost less revenues generated by the activities) of each of the City's Governmental program's – General Government, Security of Persons and Property, Transportation, Interest and Fiscal Charges, Public Health and Welfare, Community Environment, Leisure Time Activities and Basic Utility Services. The net cost shows the financial burden that was placed on the City's taxpayers by each of these functions.

City of Avon Lake  
Lorain County  
Management's Discussion and Analysis  
For the Year Ended December 31, 2004

Graph 1  
Governmental Programs Net Cost



As indicated by Governmental Program Expenses, citizen's safety, health, and well being is emphasized.

When looking at sources of income to support governmental activities, it should be noted that charges for services are only 7.3 percent of revenue. Revenues provided by sources other than city residents in the form of operating and capital grants and contributions comprise another 13.5 percent. The remaining revenues are primarily generated locally through property (30.4 percent) and income taxes (38.3 percent).

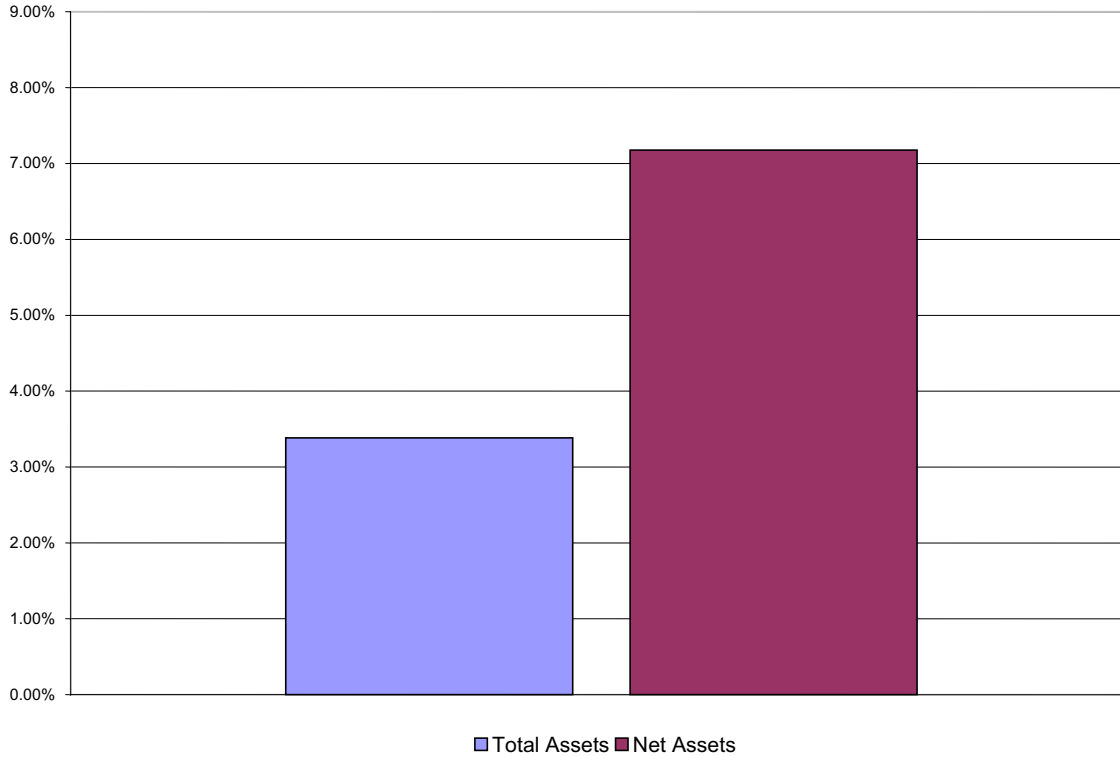
***Business-Type Funds***

The City's major Enterprise Funds consist of the Water Fund and the Sewer Fund. For a description of these funds see accompanying Notes to the Basic Financial Statements.

The basic financial statements for the major funds are included in this report. Because the focus on business-type funds is a cost of service measurement or capital maintenance, we have included these funds in Graph 2, which demonstrates return on ending assets and return on ending net assets.

City of Avon Lake  
Lorain County  
Management's Discussion and Analysis  
For the Year Ended December 31, 2004

Graph 2  
Return on Assets



**The City's Funds**

Information about the City's major governmental funds begins on page 17. These funds are reported using the modified accrual basis of accounting. All Governmental funds had total revenues of \$17.2 million and expenditures of \$19.6 million. The General Fund balance decreased \$1.3 million. The City closely monitors its revenues and expenditures to maintain a sound fund balance.

**General Fund Budgeting Highlights**

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the Tax Budget, the Certificate of Estimated Resources and the Appropriation Ordinance: all are prepared on the budgetary basis of accounting. The Certificate of Estimated Resources and the Appropriations Ordinance are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control is at fund level for all funds except the General Fund and Income Tax Capital Improvement Fund. For these funds, the legal level of budgetary control is fund/program level. Any budgetary modifications at this level may only be made by resolution of City Council.

City of Avon Lake  
Lorain County  
Management's Discussion and Analysis  
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The City's fully automated financial system also maintains budgetary control through its requisition/purchase order/encumbrance feature. Department requisitions which, if processed, would result in an overrun of budget are reviewed by the Finance Director, and if needed, additional appropriations are made available through Council ordinance or departmental transfer. Requisitions not completed are removed at the close of each month or quarter. Requisitions meeting the required criteria are processed by the Finance Director resulting in the required purchase order. The purchase order provides for the reserved encumbrance against the current budget.

The Finance Director continually monitors the encumbrances and expenditures against the budgeted appropriations and against the County Auditor's Certificate of Estimated Resources. Using the budget prepared by the City the preceding July and including the carry over balances less carry over encumbrances at year-end, the County Auditor arrives at and issues the Certificate of Estimated Resources for the City.

The General Fund variance from original estimated revenues increased by \$819,818 increasing the overall General Fund estimated revenues to \$11,055,558 as indicated on page 21. This change represents 7.4% of total estimated revenue. The General Fund variance from original appropriations to final appropriations was \$242,956, increasing overall General Fund appropriations to \$12,851,386. This change represents 1.9% of total appropriations. These changes reflect the City's realistic estimates based on the financial conditions in our state's economy providing effective fiscal management.

The Income Tax Transfer Fund variance from original estimated revenues increased by \$482,237 increasing the overall Income Tax Transfer Fund estimated revenues to \$6,882,237 as indicated on page 22. This reflects that employment in the City of Avon Lake maintained, and in fact, exceeded estimates. The Income Tax Transfer Fund variance from original estimated appropriations increased by \$294,737 increasing the overall Income Tax Transfer Fund estimated appropriations to \$7,119,737. This change represents 4.1% of total appropriations.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

At the end of 2004, the City had \$105.1 million, net of depreciation, invested in a broad range of capital assets, including police, fire and radio equipment, land, vehicles, buildings, park facilities, roads, bridges, and water and sewer lines in Table 3. This amount represents a net increase over last year.



City of Avon Lake  
Lorain County  
Management's Discussion and Analysis  
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Table 3  
Capital Assets (Net of Depreciation)  
(In Millions)

	Governmental Activities		Business-Type Activities		Total	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Capital Assets						
Land	\$ 3.6	\$ 3.1	\$ 1.2	\$ 1.2	\$ 4.8	\$ 4.3
Construction in Progress	1.1	0.4	6.5	0.0	7.6	0.4
Building and Improvements	10.3	9.9	18.0	18.4	28.3	28.3
Machinery and Equipment	2.0	2.0	2.3	1.9	4.3	3.9
Vehicles	1.1	1.1	0.1	0.1	1.2	1.2
Infrastructure	32.0	30.5	-	-	32.0	30.5
Water and Sewer lines	-	-	<u>26.9</u>	<u>26.4</u>	<u>26.9</u>	<u>26.4</u>
Total Capital Assets	\$ <u>50.1</u>	\$ <u>47.0</u>	\$ <u>55.0</u>	\$ <u>48.0</u>	\$ <u>105.1</u>	\$ <u>95.0</u>

More detailed information about the City's capital assets is presented in Note 8 to the basic financial statements.

**Debt**

At December 31, 2004, the City had \$16.7 million in General Obligation Bonds.

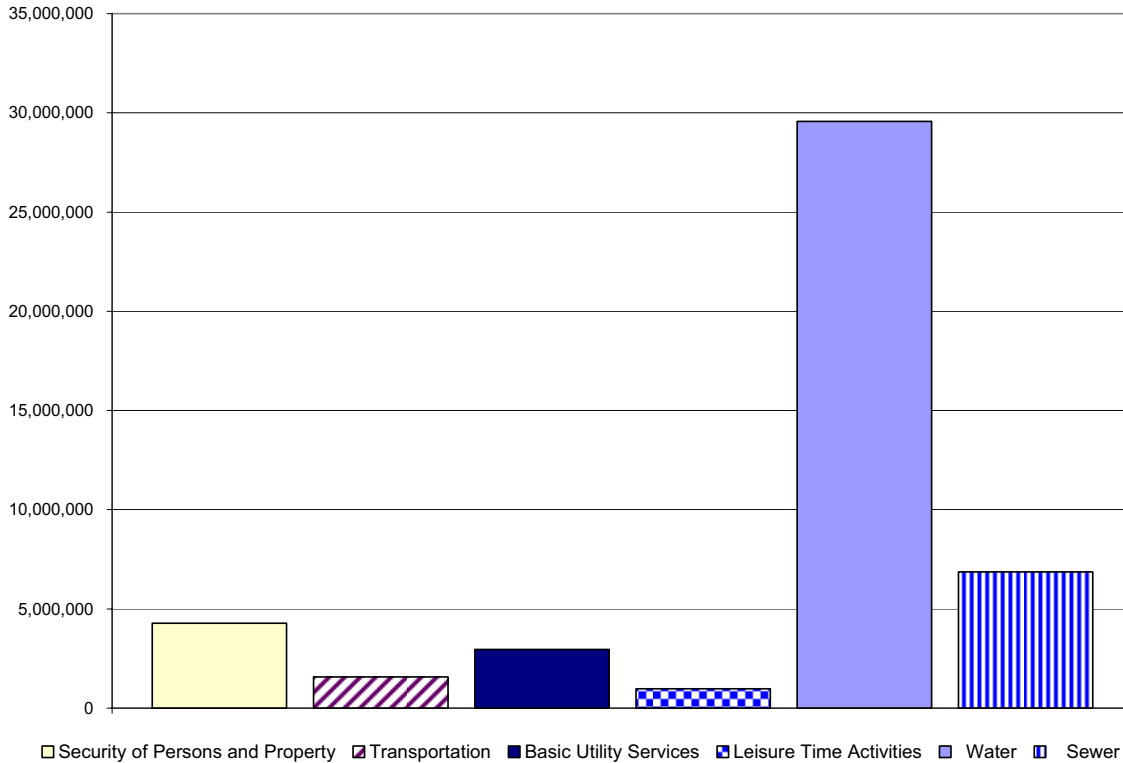
Table 4  
General Obligation Bond Debt Outstanding at Year End  
(Governmental Activities and Business-Type Activities)

	Governmental Activities		Business-Type Activities		Total	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Unvoted General Obligation Bonds						
2001 Various Refunding	\$ 0.4	\$ 0.4	\$ 6.2	\$ 6.7	\$ 6.6	\$ 7.1
2001 Pin Oak Parkway	0.4	0.4	0.0	0.0	0.4	0.4
2001 Safety Center	4.3	4.5	0.0	0.0	4.3	4.5
2003 Recreational Facility	1.0	1.0	0.0	0.0	1.0	1.0
2003 Wastewater Improvement	<u>0.0</u>	<u>0.0</u>	<u>4.4</u>	<u>4.5</u>	<u>4.4</u>	<u>4.5</u>
Total Unvoted G.O. Bonds	\$ <u>6.1</u>	\$ <u>6.3</u>	\$ <u>10.6</u>	\$ <u>11.2</u>	\$ <u>16.7</u>	\$ <u>17.5</u>

At December 31, 2004, the City had outstanding long-term debt obligations in the amount of \$9.8 million for the governmental activities and \$35.6 million for business-type activities. The breakout on debt is presented in the graph below.

City of Avon Lake  
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Management's Discussion and Analysis  
For the Year Ended December 31, 2004

Graph 3  
Debt by Activity



Debt for Security of Persons and Property consist of \$4,274,101 for the City of Avon Lake's Safety Center. Debt for Transportation consists of \$1,174,735 for the improvements to Pin Oak Parkway, and \$8,296 for curb and gutter improvements along Redwood Blvd. Debt for Basic Utility Services consists of \$2,569,996 for the Central Avon Lake Ditch Project, \$12,734 for storm sewers along Avon Point, \$372,295 for storm sewers along Walker Rd. Debt for Leisure Time Activities consists of \$975,000 for improvements to Weiss Field. Debt for Water includes five improvement and expansion projects to the City of Avon Lake's water distribution plant totaling \$28,687,693. Debt for Sewer consists of \$502,187 for digester repairs and improvements, \$704,325 for sanitary sewer installation along Walker Rd., and \$5,664,250 for various sewer separation and storm sewer projects throughout the City of Avon Lake.

