



Dave Yost • Auditor of State



**CITY OF AVON LAKE  
LORAIN COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

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

To the 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, 2010, 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, 2010, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparisons for the General and Income Tax Transfer funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2012, 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.

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping initial "D".

**Dave Yost**  
Auditor of State

October 30, 2012

**City of Avon Lake, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2010*  
(Unaudited)

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The discussion and analysis of the City of Avon Lake's financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2010. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers should also review the financial statement and notes to those respective statements to enhance their understanding of the City's financial performance.

**Financial Highlights**

Key financial highlights for 2010 are as follows:

- The City's economic condition started to improve as municipal income tax revenue increased by \$559,078 over 2009. In comparison and to emphasize the improvement in 2010, municipal income tax revenue decreased from 2008 to 2009 by \$2,161,959.
- Total net assets increased \$942,074 in 2010.
- The Veteran's Park breakwall project and the pool improvement project were completed for a cost of \$141,835 and \$4,324,545, respectively.
- The force main and pump station and collection system construction projects continued throughout 2010 and into 2011. The Jaycox Road sewer separation and various sewer projects had begun in 2010 and continued into 2011. These business-type capital assets had total additions of \$20,809,328.
- Total liabilities increased \$15,274,125.
- Cash and cash equivalents decreased by \$2,026,502 in 2010 to \$23,563,938.

**Overview of Financial Statements**

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 18. 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.

**Government-wide Financial Statements**

Our analysis of the City as a whole begins on page 5. 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.

**City of Avon Lake, Ohio**  
*Management's Discussion and Analysis*  
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*(Unaudited)*

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These two 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 two 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.

*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.

### **Fund Financial Statements**

Our analysis of the City's major funds begins on page 10. 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 (i.e. Income Tax Transfer Fund) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (i.e. grants received from the U.S. Department of Justice). The City's three kinds of funds, governmental, proprietary and fiduciary, use different accounting approaches.

#### *Governmental Funds*

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

#### *Proprietary Funds*

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

#### *Fiduciary Funds*

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

**City of Avon Lake, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2010*  
(Unaudited)

**Notes to the Basic Financial Statements**

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

**The City of Avon Lake as a Whole**

**Analysis of Net Assets**

The City's total net assets changed from a year ago, increasing from \$106,782,651 to \$107,724,725. 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.

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
<b>ASSETS</b>						
Current and other assets	\$ 25,216,496	\$ 28,263,546	\$ 16,802,894	\$ 16,629,837	\$ 42,019,390	\$ 44,893,383
Capital assets, net	58,804,821	58,831,646	78,591,677	59,474,660	137,396,498	118,306,306
<b>Total Assets</b>	84,021,317	87,095,192	95,394,571	76,104,497	179,415,888	163,199,689
<b>LIABILITIES</b>						
Current and other liabilities	6,145,913	6,835,894	602,106	1,259,389	6,748,019	8,095,283
Long-term liabilities:						
Due within one year	1,624,095	1,357,988	2,964,094	2,350,990	4,588,189	3,708,978
Due in more than one year	12,971,261	13,761,985	47,383,694	30,850,792	60,354,955	44,612,777
<b>Total Liabilities</b>	20,741,269	21,955,867	50,949,894	34,461,171	71,691,163	56,417,038
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt	46,549,247	45,910,786	28,756,401	26,741,033	75,305,648	72,651,819
Restricted	8,350,517	10,625,576	1,305,583	1,305,570	9,656,100	11,931,146
Unrestricted	8,380,284	8,602,963	14,382,693	13,596,723	22,762,977	22,199,686
<b>Total Net Assets</b>	\$ 63,280,048	\$ 65,139,325	\$ 44,444,677	\$ 41,643,326	\$ 107,724,725	\$ 106,782,651

Total assets increased by \$16,216,199 in 2010 resulting primarily from capital asset additions, offset by depreciation of capital assets. Capital assets are used to provide services to the City's citizens; however, they are not available for future spending. Total capital assets (net of depreciation) increased \$19,090,192. The increase was due to additions to the LORCO force main and pump station construction project for \$5,111,280, LORCO various sewer projects for \$2,959,058, Jaycox Road sewer separation project for \$2,769,650 and LORCO collection system construction project for \$9,969,340 in the business-type activities.

Current and other assets decreased \$2,873,993 mainly from a decrease in equity in pooled cash and cash equivalents which resulted from utilization of carryover balances to finance current year operations.

Total liabilities increased by \$15,274,125 in 2010 with current liabilities decreasing \$1,347,264 and long-term liabilities increasing \$16,621,389. The large increase in long-term liabilities was primarily due to the issuance of additional OWDA loans for the LORCO force main and pump station and the LORCO collection system project. The decrease in current liabilities resulted mainly from a decrease in accounts payable from 2009 to 2010.



**City of Avon Lake, Ohio**  
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*For the Year Ended December 31, 2010*  
(Unaudited)

Total net assets increased \$942,074 from 2009 to 2010. The investment in capital assets, net of related debt increased \$2,653,829, which was the effect of the utilization of carryover balances to finance infrastructure. Restricted net assets decreased by \$2,275,046 due primarily to increases in infrastructure related capital improvement projects. Unrestricted net assets increased \$563,291.

Table 2 shows the changes in net assets for governmental activities and business-type activities for the year ended December 31, 2010 compared December 31, 2009.