The City's general obligation bond rating is Aaa from Moody's. Other obligations include accrued vacation pay and sick leave. More detailed information about the City's long-term liabilities is presented in the notes to the basic financial statements.

**Current Financial Related Activities**

The City of Avon Lake's Administration, City Council and Board of Municipal Utilities are committed to improving services to its residents as well as maintaining and upgrading the City's assets and infrastructure.

In 2004, the City began a major reconfiguration of Weiss Field baseball fields. Due to the wet spring and dry summer, opening day will be the spring of 2006. Work also continued on the sewer separation project along State Route 83, with an expected completion date of early fall 2005.

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Also early in 2004, the Water Department started an expansion project with \$4,900,000 in OWDA funds to increase its capacity to 40 million gallons per day ensuring the necessary capacity for the City of Avon Lake and surrounding communities well into the future. This project is expected to be tested and completed by mid 2005.

The City continues to address its need for new vehicles planning to replace 3 police cruisers, a life support ambulance and a five ton dump truck. Our Police department plans to add a computer aided dispatch system with records and booking capabilities. Our Fire department is upgrading the radio system to increase coverage of their mobile to vehicle communication systems. Upgrades continue at our senior/youth center consisting of ADA accessible restrooms and new flooring in exercise room. Also, the City continues an aggressive street repair program with \$229,000 budgeted for 2005 for widening and resurfacing of the southern portion of Jaycox Rd., along with \$506,000 budgeted for the repaving of Electric Blvd.

### **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and 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 Joe Newlin, Finance Director, City of Avon Lake, 150 Avon Belden Road, Avon Lake, Ohio 44012, telephone 440-933-6141 or visit our website at [www.avonlake.org](http://www.avonlake.org).

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**City of Avon Lake**  
Lorain County  
Statement of Net Assets  
December 31, 2004

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$8,906,285	\$7,718,218	\$16,624,503
Receivables:			
Taxes	6,658,136	0	6,658,136
Accounts	72,725	998,194	1,070,919
Special assessments	4,414,474	0	4,414,474
Due from other governments	580,350	78,000	658,350
Materials and supplies inventory	91,929	65,466	157,395
Total current assets	<u>20,723,899</u>	<u>8,859,878</u>	<u>29,583,777</u>
Noncurrent assets:			
Restricted cash and cash equivalents	188,780	1,356,577	1,545,357
Due from other governments	0	949,000	949,000
Unamortized bond issue costs and discounts	0	266,416	266,416
Investment in joint venture	0	2,218,553	2,218,553
Capital assets (Note 8)			0
Land and construction in progress	4,693,580	7,750,430	12,444,010
Depreciable, net	45,368,485	47,343,660	92,712,145
Total noncurrent assets	<u>50,250,845</u>	<u>59,884,636</u>	<u>110,135,481</u>
Total assets	<u>70,974,744</u>	<u>68,744,514</u>	<u>139,719,258</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts and contracts payable	168,287	94,282	262,569
Retainage payable	187,751	206,118	393,869
Accrued wages and benefits	384,134	115,861	499,995
Intergovernmental payable	524,418	149,090	673,508
Deferred revenue	4,968,031	0	4,968,031
Matured bonds payable	1,029	0	1,029
Interest payable	37,119	219,650	256,769
Long-term liabilities:			0
Due within one year	1,091,409	1,937,301	3,028,710
Due in more than one year	10,949,519	34,011,422	44,960,941
Total liabilities	<u>18,311,697</u>	<u>36,733,724</u>	<u>55,045,421</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	40,289,897	19,528,746	59,818,643
Restricted for:			
Capital projects	2,431,437	0	2,431,437
Debt service	537,536	1,356,577	1,894,113
Streets and highways	408,745	0	408,745
Public Safety	1,113,919	0	1,113,919
Parks and recreation	47,334	0	47,334
Other purposes	188,780	0	188,780
Unrestricted	7,645,399	11,125,467	18,770,866
Total net assets	<u>\$52,663,047</u>	<u>\$32,010,790</u>	<u>\$84,673,837</u>

See Notes to the Basic Financial Statements

**City of Avon Lake**  
Lorain County  
*Statement of Activities*  
For the Year Ended December 31, 2004

	Program Revenues			Net (Expense) Revenue and Changes In Net Assets		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Functions/Programs</b>						
<b>Primary Government:</b>						
Governmental Activities:						
General Government	\$2,828,170	\$0	\$0	(\$2,485,112)	\$0	(\$2,485,112)
Security of Persons and Property	6,798,463	25,898	37,397	(6,505,785)	0	(\$6,505,785)
Public Health and Welfare	100,920	13,700	0	(87,220)	0	(\$87,220)
Transportation	6,110,417	0	2,455,786	(3,505,943)	0	(\$3,505,943)
Community Environment	333,983	0	0	(145)	0	(\$145)
Basic Utility Services	72,119	0	0	(72,119)	0	(\$72,119)
Leisure Time Activities	1,437,425	0	0	(1,133,574)	0	(\$1,133,574)
Interest and Fiscal Charges	510,056	0	0	(510,056)	0	(\$510,056)
<i>Total Governmental Activities</i>	<u>18,191,553</u>	<u>39,598</u>	<u>2,493,183</u>	<u>(14,299,954)</u>	<u>0</u>	<u>(14,299,954)</u>
Business-type Activities:						
Water	7,390,149	0	370,258	0	2,432,891	2,432,891
Sewer	3,795,315	0	394,625	0	(451,853)	(451,853)
<i>Total Business-type Activities</i>	<u>11,185,464</u>	<u>0</u>	<u>764,883</u>	<u>0</u>	<u>1,981,038</u>	<u>1,981,038</u>
<i>Total Primary Government</i>	<u>\$29,377,017</u>	<u>\$39,598</u>	<u>\$3,258,066</u>	<u>(14,299,954)</u>	<u>1,981,038</u>	<u>(12,318,916)</u>
<b>General Revenues</b>						
Property Taxes - General Purposes				5,273,924	0	5,273,924
Income Taxes				7,164,047	0	7,164,047
Special assessments				405,455	0	405,455
Intergovernmental				2,188,383	368	2,188,751
Investment Earnings				226,496	127,770	354,266
Miscellaneous				28,928	1,308	30,236
Transfers, Net				(467,506)	195,053	(272,453)
<i>Total General Revenues and Transfers</i>				<u>14,819,727</u>	<u>324,499</u>	<u>15,144,226</u>
Changes in Net Assets				519,773	2,305,537	2,825,310
<i>Net Assets - Beginning (See Note 4)</i>				<u>52,143,274</u>	<u>29,705,253</u>	<u>81,848,527</u>
<i>Net Assets - Ending</i>				<u>\$52,663,047</u>	<u>\$32,010,790</u>	<u>\$84,673,837</u>

See Notes to the Basic Financial Statements

**City of Avon Lake**

Lorain County  
Balance Sheet  
*Governmental Funds*  
December 31, 2004

	General Fund	Income Tax Transfer Fund	Capital Improvement Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>						
Cash and Cash Equivalents	\$2,268,091	\$1,058,978	\$1,003,032	\$574,655	\$4,001,529	\$8,906,285
Cash and Cash Equivalents with Fiscal and Escrow Agents	0	0	41,949	1,029	145,802	188,780
Receivables:						
Taxes	3,683,210	1,634,532	0	0	1,340,394	6,658,136
Accounts	18,104	0	0	0	54,621	72,725
Special Assessments	0	0	0	4,061,723	352,751	4,414,474
Interfund	573,404	327,948	0	0	0	901,352
Intergovernmental	34,771	0	372,747	0	172,832	580,350
Materials and Supplies Inventory	26,114	0	0	0	65,816	91,930
<b>Total Assets</b>	<u>\$6,603,694</u>	<u>\$3,021,458</u>	<u>\$1,417,728</u>	<u>\$4,637,407</u>	<u>\$6,133,745</u>	<u>\$21,814,032</u>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Accounts and Contracts Payable	\$61,396	\$0	\$23,068	\$0	\$83,823	\$168,287
Retainage Payable	0	0	41,949	0	145,802	187,751
Accrued Wages and Benefits	283,528	0	0	0	100,606	384,134
Deferred Revenue	3,683,210	738,264	35,250	4,061,723	1,693,145	10,211,592
Intergovernmental Payable	253,815	0	1,110	0	269,495	524,420
Interfund Payables	256,896	0	327,948	0	316,508	901,352
Matured Bonds Payable	0	0	0	1,029	0	1,029
Interest Payable	0	0	0	37,119	0	37,119
Compensated Absences	13,076	0	0	0	0	13,076
Recreation Fee Credits Payable	0	0	0	0	129,805	129,805
<b>Total Liabilities</b>	<u>4,551,921</u>	<u>738,264</u>	<u>429,325</u>	<u>4,099,871</u>	<u>2,739,184</u>	<u>12,558,565</u>
<b>FUND BALANCES:</b>						
Reserved for:						
Inventories	26,113	0	0	0	65,816	91,929
Encumbrances	80,430	0	387,918	0	531,298	999,646
Debt Service	0	0	0	537,536	0	537,536
Unreserved	1,945,230	2,283,194	600,485	0	0	4,828,909
Unreserved reported in nonmajor:						
Special revenue funds	0	0	0	0	1,628,495	1,628,495
Capital projects funds	0	0	0	0	1,168,952	1,168,952
<b>Total fund balances</b>	<u>2,051,773</u>	<u>2,283,194</u>	<u>988,403</u>	<u>537,536</u>	<u>3,394,561</u>	<u>9,255,467</u>
<b>Total Liabilities and fund balances</b>	<u>\$6,603,694</u>	<u>\$3,021,458</u>	<u>\$1,417,728</u>	<u>\$4,637,407</u>	<u>\$6,133,745</u>	<u>\$21,814,032</u>

See Notes to the Basic Financial Statements

**City of Avon Lake**  
Lorain County  
Reconciliation of Total Governmental Fund Balances to  
Net Assets of Governmental Activities  
December 31, 2004

**Total fund balances - governmental funds** \$9,255,467

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

Capital assets used in governmental activities are not financial  
resources and therefore, are not reported as assets in governmental funds.  
The cost of the assets is \$76,016,228 and the accumulated depreciation is \$25,954,163 50,062,065

Income and special assessment taxes receivable will be collected this year, but are not  
available soon enough to pay for the current period's expenditures, and therefore  
are deferred in the funds. 5,243,560

Long-term liabilities, including bonds payable and compensated absences,  
are not due and payable in the current period and therefore, are not reported as  
liabilities in the funds. (11,898,045)

Total net assets - governmental activities \$52,663,047

See Notes to the Basic Financial Statements



**City of Avon Lake**  
Lorain County  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended December 31, 2004

	General Fund	Income Tax Transfer Fund	Capital Improvement Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>						
Municipal Income Tax	\$0	\$7,220,780	\$0	\$0	0	\$7,220,780
Property and Other Taxes	3,836,644	0	0	0	1,709,707	5,546,351
Charges for Services	231,431	0	5,633	0	105,543	342,607
Licenses and Permits	538,081	0	0	0	157,068	695,149
Fines and Forfeits	187,039	0	0	0	36,664	223,703
Intergovernmental	1,023,993	0	343,810	0	1,013,750	2,381,553
Special Assessments	0	0	0	376,882	28,573	405,455
Interest	5	0	204,735	1,413	20,343	226,496
Contributions and Donations	29,366	0	12,152	34,948	20,886	97,352
Other	28,775	0	0	0	153	28,928
<b>Total Revenues</b>	<b>\$5,875,334</b>	<b>\$7,220,780</b>	<b>\$566,330</b>	<b>\$413,243</b>	<b>3,092,687</b>	<b>\$17,168,374</b>
<b>Expenditures</b>						
<b>Current:</b>						
General Government	2,273,341	0	57,871	0	205,447	2,536,659
Security of Persons and Property	4,874,096	0	51,710	0	1,554,762	6,480,568
Public Health and Welfare	62,125	0	0	0	38,795	100,920
Transportation	2,916,658	0	53,340	0	1,041,722	4,011,720
Community Environment	327,753	0	2,469	0	2,376	332,598
Basic Utility Services	0	0	45,277	0	0	45,277
Leisure Time Activities	437,739	0	590,821	0	469,497	1,498,057
Capital Outlay	150,278	0	1,481,516	0	1,978,265	3,610,059
Debt Service:						0
Principal Retirement	0	0	0	500,359	0	500,359
Interest and Fiscal Charges	0	0	0	520,266	0	520,266
<b>Total Expenditures</b>	<b>11,041,990</b>	<b>0</b>	<b>2,283,004</b>	<b>1,020,625</b>	<b>5,290,864</b>	<b>19,636,483</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(5,166,656)</b>	<b>7,220,780</b>	<b>(1,716,674)</b>	<b>(607,382)</b>	<b>(2,198,177)</b>	<b>(2,468,109)</b>
<b>Other Financing Sources (Uses)</b>						
Transfers In	5,227,303	0	1,930,315	641,713	613,323	8,412,654
Transfers Out	(1,405,286)	(6,969,737)	(388,000)	(15,724)	(97,500)	(8,876,247)
<b>Total Other Financing Sources (Uses)</b>	<b>3,822,017</b>	<b>(6,969,737)</b>	<b>1,542,315</b>	<b>625,989</b>	<b>515,823</b>	<b>(463,593)</b>
<b>Net Change in Fund Balances</b>	<b>(1,344,639)</b>	<b>251,043</b>	<b>(174,359)</b>	<b>18,607</b>	<b>(1,682,354)</b>	<b>(2,931,702)</b>
<b>Fund Balances - Beginning (as Restated - See Note 4)</b>	<b>3,396,412</b>	<b>2,032,151</b>	<b>1,162,762</b>	<b>518,929</b>	<b>5,076,915</b>	<b>12,187,169</b>
<b>Fund Balances - Ending</b>	<b>\$2,051,773</b>	<b>\$2,283,194</b>	<b>\$988,403</b>	<b>\$537,536</b>	<b>\$3,394,561</b>	<b>\$9,255,467</b>

See Notes to the Basic Financial Statements

**City of Avon Lake**  
Lorain County  
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, 2004

**Net Changes in Fund Balances - Total Governmental Funds** (\$2,931,702)

*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 capital outlays exceeded depreciation in the current period.

Capital Asset Additions	6,002,159	
Current Year Depreciation	<u>(2,584,852)</u>	
Total		3,417,307

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the Statement of Activities, a gain or loss is reported for each disposal (288,622)

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

Income Taxes	(56,733)	
Property Taxes	(272,427)	
Intergovernmental	<u>35,251</u>	
Total		(293,909)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 500,359

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

Police and Fire Pension Payable	1,768	
Landfill Post Closure Costs	45,277	
Compensated absences	(30,705)	
Recreational fee credit payable	<u>100,000</u>	
Total		<u>116,340</u>

Change in Net Assets of Governmental Activities \$519,773

See Notes to the Basic Financial Statements

**City of Avon Lake**  
Lorain County  
Statement of Revenues, Expenditures and Changes  
in Fund Balance - Budget (Non-GAAP Basis) and Actual  
*General Fund*  
For the Year Ended December 31, 2004

	Budget Amounts		
	Original	Final	Actual
<b>Revenues</b>			
Property and Other Taxes	\$3,421,466	\$3,421,466	\$3,504,236
Charges for Services	181,697	229,896	231,374
Licenses and Permits	517,700	511,263	538,081
Fines and Forfeits	148,000	176,223	176,283
Intergovernmental	881,295	1,380,014	1,303,694
Donations	55,000	55,000	29,366
Other	20,500	50,481	69,943
<b>Total Revenues</b>	<b>5,225,658</b>	<b>5,824,343</b>	<b>5,852,977</b>
<b>Expenditures</b>			
Current:			
General Government	2,568,158	2,587,721	\$2,226,107
Security of Persons and Property	4,953,335	4,953,335	\$4,841,562
Public Health and Welfare	65,000	65,000	\$62,125
Transportation	2,959,588	2,959,588	\$2,951,175
Community Environment	349,205	349,205	\$313,822
Leisure Time Activities	522,806	522,806	\$440,690
<b>Total Expenditures</b>	<b>11,418,092</b>	<b>11,437,655</b>	<b>10,835,481</b>
Excess (Deficiency) of Revenues over Expenditures	(6,192,434)	(5,613,312)	(4,982,504)
<b>Other Financing Sources (Uses)</b>			
Transfers-In	5,010,082	5,231,215	5,227,303
Transfers-Out	(1,190,338)	(1,413,731)	(1,405,286)
Advances-In	107,000	698,791	471,835
Advances-Out	(65,000)	(671,791)	(681,343)
<b>Total Other Financing Sources</b>	<b>3,861,744</b>	<b>3,844,484</b>	<b>3,612,509</b>
Net change in Fund Balance	(2,330,690)	(1,768,828)	(1,369,995)
Fund Balance - Beginning	3,466,206	3,466,206	3,466,206
Fund Balance - Ending	<u>\$1,135,516</u>	<u>\$1,697,378</u>	<u>\$2,096,211</u>

See Notes to Basic Financial Statements

**City of Avon Lake**  
Lorain County  
Statement of Revenues, Expenditures and Changes  
in Fund Balance - Budget (Non-GAAP Basis) and Actual  
*Income Tax Transfer Fund*  
For the Year Ended December 31, 2004

	<u>Budget Amounts</u>		
	<u>Original</u>	<u>Final</u>	<u>Actual</u>
<b>Revenues</b>			
Municipal Income Tax	<u>\$6,400,000</u>	<u>\$6,882,237</u>	<u>\$7,120,914</u>
Total Revenues	<u>6,400,000</u>	<u>6,882,237</u>	<u>7,120,914</u>
<b>Expenditures</b>			
Current:			
General Government	<u>150,000</u>	<u>150,000</u>	<u>141,868</u>
Total Expenditures	<u>150,000</u>	<u>150,000</u>	<u>141,868</u>
Excess (Deficiency) of Revenues over Expenditures	<u>6,250,000</u>	<u>6,732,237</u>	<u>6,979,046</u>
<b>Other Financing Sources (Uses)</b>			
Transfers-Out	(6,675,000)	(6,969,737)	(6,969,737)
Advances-In	0	17,763	27,315
Advances-Out	<u>0</u>	<u>(355,263)</u>	<u>(355,263)</u>
Total Other Financing Sources (Uses)	<u>(6,675,000)</u>	<u>(7,307,237)</u>	<u>(7,297,685)</u>
Net change in Fund Balance	(425,000)	(575,000)	(318,639)
Fund Balance - Beginning	<u>1,377,618</u>	<u>1,377,618</u>	<u>1,377,618</u>
Fund Balance - Ending	<u>\$952,618</u>	<u>\$802,618</u>	<u>\$1,058,979</u>

**See Notes to Basic Financial Statements**

**City of Avon Lake**  
Lorain County  
Statement of Fund Net Assets  
*Proprietary Funds*  
December 31, 2004

	Business-Type Activities		
	Water	Sewer	Total
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$4,059,415	\$3,658,803	\$7,718,218
Receivables:			
Accounts	572,788	425,406	998,194
Due from other governments	78,000	0	78,000
Materials and supplies inventory	47,984	17,482	65,466
Total current assets	<u>4,758,187</u>	<u>4,101,691</u>	<u>8,859,878</u>
Noncurrent assets:			
Restricted cash and cash equivalents	1,356,577	0	1,356,577
Due from other governments	949,000	0	949,000
Unamortized bond issue costs and discounts	249,654	16,762	266,416
Investment in joint venture	2,218,553	0	2,218,553
Capital assets: (Note 8)			
Land and construction in progress	4,687,584	3,062,846	7,750,430
Depreciable capital assets	49,183,595	23,628,512	72,812,107
Less accumulated depreciation	(14,807,949)	(10,660,498)	(25,468,447)
Total noncurrent assets	<u>43,837,014</u>	<u>16,047,622</u>	<u>59,884,636</u>
Total assets	<u>48,595,201</u>	<u>20,149,313</u>	<u>68,744,514</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts and contracts payables	63,434	30,848	94,282
Retainage Payable	0	206,118	206,118
Accrued wages and benefits	56,357	59,504	115,861
Intergovernmental payable	88,604	60,486	149,090
Interest payable	200,865	18,785	219,650
General obligation bonds	440,612	234,932	675,544
OWDA general obligation debt	418,233	105,167	523,400
Revenue bonds	610,000	0	610,000
Total current liabilities	<u>1,878,105</u>	<u>715,840</u>	<u>2,593,945</u>
Noncurrent liabilities:			
Compensated Absences	166,476	223,792	390,268
General obligation bonds	4,482,787	5,429,318	9,912,105
OWDA General Obligation debt	9,981,061	1,101,345	11,082,406
Revenue bonds	12,755,000	0	12,755,000
Total noncurrent liabilities	<u>27,385,324</u>	<u>6,754,455</u>	<u>34,139,779</u>
Total liabilities	<u>29,263,429</u>	<u>7,470,295</u>	<u>36,733,724</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	10,375,537	9,153,209	19,528,746
Restricted for debt service	1,356,577	0	1,356,577
Unrestricted	7,599,658	3,525,809	11,125,467
Total net assets	<u>\$19,331,772</u>	<u>\$12,679,018</u>	<u>\$32,010,790</u>

See Notes to the Basic Financial Statements

**City of Avon Lake**  
Lorain County  
Statement of Revenues, Expenses, and Changes in Fund Net Assets  
*Proprietary Funds*  
for the Year Ended December 31, 2004

	Business-Type Activities		
	Water	Sewer	Total
<b>OPERATING REVENUES</b>			
Charges for Services	\$9,452,782	\$2,948,837	\$12,401,619
Other	410	898	1,308
Total Operating Revenues	9,453,192	2,949,735	12,402,927
<b>OPERATING EXPENSES</b>			
Personal Services	1,462,781	1,400,645	2,863,426
Contractual Services	164,932	764,069	929,001
Materials and Supplies	3,306,936	725,402	4,032,338
Depreciation	988,394	565,905	1,554,299
Total Operating Expenses	5,923,043	3,456,021	9,379,064
Operating Income (Loss)	3,530,149	(506,286)	3,023,863
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Intergovernmental	0	368	368
Earnings on Investments	87,120	40,650	127,770
Interest and Fiscal Charges	(1,467,106)	(339,294)	(1,806,400)
Total Non-Operating Revenue (Expenses)	(1,379,986)	(298,276)	(1,678,262)
Income (Loss) Before Operating Transfers and Contributions	2,150,163	(804,562)	1,345,601
Capital contributions	370,258	394,625	764,883
Transfers In	2,613,958	1,242,432	3,856,390
Transfers Out	(2,613,891)	(1,047,446)	(3,661,337)
Change in Net Assets	2,520,488	(214,951)	2,305,537
Total net assets - beginning (as restated - Note 4)	16,811,284	12,893,969	29,705,253
Total net assets - ending	\$19,331,772	\$12,679,018	\$32,010,790

See Notes to the Basic Financial Statements

**City of Avon Lake**  
Lorain County  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended December 31, 2004

	<u>Business-Type Activities</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Totals</u>
<b>Cash Flows From Operating Activities</b>			
Cash Received from Customers and Users	\$9,442,267	\$2,932,328	\$12,374,595
Cash Paid to Suppliers	(3,547,422)	(1,420,374)	(4,967,796)
Cash Paid to Employees	(1,437,601)	(1,347,574)	(2,785,175)
Net Cash Provided By Operating Activities	<u>4,457,244</u>	<u>164,380</u>	<u>4,621,624</u>
<b>Cash Flows From Noncapital Financing Activities</b>			
Intergovernmental	0	368	368
Capital contributions	370,258	394,625	764,883
Transfers-In	2,613,958	1,242,432	3,856,390
Transfers-Out	(2,613,891)	(1,047,446)	(3,661,337)
Net Cash Provided By Noncapital Financing Activities	<u>370,325</u>	<u>589,979</u>	<u>960,304</u>
<b>Cash Flows From Capital and Related Financing Activities</b>			
Purchase of Capital Assets	(5,027,866)	(3,616,953)	(8,644,819)
Contributions to Joint Venture	(26,735)	0	(26,735)
OWDA Proceeds	4,020,876	0	4,020,876
Principal Repaid on Capital Debt	(2,011,271)	(440,673)	(2,451,944)
Interest Paid on Capital Debt	(1,462,814)	(328,641)	(1,791,455)
Net Cash (Used For) Provided By Capital Financing Activities	<u>(4,507,810)</u>	<u>(4,386,267)</u>	<u>(8,894,077)</u>
<b>Cash Flows From Investing Activities</b>			
Interest Received	72,276	39,361	111,637
Net Cash Provided By Investing Activities	<u>72,276</u>	<u>39,361</u>	<u>111,637</u>
Net (Decrease) Increase in Cash and Cash Equivalents	392,035	(3,592,547)	(3,200,512)
Cash and Cash Equivalents, Beginning of Year	<u>5,023,957</u>	<u>7,251,350</u>	<u>12,275,307</u>
Cash and Cash Equivalents, End of Year	<u>\$5,415,992</u>	<u>\$3,658,803</u>	<u>\$9,074,795</u>
<b>Reconciliation of Operating Income to Net Cash Provided By Operating Activities</b>			
Operating Income	\$3,530,149	(\$506,286)	\$3,023,863
<b>Adjustments:</b>			
Depreciation Expense	988,394	565,905	1,554,299
<b>Changes in Assets and Liabilities:</b>			
Decrease in Unamortized Bond Costs	9,602	1,289	10,891
(Increase) in Materials and Supplies Inventories	(6,892)	(1,788)	(8,680)
(Increase) in Accounts Receivable	(84,925)	(17,407)	(102,332)
(Increase) in Intergovernmental Receivable	74,000	0	74,000
(Decrease) Increase in Accounts and Contracts Payable	(78,264)	69,596	(8,668)
Increase in Accrued Wages and Benefits Payable	(1,128)	46,690	45,562
Increase in Intergovernmental Payable	26,308	6,381	32,689
Net cash provided by operating activities	<u>\$4,457,244</u>	<u>\$164,380</u>	<u>\$4,621,624</u>

**City of Avon Lake**  
Lorain County  
Statement of Fiduciary Net Assets  
*Fiduciary Funds*  
December 31, 2004

	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$480,846
Total assets	<u>\$480,846</u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts and contracts payables	1,495
Due to others	\$479,351
Total liabilities	<u>\$480,846</u>

See Notes to the Basic Financial Statements



**City of Avon Lake**  
Lorain County  
Notes to the Basic Financial Statements  
For The Year Ended December 31, 2004

**NOTE 1 - DESCRIPTION OF THE CITY AND REPORTING ENTITY**

The City of Avon Lake (the City) is a municipal corporation established under the laws of the State of Ohio which operates under its own charter. The City was incorporated in 1950 and operates under a Council/Mayor form of government. The Mayor and the Council are elected by separate ballot from the municipality at large for four-year terms. The Mayor appoints the Finance Director. The Council approves and hires all department managers and employees of the City. The administrative authority over municipally owned utilities, water and sewer, are vested in a Board of five members elected at large.

**Reporting Entity**

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that financial statements are not misleading. The primary government of the City consists of all funds, departments, boards and agencies that are not legally separate from the City. For the City of Avon Lake, this includes police and fire, parks and recreation, building inspection services, street maintenance and repairs, water and sewer. Council and the Mayor have direct responsibility for these activities.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board; and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organizations. Component units may also include organizations for which the City authorizes the issuance of debt or the levying of taxes, or determines the budget. There are no component units included as part of this report.

The City is associated with the Lorain County Community Alliance Council of Governments as a jointly governed organization. The City is also a member of the Medina-Lorain Water Consortium, a joint venture (See Note 13.)

**City of Avon Lake**  
Lorain County  
Notes to the Basic Financial Statements  
For The Year Ended December 31, 2004  
(Continued)

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City of Avon Lake have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its business-type activities and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. The most significant of the City's accounting policies are described below.

**Basis of Presentation**

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

**Government-wide Financial Statements**

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

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

**Fund Financial Statements**

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

**City of Avon Lake**  
Lorain County  
Notes to the Basic Financial Statements  
For The Year Ended December 31, 2004  
(Continued)

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Fund Accounting**

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

Governmental Funds

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

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

Income Tax Transfer Special Revenue Fund – This special revenue fund is used to account for the City's local income tax and subsequent transfers.

Capital Improvement Capital Projects Fund – The capital improvement capital projects fund accounts for that portion of municipal income tax designated by Council for the purpose of improving, constructing, maintaining, and purchasing those items necessary to enhance the operation of the City.

Debt Service Fund – This debt service fund is used to service all governmental fund debt.

The other governmental funds of the City account for grants and other resources whose use is restricted to a particular purpose.

Proprietary Funds

Proprietary fund reporting focuses on changes in net assets, financial position and cash flows. Proprietary funds are classified as enterprise.

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

Sewer Enterprise Fund – The sewer enterprise fund accounts for the provision of sanitary sewer service to the residents located within the City and commercial users.

Water Enterprise Fund – The water enterprise fund accounts for the provision of water treatment and distribution to its residential customers located within the City and commercial users.

**City of Avon Lake**  
Lorain County  
Notes to the Basic Financial Statements  
For The Year Ended December 31, 2004  
(Continued)

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The agency funds account for fees and deposits collected on behalf of others, municipal court collections that are distributed to various local governments and performance bonds pledged by contractors. The City's agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

**Measurement Focus**

Government-wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the statement of net assets. The statement of activities presents increases (i.e., revenues) and decreases (i.e., expenses) to net assets.

Fund Financial Statements

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

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

**Basis of Accounting**

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

**City of Avon Lake**  
Lorain County  
Notes to the Basic Financial Statements  
For The Year Ended December 31, 2004  
(Continued)

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Revenues - Exchange and Non-exchange Transactions

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

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 6). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of December 31, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenses/Expenditures

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

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

**City of Avon Lake**  
Lorain County  
Notes to the Basic Financial Statements  
For The Year Ended December 31, 2004  
(Continued)

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Budgetary Process

An annual appropriated budget is legally required by the City Charter to be prepared for all funds of the City other than agency funds. Council passes appropriations at the fund level for all funds except the General Fund and the Income Tax Capital Improvement Fund. For these funds, the legal level of control is fund/program level.

Council must approve any revisions in the budget that alter total fund and program appropriations. The following are the procedures used by the City in establishing the budgetary data reported in the basic financial statements:

Tax Budget

A tax budget of estimated revenues and expenditures for all funds other than agency funds is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year for the period January 1 to December 31 of the following year.

Estimated Resources

The County Budget Commission determines if the tax budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by October 1. As part of this certification, the City receives the official certificate of estimated resources that states the projected revenue of each 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 will 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 balances from the preceding year. The certificate of estimated resources can be further amended during the year if the fiscal officer determines, and the Budget Commission agrees, that an estimate needs to be either increased or decreased. The amounts reported in the budgetary statements as original represent the amounts in the official certificate of estimated resources when the original appropriations were adopted. The amounts reported in the budgetary statements as final reflect the amounts in the final amended official certificate of estimated resources issued during 2004.

Appropriations

A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation ordinance must be passed by April 1 of each year, for the period January 1 to December 31. The appropriation ordinance may be supplemented during the year by action of Council, as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. During the year, four supplemental appropriation measures were passed. The amounts reported as the original budgeted amounts in the budgetary statements reflect the first appropriated budget for each fund that covered the entire year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts in the statements of budgetary comparisons represent the final appropriation amounts, including all amendments and modifications.

**City of Avon Lake**  
Lorain County  
Notes to the Basic Financial Statements  
For The Year Ended December 31, 2004  
(Continued)

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Lapsing of Appropriations

At the close of each 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 succeeding year and is not re-appropriated.

Encumbrances

As part of formal budgetary control purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. The Ohio Revised Code prohibits expenditures plus encumbrances from exceeding appropriations. On the GAAP basis, encumbrances outstanding at year-end are reported as reservations of fund balances for subsequent-year expenditures of governmental funds. For more information, see Note 3.

**Cash and Cash Equivalents**

To improve cash management, cash received by the City is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through City records. Each fund's interest in the pool is presented as "cash and cash equivalents" on the balance sheet.

Investments are reported at fair value which is based on quoted market prices, with the exception of nonparticipating repurchase agreements, which are reported at cost. For investments in open-end mutual funds, fair value is determined by the fund's share price. During the year, investments were limited to money market mutual fund accounts, manuscript debt, repurchase agreements, investments in U.S. agencies and instrumentalities and the City invested in STAROhio, an investment pool managed by the State Treasurer's Office. STAROhio which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on December 31, 2004.

Following Ohio statutes, the City has, by ordinance, specified the Capital Improvement Fund to receive an allocation of interest earnings. Interest receipts credited to the Capital Improvement Funds during 2004 amounted to \$204,735 which includes \$198,998 assigned from other City funds.

The cash of the Municipal Court are included in the "cash and cash equivalents" line item on the Statement of Fiduciary Net Assets. The City utilizes a financial institution to service debt as principal and interest come due. The balances of these accounts are presented on the balance sheet as "cash and cash equivalents" and represent deposits or short-term investments in certificates of deposit or money market accounts.

**City of Avon Lake**  
 Lorain County  
 Notes to the Basic Financial Statements  
 For The Year Ended December 31, 2004  
 (Continued)

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

For purposes of the statement of cash flows and for presentation on the statement of net assets/balance sheet, investments with an original maturity of three months or less and investments of the cash management pool are considered to be cash equivalents.

**Inventory**

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventory consists of expendable supplies.

**Capital Assets**

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of five hundred dollars. The City's infrastructure consists of parking lots, storm sewers and manholes, streets, and water and sewer lines. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of proprietary fund capital assets is also capitalized, if significant.

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-Type Activities Estimated Lives</u>
Buildings and Improvements	15 to 70 years	15 to 70 years
Machinery and Equipment	3 to 20 years	3 to 20 years
Vehicles	3 to 20 years	3 to 20 years
Infrastructure	10 to 75 years	10 to 75 years



**City of Avon Lake**  
Lorain County  
Notes to the Basic Financial Statements  
For The Year Ended December 31, 2004  
(Continued)

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." Interfund loans which do not represent available expendable resources are offset by a fund balance reserve account. These amounts are eliminated in the statement of net assets; except for any net residual amounts due between the governmental and business-type activities, which are presented as internal balances.

**Capitalization of Interest**

The City's policy is to delay capitalizing net interest on construction projects until substantial completion of the project. The amount of capitalized interest equals the difference between the interest cost associated with the tax exempt borrowing used to finance the project and the interest earned from temporary investment of the debt proceeds. Capitalized interest is amortized on the straight-line basis over the estimated useful life of the asset. For 2004, interest costs incurred on construction projects in proprietary funds were not material.

**Bond Discounts and Issuance Costs**

Bond discounts and issuance costs are deferred and amortized over the term of the bonds using the straight-line method, if significant.

**Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those that the City has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employee wage rates at fiscal year end taking into consideration any limits specified in the City's termination policy. The City records a liability for all accumulated unused vacation time when earned for all employees. The City records a liability for accumulated unused sick leave for all employees ages thirty-eight or older with eight or more years of accumulated service. The entire compensated absence liability is reported on the government-wide financial statements.

For governmental funds, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. If material, these amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

**City of Avon Lake**  
Lorain County  
Notes to the Basic Financial Statements  
For The Year Ended December 31, 2004  
(Continued)

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Accrued Liabilities and Long-Term Obligations**

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

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

**Fund Balance Reserves**

The City reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent expendable resources and therefore are not available for appropriation or expenditure. As a result, encumbrances, debt service, and inventories are recorded as a reservation of fund balance.

**Net Assets**

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

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

**Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for waste water treatment and water services. 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 these definitions are reported as non-operating.

**City of Avon Lake**  
Lorain County  
Notes to the Basic Financial Statements  
For The Year Ended December 31, 2004  
(Continued)

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Contributions of Capital**

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

**Interfund Activity**

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

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

**Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence.

**Estimates**

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

**NOTE 3 - BUDGETARY BASIS OF ACCOUNTING**

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

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).

**City of Avon Lake**  
 Lorain County  
 Notes to the Basic Financial Statements  
 For The Year Ended December 31, 2004  
 (Continued)

**NOTE 3 - BUDGETARY BASIS OF ACCOUNTING** (Continued)

3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
4. Unreported cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statement.
5. Advances-in and advances-out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general and income tax transfer funds.

	Net Change in Fund Balance General and Major Special Revenue Fund	
	<u>General Fund</u>	<u>Income Tax Transfer Fund</u>
GAAP Basis	\$ (1,344,639)	\$ 251,043
Net Adjustment for Revenue Accruals	(22,357)	(99,866)
Net Adjustment for Expenditure Accruals	286,939	(141,868)
Encumbrances	(80,430)	0
Advances In	471,835	27,315
Advances Out	<u>(681,343)</u>	<u>(355,263)</u>
Budget Basis	\$ <u>(1,369,995)</u>	\$ <u>(318,639)</u>

**City of Avon Lake**  
Lorain County  
Notes to the Basic Financial Statements  
For The Year Ended December 31, 2004  
(Continued)

**NOTE 4 - RESTATEMENT OF FUND BALANCE**

**Restatement of Fund Balance**

The government-wide financial statements split the City's programs between business-type and governmental activities. On the government-wide financial statements, special assessment revenue was restated between fund types having no net effect on the financials. Cash was also restated due to an incorrect GASB 31 adjustment in the prior year. Net capital assets were restated reflecting conversion adjustments as well as increasing the useful life of our concrete streets. The business-type net assets were restated reflecting conversion adjustments, doubling up of prior year CIP, as well as the inclusion of a water line outside the City along with its accumulated depreciation.

	<b>Governmental Funds</b>					<b>Total Governmental Funds</b>
	<b>General Fund</b>	<b>Income Tax Transfer Fund</b>	<b>Capital Improvement Fund</b>	<b>Debt Service Fund</b>	<b>Other Government Funds</b>	
Fund Balance December 31, 2003	\$ 3,394,729	\$ 2,032,151	\$ 1,476,011	\$ 493,401	\$ 5,104,126	\$ 12,500,418
Cash			(313,249)			(313,249)
Special Assessments	1,683			25,528	(27,211)	
Adjusted Fund Balance December 31, 2003	<u>\$ 3,396,412</u>	<u>\$ 2,032,151</u>	<u>\$ 1,162,762</u>	<u>\$ 518,929</u>	<u>\$ 5,076,915</u>	<u>\$ 12,187,169</u>

	<b>Governmental Activities</b>			<b>Water</b>	<b>Sewer</b>	<b>Total Enterprise</b>
Net Assets, December 31, 2003		\$45,361,214		\$10,610,562	\$11,928,882	\$22,539,444
Cash		(313,249)				
City Streets, Parking Lots, Buildings, Vehicles, Net of Accumulated Depreciation		7,108,068				
Miscellaneous		(12,759)				
CIP Prior year double counted				(2,006,554)		(2,006,554)
Water and Sewer Lines, Net of Accumulated Depreciation				8,207,276	965,087	9,172,363
Adjusted Net Assets, December 31, 2003		<u>\$52,143,274</u>		<u>\$16,811,284</u>	<u>\$12,893,969</u>	<u>\$29,705,253</u>

**City of Avon Lake**  
Lorain County  
Notes to the Basic Financial Statements  
For The Year Ended December 31, 2004  
(Continued)

**NOTE 5 - DEPOSITS AND INVESTMENTS**

**Legal Requirements**

Deposits and investments are restricted by provisions of the Ohio Revised Code. Statutes require the classification of monies held by the City into three categories.

One category consists of “active” monies; those monies required to be kept in a “cash” or “near cash” status for immediate use by the City. Such monies must be maintained either as cash in the treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

A second category consists of “inactive” monies; those monies not required for use within the current five-year period of designation of depositories. Inactive monies may be deposited or invested only as certificates of deposit maturing no later than the end of the current period of designation of depositories or by savings or deposit accounts including, but not limited to, passbook accounts.

A third category consists of “interim” monies; those monies which are not needed for immediate use but which will be needed before the end of the current period of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts. Interim monies may be invested in the following obligations provided they mature or are redeemable within five years from the date of purchase:

1. Bonds, notes, or other obligations of, or guaranteed by, the United States, or those for which the faith of the United States is pledged for the payment of principal and interest.
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality.
3. Written repurchase agreements for a period not to exceed thirty days in securities listed above that mature within five years from the date of purchase.
4. Bonds and other obligations of the State of Ohio.
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) 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.
6. The State Treasurer’s investment pool (STAR Ohio).

The City may also invest any monies not required to be used for a period of six months or more in the following:

1. Bonds of the State of Ohio.
2. Bonds of any municipal corporation, village, county, township, or other political subdivision of this State, as to which there is no default of principal, interest or coupons.
3. Obligations of the City.

**City of Avon Lake**  
Lorain County  
Notes to the Basic Financial Statements  
For The Year Ended December 31, 2004  
(Continued)

**NOTE 5 - DEPOSITS AND INVESTMENTS** (Continued)

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

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

**Deposits**

At year end, the carrying amount of the City's deposits was \$649,464 including \$1,595 of petty cash and the bank balance was \$678,000. Of the bank balance, \$104,573 was covered by federal depository insurance, and \$573,427 was uncollateralized and uninsured.

Although the securities serving as collateral were held by the pledging financial institutions trust department or agent in the City's name and all state statutory requirements for the investment of money had been followed, noncompliance with federal requirements would potentially subject the City to a successful claim by the FDIC.

**Investments**

The City's investments are categorized below to give an indication of the level of risk assumed by the City at year-end.

Category 1 includes investments that are insured or registered or for which the securities are held by the City.

Category 2 includes uninsured and unregistered investments for which securities are held by the financial institution's trust department or agent in the City's name.

Category 3 includes uninsured and unregistered investments for which securities are held by the financial institution or by its trust department but not in the City's name.

The City invests in STAR Ohio, the State Treasurer's investment pool, and mutual funds which are not classified by degree of credit risk since they are not evidenced by securities that exist in physical or book entry form.

**City of Avon Lake**  
Lorain County  
Notes to the Basic Financial Statements  
For The Year Ended December 31, 2004  
(Continued)

**NOTE 5 - DEPOSITS AND INVESTMENTS** (Continued)

	<u>Category</u>		<u>Carrying and Fair Value</u>
	<u>1</u>	<u>3</u>	
Money Market Mutual Funds	\$ 0	\$ 0	\$ 4,069,682
Manuscript Debt	17,389	0	17,389
Investments in STAR Ohio	0	0	3,714,507
Repurchase Agreement	0	445,000	445,000
Investments in U.S. Agencies and Instrumentalities	<u>0</u>	<u>9,754,664</u>	<u>9,754,664</u>
Total Investments	\$ <u>17,389</u>	\$ <u>10,199,664</u>	\$ <u>18,001,242</u>

The classification of cash and cash equivalents and investments on the balance sheet is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting". A reconciliation between the classification of cash and cash equivalents and investments on the balance sheet and the classification of deposits and investments according to GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents/ Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 18,650,706	\$ -
Investments:		
U.S. Agencies and Instrumentalities	(9,754,664)	9,754,664
Money Market Mutual Funds	(4,069,682)	4,069,682
Repurchase Agreement	(445,000)	445,000
Manuscript Debt	(17,389)	17,389
STAR Ohio	<u>(3,714,507)</u>	<u>3,714,507</u>
GASB Statement No. 3	\$ <u>649,464</u>	\$ <u>18,001,242</u>

**NOTE 6 - RECEIVABLES**

Receivables at December 31, 2004, consisted primarily of municipal income taxes, property and other taxes, intergovernmental receivables arising from entitlements, shared revenues, special assessments, accrued interest on investments, and accounts (billings for utility service) receivable.

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



**City of Avon Lake**  
Lorain County  
Notes to the Basic Financial Statements  
For The Year Ended December 31, 2004  
(Continued)

**NOTE 6 – RECEIVABLES** (Continued)

**Property Taxes**

Property taxes include amounts levied annually, on all real and public utility property and business tangible personal property which is located within the City. The Lorain County Auditor is responsible for assessing and remitting these property taxes to the City. The Lorain County Treasurer is responsible for collecting property taxes.

Real property taxes collected were based on assessed value equal to thirty-five percent (35%) of appraised value. The Lorain County Auditor reappraises real property every six years, with a triennial update, which was last completed for 2000. Real property taxes are levied on assessed valuations as of December 31, which is the lien date. Real property taxes, billed one year in arrears, are payable annually or semiannually. The first payment is due January 20, and the remainder is payable by June 20.

Taxpayers (other than public utilities) become liable for tangible personal property taxes on January 1 of the current calendar year based on tax rates determined in the preceding year and assessed values determined at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of that calendar year. Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25 percent of its true value for capital assets and 23 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30 with the remainder payable by September 20. Under Ohio law, personal property taxes do not attach as a lien on the personal property.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding 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 currently is assessed at 88 percent of its true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

The full tax rate for all City operations for the year ended December 31, 2004 was \$6.93 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2004 property tax receipts were based are as follows:

Real Property	\$ 577,484,470
Public Utility Personal	89,826,130
Tangible Personal Property	<u>76,118,840</u>
Total	\$ <u>743,429,440</u>

**City of Avon Lake**  
 Lorain County  
 Notes to the Basic Financial Statements  
 For The Year Ended December 31, 2004  
 (Continued)

**NOTE 6 – RECEIVABLES** (Continued)

**Income Taxes**

The City levies a municipal income tax of one and one-half percent on all salaries, wages, commission and other compensation, and net profits earned within the City as well as incomes of residents earned outside of the City. In the latter case, the City allows a credit of one hundred percent of the tax paid to another municipality to a maximum of the total amount assessed. Ohio law requires all City income tax rates above one percent to be voted by the residents of the City.

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

Income tax proceeds are received by the Income Tax Transfer Fund which is a Special Revenue Fund and transferred by resolution as appropriated by council.

**NOTE 7 - 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.

During 2004, the City contracted for various types of insurance as follows:

<b><u>Company</u></b>	<b><u>Type of Coverage</u></b>	<b><u>Deductible</u></b>
Great American	Property	\$ 5,000
	Inland Marine	1,000
Hartford	Crime	1,000
Claredon Company	Auto	1,000
	General Liability	5,000
	Law Enforcement	5,000
	Employment Practices	25,000
	Public Officials	25,000
Travelers Indemnity Company	Boiler & Machinery	1,000

Settled claims have not exceeded this commercial coverage in any of the past three years.

The City pays the Ohio Bureau of Workers' Compensation a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

**City of Avon Lake**  
**Lorain County**  
**Notes to the Basic Financial Statements**  
**For The Year Ended December 31, 2004**  
**(Continued)**

**NOTE 8 - CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2004, was as follows:

	Balance 12/31/03	Restated Balance 1/1/2004	Additions	Disposals	Balance 12/31/04
<b>Governmental Activities</b>					
Capital assets, not being depreciated:					
Land	\$3,098,360	\$3,061,369	\$537,414	\$0	\$3,598,783
Construction in progress	437,882	437,882	1,094,797	(437,882)	1,094,797
Total capital asset, not being depreciated	<u>3,536,242</u>	<u>3,499,251</u>	<u>1,632,211</u>	<u>(437,882)</u>	<u>4,693,580</u>
Capital assets, being depreciated:					
Buildings and improvements	11,823,605	11,860,596	577,579	(50,147)	12,388,028
Machinery and equipment	4,378,159	4,381,030	348,877	(100,365)	4,629,542
Vehicles	2,465,212	2,517,743	180,587	0	2,698,330
Infrastructure	49,659,588	49,467,972	3,700,787	(1,562,011)	51,606,748
Total capital asset, being depreciated	<u>68,326,564</u>	<u>68,227,341</u>	<u>4,807,830</u>	<u>(1,712,523)</u>	<u>71,322,648</u>
Less accumulated depreciation:					
Buildings and improvements	(1,959,059)	(1,960,419)	(208,249)	35,331	(2,133,337)
Machinery and equipment	(2,349,762)	(2,401,115)	(331,443)	98,739	(2,633,819)
Vehicles	(1,327,297)	(1,436,770)	(201,559)	0	(1,638,329)
Infrastructure	(26,401,376)	(18,994,908)	(1,843,601)	1,289,831	(19,548,678)
Total accumulated depreciation	<u>(32,037,494)</u>	<u>(24,793,212)</u>	<u>(2,584,852)</u>	<u>1,423,901</u>	<u>(25,954,163)</u>
Total capital asset, being depreciated, net	<u>36,289,070</u>	<u>43,434,129</u>	<u>2,222,978</u>	<u>(288,622)</u>	<u>45,368,485</u>
Total governmental capital assets, net	<u>\$39,825,312</u>	<u>\$46,933,380</u>	<u>\$3,855,189</u>	<u>(\$726,504)</u>	<u>\$50,062,065</u>
<b>Business-Type Activities</b>					
Capital assets, not being depreciated:					
Land	\$1,503,285	\$1,258,085	\$0	\$0	\$1,258,085
Construction in progress	2,006,554	0	6,492,345	0	6,492,345
Total capital asset, not being depreciated	<u>3,509,839</u>	<u>1,258,085</u>	<u>6,492,345</u>	<u>0</u>	<u>7,750,430</u>
Capital assets, being depreciated:					
Buildings and improvements	31,387,751	31,632,951	199,431	0	31,832,382
Machinery and equipment	2,785,259	2,785,259	546,577	0	3,331,836
Vehicles	400,780	400,780	28,362	(47,729)	381,413
Infrastructure	26,692,170	35,950,295	1,403,092	(86,911)	37,266,476
Total capital asset, being depreciated	<u>61,265,960</u>	<u>70,769,285</u>	<u>2,177,462</u>	<u>(134,640)</u>	<u>72,812,107</u>
Less accumulated depreciation:					
Buildings and improvements	(13,235,899)	(13,235,899)	(581,042)	0	(13,816,941)
Machinery and equipment	(890,584)	(894,973)	(147,558)	0	(1,042,531)
Vehicles	(298,486)	(298,486)	(32,678)	47,729	(283,435)
Infrastructure	(9,506,180)	(9,587,553)	(793,021)	55,034	(10,325,540)
Total accumulated depreciation	<u>(23,931,149)</u>	<u>(24,016,911)</u>	<u>(1,554,299)</u>	<u>102,763</u>	<u>(25,468,447)</u>
Total capital asset, being depreciated, net	<u>37,334,811</u>	<u>46,752,374</u>	<u>623,163</u>	<u>(31,877)</u>	<u>47,343,660</u>
Business-type capital assets, net	<u>\$40,844,650</u>	<u>\$48,010,459</u>	<u>\$7,115,508</u>	<u>(31,877)</u>	<u>\$55,094,090</u>

**City of Avon Lake**  
Lorain County  
Notes to the Basic Financial Statements  
For The Year Ended December 31, 2004  
(Continued)

**NOTE 8 - CAPITAL ASSETS** (Continued)

\* Depreciation expense was charged to governmental functions as follows:

General Government	\$ 310,912
Security of Persons and Property	257,860
Transportation	1,958,018
Community and Environment	1,386
Basic Utility Services	19,813
Leisure Time Activities	36,863
Total Depreciation Expense	<u>\$2,584,852</u>

**NOTE 9 - COMPENSATED ABSENCES**

**Accumulated Unpaid Vacation**

Full-time employees earn vacation leave at varying rates based upon length of service. Full-time employees may accrue a maximum of 25 days. In the event of a termination of employment, death, or retirement, employees (or their estates) are paid for unused vacation leave.

**Accumulated Unpaid Sick Leave**

Full-time employees earn sick leave at the rate of one and one-fourth days per month. Employees whose date of employment is prior to January 1, 1981 will receive all accumulated sick leave up to a maximum of 120 days. Employees hired after January 1, 1981 will receive 25% of their accumulated sick leave up to a maximum of 120 days.

**Accumulated Unpaid Compensatory Time**

From time to time, employees may need, with prior approval from their supervisors, to work overtime. These overtime hours will usually be paid at the appropriate overtime rate; however, with permission of the supervisor, an employee may have the option of taking the overtime in compensatory time at one and one half times the amount of hours worked. An employee can carry a maximum balance of 40 hours in compensatory time.

**City of Avon Lake**  
Lorain County  
Notes to the Basic Financial Statements  
For The Year Ended December 31, 2004  
(Continued)

**NOTE 10 - LONG-TERM OBLIGATIONS**

Changes in long-term obligations were as follows:

	<u>Balance</u> <u>1/01/2004</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance</u> <u>12/31/2004</u>	<u>Amounts Due</u> <u>In One Year</u>
GOVERNMENTAL ACTIVITIES:					
GENERAL OBLIGATION BONDS					
2001 Refunding Bonds 3.3%-5.5%	\$ 418,299	\$ 0	\$ 33,288	\$ 385,011	\$ 34,456
2001 Pin Oak Parkway 2.75%-4.75%	448,259	0	27,000	421,259	28,800
2001 Safety Center 3.3%-5.5%	4,464,101	0	190,000	4,274,101	200,000
2003 Recreational Facility 3%-5%	<u>1,000,000</u>	<u>0</u>	<u>25,000</u>	<u>975,000</u>	<u>25,000</u>
Total	6,330,659	0	275,288	6,055,371	288,256
SPECIAL ASSESSMENT BONDS					
2001 Pin Oak Parkway 3.3%-5.5%	796,741	0	48,000	748,741	51,200
2001 CALDP 3.3%-5.5%	2,684,996	0	115,000	2,569,996	120,000
1990 Pin Oak Parkway II 8.35% Manuscript	9,471	0	4,736	4,735	4,735
1993 Redwood Curbs 6.0% Manuscript	<u>10,370</u>	<u>0</u>	<u>2,074</u>	<u>8,296</u>	<u>2,074</u>
Total	3,501,578	0	169,810	3,331,768	178,009
OHIO WATER DEVELOPMENT AUTHORITY LOANS					
1990 Walker Road 7.76%	415,741	0	43,446	372,295	42,018
1990 Avon Point/Armour Sewer 7.77%	<u>24,549</u>	<u>0</u>	<u>11,815</u>	<u>12,734</u>	<u>12,734</u>
Total	440,290	0	55,261	385,029	54,752
RECREATIONAL FEE CREDIT	477,130	0	97,325	379,805	129,805
LANDFILL POSTCLOSURE COSTS	922,211	0	45,277	876,934	45,277
COMPENSATED ABSENCES	856,648	446,080	402,299	900,429	393,466
POLICE AND FIRE PENSION	<u>113,360</u>	<u>0</u>	<u>1,768</u>	<u>111,592</u>	<u>1,844</u>
TOTAL GOVERNMENTAL ACTIVITIES	\$ <u>12,641,876</u>	\$ <u>446,080</u>	\$ <u>1,047,028</u>	\$ <u>12,040,928</u>	\$ <u>1,091,409</u>
BUSINESS-TYPE ACTIVITIES:					
GENERAL OBLIGATION BONDS					
2001 Refunding Bonds 3.3%-5.5%	\$ 6,744,361	\$ 0	\$ 536,712	\$ 6,207,649	\$ 555,544
2003 Wastewater Collection System System Improvement 3%-5%	<u>4,500,000</u>	<u>0</u>	<u>120,000</u>	<u>4,380,000</u>	<u>120,000</u>
	11,244,361	0	656,712	10,587,649	675,544

**City of Avon Lake**  
Lorain County  
Notes to the Basic Financial Statements  
For The Year Ended December 31, 2004  
(Continued)

**NOTE 10 - LONG-TERM OBLIGATIONS** (Continued)

	<u>Balance</u> <u>1/01/2004</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance</u> <u>12/31/2004</u>	<u>Amounts Due</u> <u>In One Year</u>
<b>OHIO WATER DEVELOPMENT</b>					
<b>AUTHORITY LOANS</b>					
1990 Walker Road 7.76%	778,475	0	74,150	704,325	79,492
1983 Wastewater Expansion 9.98%	104,818	0	104,818	0	0
1990 Water Plant Expansion 7.84%	6,693,070	0	314,652	6,378,418	339,321
1998 Wastewater Improvement 5.76%	532,856	0	30,669	502,187	25,675
2003 Water System Improvement 4.51%	<u>0</u>	<u>4,020,876</u>	<u>0</u>	<u>4,020,876</u>	<u>78,912</u>
Total	8,109,219	4,020,876	524,289	11,605,806	523,400
<b>MORTGAGE REVENUE BONDS</b>					
1993 Water System Revenue					
Refunding Bonds 2.5 - 5.4%	4,610,000	0	360,000	4,250,000	380,000
2000A Water System Revenue					
Refunding Bonds 4.7 -5.6%	<u>9,248,943</u>	<u>0</u>	<u>133,943</u>	<u>9,115,000</u>	<u>230,000</u>
Total	<u>13,858,943</u>	<u>0</u>	<u>493,943</u>	<u>13,365,000</u>	<u>610,000</u>
COMPENSATED ABSENCES	<u>362,020</u>	<u>174,126</u>	<u>145,878</u>	<u>390,268</u>	<u>128,357</u>
TOTAL BUSINESS TYPE					
ACTIVITIES	\$ <u>33,574,543</u>	\$ <u>4,195,002</u>	\$ <u>1,820,822</u>	\$ <u>35,948,723</u>	\$ <u>1,937,301</u>

General obligation bonds, other than the enterprise general obligation and mortgage revenue bonds, will be paid from the general bond retirement debt service fund from special assessment taxes. Ohio Water Development Authority loans other than those paid from the enterprise funds will be paid from the general bond retirement debt service fund from special assessments. Special assessment bonds will be paid from the proceeds of special assessments levied against benefited property owners. In the event that a property owner would fail to pay the assessment, payment would be made by the City. The police and fire pension liability will be paid from taxes receipted in the police and fire pension special revenue funds. Landfill postclosure costs are based on estimates as of December 31, 2004. The actual costs may be higher due to inflation, changes in technology, or changes in regulations and they will be paid from the general fund. Compensated absences will be paid from the fund which the employees' salaries are paid.

During the fall of 2002, a group of Avon Lake residences formed a group named Save the Woods. Through their efforts an agreement was reached with a developer to purchase 48 acres of wooded land for a future park. The payment for the property had the following components: \$1,205,000 from the Clean Ohio Conservation Fund, \$525,000 from the Lorain County Metropolitan Park District and the balance of \$500,000 from credits applied to the City of Avon Lake's Recreational Trust Fund.

Commencing July 1, 2003, for a five-year period, the developer will receive up to \$100,000 per year credit on any Recreational Fees due to the City of Avon Lake. In the event that the developer receives less than \$100,000 per year, the City of Avon Lake will issue payment for the difference within 60 days of the end of the given year. If during the first four years of the agreement, the developer receives in excess of \$100,000 credit, that balance will be carried forward to the following year.

**City of Avon Lake**  
**Lorain County**  
**Notes to the Basic Financial Statements**  
**For The Year Ended December 31, 2004**  
**(Continued)**

**NOTE 10 - LONG-TERM DEBT** (Continued)

Principal and interest requirements to retire long-term obligations, except landfill post-closure costs, recreation fee credits, and compensated absences, and police and fire pension, at December 31, 2004 are as follows:

	General Obligation Bonds		Special Assessment Bonds		OWDA Loans		Total Governmental Activities	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
	2005	\$ 288,256	\$ 277,447	\$ 178,010	\$ 153,557	\$ 54,751	\$ 26,952	\$ 521,017
2006	294,424	266,896	178,274	146,745	45,283	23,119	517,981	436,760
2007	312,684	255,860	181,474	139,991	48,802	19,950	542,960	415,801
2008	318,852	243,870	191,474	132,916	52,593	16,534	562,919	393,320
2009	332,404	231,333	197,600	125,230	56,680	12,852	586,684	369,415
2010-2014	1,709,092	1,116,173	1,024,595	584,839	126,920	13,487	2,860,607	1,714,499
2015-2019	1,934,659	498,066	1,150,341	223,218			3,085,000	721,284
2020-2024	625,000	113,368	230,000	11,500			855,000	124,868
2025-2028	240,000	30,308					240,000	30,308
	<u>\$ 6,055,371</u>	<u>\$ 3,033,321</u>	<u>\$ 3,331,768</u>	<u>\$ 1,517,996</u>	<u>\$ 385,029</u>	<u>\$ 112,894</u>	<u>\$ 9,772,168</u>	<u>\$ 4,664,211</u>

	General Obligation Bonds		OWDA Loans		Revenue Bonds		Total Business-Type Activities	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
	2005	\$ 675,544	\$ 460,365	\$ 444,434	\$ 524,718	\$ 610,000	\$ 730,248	\$ 1,729,978
2006	699,376	435,932	478,689	493,925	640,000	699,598	1,818,065	1,629,455
2007	722,916	410,068	515,595	460,753	675,000	666,718	1,913,511	1,537,539
2008	741,748	382,701	555,357	425,017	710,000	631,288	2,007,105	1,439,006
2009	774,996	353,972	598,197	386,518	745,000	593,875	2,118,193	1,334,365
2010-2014	3,943,069	1,694,657	3,324,381	1,271,335	3,755,000	2,331,323	11,022,450	5,297,315
2015-2019	880,000	623,788	1,668,277	182,278	2,110,000	1,548,325	4,658,277	2,354,391
2020-2024	1,085,000	416,938			2,775,000	883,488	3,860,000	1,300,426
2025-2028	1,065,000	134,285			1,345,000	117,013	2,410,000	251,298
	<u>\$ 10,587,649</u>	<u>\$ 4,912,706</u>	<u>\$ 7,584,930</u>	<u>\$ 3,744,544</u>	<u>\$ 13,365,000</u>	<u>\$ 8,201,876</u>	<u>\$ 31,537,579</u>	<u>\$ 16,859,126</u>

The City has entered into a contractual agreement for a construction loan from the Ohio Development water Authority (OWDA) for water system improvements. Under the terms of the agreement, OWDA will reimburse, advance or directly pay the construction costs of the approved project. OWDA will capitalize administrative costs and construction interest and then add them to the total amounts of the final loan. This loan will not have an accurate repayment schedule until the loans are finalized and, therefore, are not included in the schedule of future annual debt service requirements. The balance of the loan is \$4,020,876.

**City of Avon Lake**  
 Lorain County  
 Notes to the Basic Financial Statements  
 For The Year Ended December 31, 2004  
 (Continued)

**NOTE 10 - LONG-TERM DEBT** (Continued)

**Mortgage Revenue Bonds**

The water system mortgage revenue refunding bonds series 1993A include serial and term bonds. The term bonds have annual mandatory sinking fund redemption requirements, and there are optional redemption provisions for the serial bonds. The term bonds mature on October 1, 2013 in the amount of \$3,470,000, at a redemption price equal to 100% of the principal plus accrued interest to the redemption date. The serial bonds maturing on or after October 1, 2004 are subject to early redemption, by and at the option of the City in whole at any time or in part on any interest payment date on or after October 1, 2003 in multiples of \$5,000 at the following redemption prices plus accrued interest:

<b><u>Redemption Dates</u></b> <b><u>(Dates Inclusive)</u></b>	<b><u>Redemption Prices</u></b>
October 1, 2003 through September 30, 2004	101%
October 1, 2004 and thereafter	100%

Mandatory Sinking Fund Redemption. The bonds maturing on October 1, 2013 are subject to mandatory redemption, pursuant to Sinking Fund Requirements, at a redemption price of 100% of the principal amount redeemed plus interest accrued to the redemption date, on October 1 in each of the years and in the principal amounts set forth below:

<b><u>Year</u></b>	<b><u>Principal Amount</u></b> <b><u>to be Redeemed</u></b>
2007	\$ 420,000
2008	445,000
2009	470,000
2010	495,000
2011	520,000
2012	545,000

The water system mortgage revenue bonds series 2000A include serial and term bonds. The term bonds have annual mandatory sinking fund redemption requirements, and there are optional redemption provisions for the serial bonds. The term bonds mature on October 1, 2026 in the amount of \$4,120,000, at a redemption price equal to 100% of the principal plus accrued interest to the redemption date. The serial bonds maturing on or after October 1, 2011 are subject to redemption, by and at the option of the City in whole at any time or in part on any interest payment date on or after October 1, 2010 in multiples of \$5,000 at the redemption price or 100% of the principal amount to be redeemed plus accrued interest to the date of redemption.



**City of Avon Lake**  
 Lorain County  
 Notes to the Basic Financial Statements  
 For The Year Ended December 31, 2004  
 (Continued)

**NOTE 10 - LONG-TERM DEBT** (Continued)

**Mortgage Revenue Bonds** (Continued)

Mandatory Sinking Fund Redemption. The bonds maturing on October 1, 2026 are subject to mandatory redemption, pursuant to Sinking Fund Requirements, at a redemption price of 100% of the principal amount redeemed plus interest accrued to the redemption date, on October 1 in each of the years and in the principal amounts set forth below:

<u>Year</u>	<u>Principal Amount to be Redeemed</u>
2020	\$ 495,000
2021	520,000
2022	555,000
2023	585,000
2024	620,000
2025	655,000

In conjunction with the issuance of the water system mortgage revenue refunding bonds and the requirements of the indenture agreement, the City entered into a trust agreement with a commercial bank. The debt covenant requires that the City establish various funds for the construction, replacement, and the repayment of debt relating to the construction and improvement of the waterworks system.

The restricted assets balance in the water fund segregates funds held by the City from funds held by the trustees in accordance with the trust agreement. Restricted assets relating to the water system mortgage revenue refunding bonds consisted of the following at December 31, 2004:

Revenue Bond Future Debt Service	\$ 1,356,577
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**General Obligation Bonds**

On March 28, 2001, the City issued \$16,746,758 in Various Purpose Improvement and Refunding Bonds, Series 2001. These bonds are unvoted General Obligations of the City, issued to finance the permanent improvements described in the Bonds, and to advance refund existing 1994 Various Purpose General Obligation Bonds debt at a more favorable borrowing rate. \$8,752,661 of the proceeds were used to refund all of the Series 1994 outstanding in the amount of \$8,465,000. Enterprise funds are responsible for \$8,227,501, and \$525,160 is the responsibility of the governmental debt service fund. The original bonds were issued for the purpose of paying the costs of (a) constructing improvements, additions or extensions to the City's water distribution system within and without the City, including acquiring real estate and easements therefore; (b) construction improvements to the City's sewerage system; (c) widening and resurfacing portions of Walker Road; and (d) issuing the bonds. All the reissued debt consists of serial bonds with final maturity in 2014, with the exception of 2010 which are capital appreciation bonds in the amount of \$695,000.

On March 28, 2001, the City also issued \$4,994,101 of new bonds to retire \$5,000,000 in 2000 Series Notes, maturity date March 29, 2001, to pay a portion of the construction, furnishing and equipping a new City safety center along with renovations to the adjacent City fire station. Also, \$2,999,996 of bonds were issued to retire \$3,000,000 in 2000 Series Notes, maturing on March 29, 2001 to pay for the construction of a trunk storm sewer (CALDP 2001).

**City of Avon Lake**  
 Lorain County  
 Notes to the Basic Financial Statements  
 For The Year Ended December 31, 2004  
 (Continued)

**NOTE 10 - LONG-TERM DEBT** (Continued)

These bonds consisted of serial, term, and capital appreciation bonds. The capital appreciation bonds are not subject to prior redemption. The term bonds have annual mandatory sinking fund redemption requirements, and there are optional redemption provisions for the serial bonds. The term bonds mature on December 1, 2020 in the amount of \$3,270,000, at a redemption price equal to 100% of the principal plus accrued interest to the redemption date. The serial bonds maturing on or after December 1, 2012 are subject to redemption, by and at the sole option of the City in whole at any time or in part on any interest payment date on or after December 1, 2011 in multiples of \$5,000 at the redemption price or 100% of the amount to be redeemed plus accrued interest to the date of redemption.

Mandatory Sinking Fund Redemption. The bonds maturing on December 1, 2020 are subject to mandatory redemption, pursuant to Sinking Fund Requirements, at a redemption price of 100% of the principal amount redeemed plus interest accrued to the redemption date, on December 1 in each of the years and in the principal amounts set forth below:

<u>Year</u>	<u>Principal Amount to be Redeemed</u>
2015	\$ 480,000
2016	505,000
2017	530,000
2018	560,000
2019	585,000

On September 12, 2001, the City issued \$1,385,000 in new bonds to cover the cost of retiring \$1,000,000 in 2002 Notes, maturing on October 4, 2001. In anticipation of Bonds, \$2,000,000 in notes were originally issued in 1999 to pay for property owners' portion of the construction cost to extend Pin Oak Parkway approximately 5,000 feet easterly paving, storm and sanitary sewers along with waterlines. The City anticipates debt service of \$886,341 to be paid through special assessments levied to the property owners. The Bonds are not subject to redemption prior to their stated maturities. On October 7, 2003, the City issued \$5,500,000 in Various Purpose Improvement Bonds, Series 2003. These bonds are unvoted General Obligations of the City, issued to finance the permanent improvements described in the Bonds. \$4,500,000 of the proceeds will be used to pay for improvements to the wastewater collection system. \$1,000,000 of the proceeds will be used to pay for the constructing outdoor recreational facilities.

All bonds are Serial Bonds. The Bonds maturing on or after December 1, 2014 shall be subject to redemption, by and at the option of the City, in whole at any time, or in part on any Interest Payment Date, on or after December 1, 2003, in multiples of \$5,000 at the redemption price of 100% of the principal amount redeemed plus, in each case, accrued interest to the redemption date.

**OWDA**

On March 10, 1983 the City entered into a loan agreement with OWDA for \$7,248,141 (capitalized interest of \$78,795 was added at end of construction period for a total of \$7,326,936). A grant for \$5,362,016 was received under Title II of the Federal Water Pollution Act of 1972, leaving the City of Avon Lake with a balance of \$1,964,920 to pay off. These funds were used to expand the existing Avon Lake Waste Water Treatment Plant. This debt has a fixed rate of 9.98% interest over a twenty-year period beginning 1/1/1985 through 7/1/2004.

**City of Avon Lake**  
Lorain County  
Notes to the Basic Financial Statements  
For The Year Ended December 31, 2004  
(Continued)

**NOTE 10 - LONG-TERM DEBT** (Continued)

On June 28, 1990 the City entered into a loan agreement with OWDA for \$8,810,070 (capitalized interest of \$274,025 was added at end of construction period for a total of \$9,084,095). These funds were used to expand the existing Avon Lake Water Treatment Plant from 9,000,000 gallons per day designed plant to 22,000,000 gallons per day. This debt has a fixed rate of 7.84% interest over a twenty-five year period beginning 7/1/1992 through 1/1/2017.

On September 27, 1990 the City entered into a loan agreement with OWDA for \$119,127. These funds were used to install approximately 4,120 feet of 8" sanitary sewers and laterals on two residential streets, Avon Point Avenue and Armour Road between Lake Road and Electric Blvd. This project eliminated the use of septic tanks and their related discharges. This debt has a fixed rate of 7.77% interest over a fifteen-year period beginning 7/1/1991 through 1/1/2006.

On August 24, 1990 the City of Avon Lake entered into a loan agreement with OWDA for \$1,950,000 (capitalized interest of \$99,278 was added at end of construction period for a total of \$2,049,278). These funds were used to install approximately 15,427 feet of sanitary sewers and related laterals along Walker Rd. providing sanitary sewer service to the southern half of the City of Avon Lake. This debt has a fixed rate of 7.76% interest over a twenty-year period beginning 7/1/1992 through 1/1/2012.

On March 26, 1998 the City of Avon Lake entered into a loan agreement with OWDA for \$657,000. These funds were used to repair 2 digesters at our Wastewater facility. This debt has a fixed rate of 5.76% interest over a twenty-year period beginning 1/1/1999 through 7/1/2018.

On May 29, 2003, the Ohio Water Development Board approved a resolution establishing an Interest Rate Subsidy program. Under the program, OWDA pays for any interest above 7.0%, effectively reducing all loans with rates higher than 7.0% to 7.0%. This rate subsidy went into effect with January 1, 2004 payments. The City of Avon Lake has 4 outstanding loans falling into these parameters.

On December 11, 2003 an OWDA loan agreement for \$4,860,000 was entered into by the City. As of December 31, 2004, disbursements totaled \$3,938,356 with \$921,644 remaining. Capitalized interest for the loan period is \$82,520.

**Manuscript Debt**

On April 1, 1990 the City of Avon Lake issued \$71,400 of Manuscript debt. This was for a 247-foot easterly extension of Pin Oak Parkway consisting of concrete paving, curbs, gutters along with storm and sanitary sewers. This debt has a fixed rate of 8.35% interest over a fifteen-year period beginning 12/1/1991 through 12/1/2005.

On September 1, 1993 the City of Avon Lake issued \$31,110 of Manuscript debt. This was for a 142-foot improvement along Redwood Boulevard, westerly from Curtis Dr. to Mooreland Dr., consisting of concrete curbs and gutters along with replacement of driveway approaches. This debt has a fixed rate of 6.00% interest over a fifteen-year period beginning 12/1/1994 through 12/1/2008.

**City of Avon Lake**  
Lorain County  
Notes to the Basic Financial Statements  
For The Year Ended December 31, 2004  
(Continued)

**NOTE 11 - DEFINED BENEFIT PENSION PLANS**

**A. Ohio Public Employees Retirement System**

The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-6705.

For the year ended December 31, 2004, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The City's contribution rate for pension benefits for 2004 was 9.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 12.7 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2004, 2003, and 2002 were \$522,134, \$440,484 and \$417,008 respectively; 72 percent has been contributed for 2004 and 100 percent for 2003 and 2002.

**B. Ohio Police and Fire Pension Fund**

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

**City of Avon Lake**  
Lorain County  
Notes to the Basic Financial Statements  
For The Year Ended December 31, 2004  
(Continued)

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

**B. Ohio Police and Fire Pension Fund** (Continued)

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations while the City is required to contribute 11.75 percent for police officers and 16.25 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the fund for police and firefighters were \$216,703 and \$303,431 for the year ended December 31, 2004; \$209,277 and \$286,501 for the year ended December 31, 2003; and \$196,439 and \$275,752 for the year ended December 31, 2002, equal to the required contributions for each year. The full amount has been contributed for 2003 and 2002. 72 percent has been contributed for 2004 with the remainder being reported as a liability.

**NOTE 12 – POSTEMPLOYMENT BENEFITS**

**A. Ohio Public Employees Retirement System**

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and the service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2004 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 4.00 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2004, include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between 0.50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1 to 6 percent annually for the next eight years and 4 percent annually after eight years.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional and combined plans was 369,885. Actual employer contributions for 2004 which were used to fund postemployment benefits were \$218,695. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2003 were \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$26.9 billion and \$16.4 billion, respectively.

**City of Avon Lake**  
Lorain County  
Notes to the Basic Financial Statements  
For The Year Ended December 31, 2004  
(Continued)

**NOTE 12 – POSTEMPLOYMENT BENEFITS** (Continued)

**A. Ohio Public Employees Retirement System** (Continued)

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

**B. Ohio Police and Fire Pension Fund**

The Ohio Police and Fire Pension Fund (OP&F) provides postretirement health care coverage to 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. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school full-time or on a 2/3 basis.

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24.0 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2004. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2004 that were used to fund postemployment benefits for police and fire were \$142,931 and \$144,713. The OP&F's total health care expense for the year ended December 31, 2003 was \$150,853,148, which was net of member contributions of \$17,207,506. The number of OP&F participants eligible to receive health care benefits as of December 31, 2003, was 13,662 for police and 10,474 for firefighters.

**City of Avon Lake**  
 Lorain County  
 Notes to the Basic Financial Statements  
 For The Year Ended December 31, 2004  
 (Continued)

**NOTE 13 – JOINTLY GOVERNED ORGANIZATIONS/JOINT VENTURES**

**A. Lorain County Community Alliance Council of Governments**

The City is a member of the Lorain County Community Alliance (Alliance) which is a council of governments formed under Ohio Revised Code Section 167. The Alliance is comprised of public members that have voting privileges and other citizen, business, and agency members that have no voting privileges. While the agreement establishing the Alliance designates members, the Alliance has expanded membership to include the following public members and their respective Board representatives:

<b><u>Member</u></b>	<b><u>Board Representative(s)</u></b>
Lorain County	Two County Commissioners
City of Amherst	Mayor
City of Avon	Mayor
City of Avon Lake	Mayor
City of Elyria	Mayor
City of Lorain	Mayor
City of North Ridgeville	Mayor
City of Oberlin	City Manager
City of Sheffield Lake	Mayor
City of Vermilion	Mayor
Village of Grafton	Mayor
Village of LaGrange	Mayor
Village of Wellington	Mayor
Amherst Township	Trustee
Brownhelm Township	Trustee
Carlisle Township	Trustee
Columbia Township	Trustee
Elyria Township	Trustee
LaGrange Township	Trustee
Sheffield Township	Trustee

The Alliance currently has 21 other citizen, business, and agency members.

The Alliance was formed to serve as an opportunity for both the public and private sector, including citizen representatives to develop long-term plans that deal with cross-boundary issues and community interests.

Member cities, villages, and townships are eligible to cast votes equivalent to the total population of the member jurisdictions which they represent and Lorain County members are eligible to cast votes equivalent to twenty-five percent of the total population of Lorain County. The City of Avon Lake contributed \$125 to the Alliance during 2004. Financial information can be obtained by contacting Mark R. Stewart, Lorain County Auditor, at 226 Middle Avenue, Elyria, Ohio 44035, who serves as fiscal agent.

**City of Avon Lake**  
 Lorain County  
 Notes to the Basic Financial Statements  
 For The Year Ended December 31, 2004  
 (Continued)

**NOTE 13 – JOINTLY GOVERNED ORGANIZATIONS/JOINT VENTURES** (Continued)

**B. Medina-Lorain Water Consortium**

The City is a member of the Medina-Lorain Water Consortium (the Consortium), which is a joint venture between the City of Avon Lake, the Rural Lorain County Water Authority, Medina County, and the City of Medina. The Consortium was created in 1999 for the purpose of construction, operation and maintenance of a water transmission line to serve the members of the Consortium, and for the purpose of bulk water delivery from the City of Avon Lake. There is an ongoing financial responsibility for all parties for the maintenance and repair of the project. The Consortium is governed by representatives of the member parties. The City of Avon Lake serves as the fiscal agent for the Consortium. As of December 31, 2004, the City's equity interest in the Consortium was \$2,218,553. Financial information can be obtained from Joe Newlin, City of Avon Lake Finance Director, 150 Avon Belden Road, Avon Lake, Ohio 44012.

**NOTE 14 - CONTRACTUAL COMMITMENTS**

As of December 31, 2004, the City had three significant contractual commitments outstanding; Weiss Field Improvement project for \$147,507, Route 83 Sewer Separation for \$129,622, and purchase of Ambulance for \$169,931.

**NOTE 15 - CONTINGENT LIABILITIES**

**Litigation**

The City management is of the opinion that the ultimate disposition of claims and legal proceedings will not have a material effect, if any, on the financial condition of the City.

**NOTE 16 – ACCOUNTABILITY AND COMPLIANCE**

Significant violations of finance-related legal or contractual provisions would be disclosed along with actions taken to address such violations. The City of Avon Lake did not have any violations.

**NOTE 17 – NOTES PAYABLE**

A summary of the note transactions for the year ended December 31, 2004, follows:

	<u>Outstanding</u> <u>12/31/03</u>	<u>Issued</u>	<u>Retired</u>	<u>Outstanding</u> <u>12/31/04</u>
<b>Business-Type</b>				
Water Fund:				
BAN 2003-2 Water System				
Improvement 1.60%, Issued				
November 5, 2003, 5 month				
term	\$ 777,000	\$0	\$ (777,000)	\$ 0
<i>Totals</i>	<u>\$ 777,000</u>	<u>\$0</u>	<u>\$ (777,000)</u>	<u>\$ 0</u>



**City of Avon Lake**  
 Lorain County  
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 For The Year Ended December 31, 2004  
 (Continued)

**NOTE 17 – NOTES PAYABLE** (Continued)

On November 5, 2003, the City issued \$777,000 of new bond anticipation notes to pay off the existing notes and continue the project until permanent financing is in place. These notes are backed by the full-faith and credit of the City. These notes were paid off on April 1, 2004. On December 11, 2003 the City entered into a loan agreement with OWDA. When the notes matured, they were then paid off with proceeds from this new agreement.

**NOTE 18 – INTERFUND BALANCES AND TRANSFERS**

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; to segregate money for anticipated capital projects; to provide additional resources for current operations or debt service; and to return money to the fund from which it was originally provided once a project is completed.

Interfund balances at December 31, 2004 consist of the following individual fund receivables and payables:

<u>Interfund Payable</u>	<u>General Fund</u>	<u>Income Tax Transfer Fund</u>
<i>Governmental Activities</i>		
<b>Major Funds</b>		
General		\$256,896
Capital Improvement	\$256,896	71,052
<b>Non-Major Funds</b>		
Cove Avenue Improvement	15,000	
Krebs Road Improvement	120,000	
State Highway	20,000	
Avon Lake/Bay Village Park	<u>161,508</u>	
<i>Total Governmental Activities</i>	<u>\$573,404</u>	<u>\$327,948</u>

Interfund transfers during 2004 were as follows:

**City of Avon Lake**  
Lorain County  
Notes to the Basic Financial Statements  
For The Year Ended December 31, 2004  
(Continued)

**NOTE 18 – INTERFUND BALANCES AND TRANSFERS** (Continued)

<b>Transfer To</b>	<b><u>Transfer From</u></b>					<b>Totals</b>
	General Fund	Income Tax Transfer Fund	Capital Improvement Fund	Debt Service Fund	Other Governmental Funds	
<i>Governmental Activities</i>						
General Fund	\$ -	\$ 5,227,303		\$ -	\$ -	\$ 5,227,303
Capital Improvement Fund	496,053	1,393,947	-	-	40,315	1,930,315
Debt Service Fund	603,087	-	-	-	38,626	641,713
Other Governmental Funds	225,056	-	388,000	-	267	613,323
Total	1,324,196	6,621,250	388,000	-	79,208	8,412,654
<i>Business-Type Activities</i>						
Water	-	-	-	-	15,919	15,919
Sewer	78,750	348,487		15,724	2,373	445,334
<i>Fiduciary</i>						
Agency	2,340	-	-	-	-	2,340
Total	\$ 1,405,286	\$ 6,969,737	\$ 388,000	\$ 15,724	\$ 97,500	\$ 8,876,247

Not apparent in the basic financial statements was the transfer of \$2,340 from the General Fund to the Agency Fund.

**NOTE 19 – LANDFILL POSTCLOSURE COSTS**

State and federal laws and regulations required the City to place a final cover on the municipal landfill when it stopped accepting waste and perform certain maintenance and monitoring functions at the site for 30 years after closure. The City closed the landfill on December 31, 1990. The Landfill Postclosure Costs liability reflects an estimate of the remaining costs to perform the required maintenance and monitoring functions for approximately 16 years. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

**NOTE 20 – SUBSEQUENT EVENTS**

On February 28, 2005, the City of Avon Lake’s Council authorized the sale of not to exceed \$4,425,000 Water System Revenue Refunding Bonds. This refunding is for the \$7,590,000 Water System Revenue Refunding Bonds dated March 1, 1993 of which \$4,250,000 are presently outstanding. In addition, the City of Avon Lake’s Council authorized the sale of not to exceed \$10,500,000 Water System Revenue Advanced Refunding Bonds. This refunding is for the \$9,115,000 Water System Revenue, Series 2000A Bonds dated July 1, 2000 of which \$9,115,000 are presently outstanding. The present value of these to refunding issues will save approximately \$502,300 in interest combined.

**City of Avon Lake**  
Lorain County  
Notes to the Basic Financial Statements  
For The Year Ended December 31, 2004  
(Continued)

**NOTE 20 – SUBSEQUENT EVENTS** (Continued)

On July 11, 2005, the City of Avon Lake's Council authorized the issuance and sale of \$960,000 in notes in anticipation of bonds. The proceeds of the issuance will be used to pay the property owners' portion, in anticipation of the levy and collection of special assessments, and the City's portion of the costs of improving Cove Avenue by constructing storm and sanitary sewers, water lines, and concrete pavement.

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**Auditor of State  
Betty Montgomery**

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

City of Avon Lake  
Lorain County  
150 Avon Belden Road  
Avon Lake, Ohio 44012

To City Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Avon Lake, Lorain County, Ohio (the City), as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 16, 2006, wherein we noted the City restated Net Assets and Changes in Net Assets in the Governmental Type Activities as of December 31, 2003 and for the year then ended. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the City's management dated November 16, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

### **Compliance and Other Matters**

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, 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 an instance of noncompliance that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2004-001. In a separate letter to the City's management dated November 16, 2006, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of management and City Council. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

November 16, 2006

CITY OF AVON LAKE  
LORAIN COUNTY  
DECEMBER 31, 2004

SCHEDULE OF FINDINGS

FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

Finding Number	2004-001
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**Timely Deposit of Public Monies**

Ohio Revised Code Section 9.38 provides that any public official and/or employee who receive public monies shall deposit said monies with the Treasurer or with a properly designated depository on the next business day following the day of receipt, if the total received exceeds one thousand dollars. If the total amount of the public money received does not exceed one thousand dollars, the person shall deposit the moneys on the business day next following the day of the receipt, unless the public office of which that person is a public official adopts a policy permitting a different time period, not to exceed three business days next following the day of receipt, for making such deposits, and the person is able to safeguard the monies until such time as the moneys are deposited.

Thirty four out of the sixty (57%) receipts tested for licenses and permits were not deposited in accordance with the above provisions. Of the thirty four receipts not deposited timely, twenty-nine were from the Engineering Department and five were from the Building Department. The range of those receipts not deposited in a timely manner varied between \$20 and \$4,730.

We recommend the City take the necessary steps to comply with the aforementioned Ohio Revised Code section, specifically, that all deposits be made in a timely manner. We recommend all City departments either deposit monies collected with the Finance Director or its local depository on the next business day following the day of receipt or the City adopt a policy requiring all monies collected to be deposited with the Finance Director or properly designated depository within three business days following the day of receipt, if the total amount of such monies is less than \$1,000. Additionally, such a policy must include procedures to safeguard the monies until the time of deposit.

**Official's Response:**

The Engineering Department is now depositing on a daily basis.

CITY OF AVON LAKE  
LORAIN COUNTY  
DECEMBER 31, 2004

SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING NUMBER	FINDING SUMMARY	FULLY CORRECTED ?	NOT CORRECTED, PARTIALLY CORRECTED; SIGNIFICANTLY DIFFERENT CORRECTIVE ACTION TAKEN; OR FINDING NO LONGER VALID; EXPLAIN:
2003-001	Certification of Expenditures Prior to Purchasing	No	Not corrected; re-issued in Management Letter





Mary Taylor, CPA  
Auditor of State

CITY OF AVON LAKE

LORAIN COUNTY

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
APRIL 17, 2007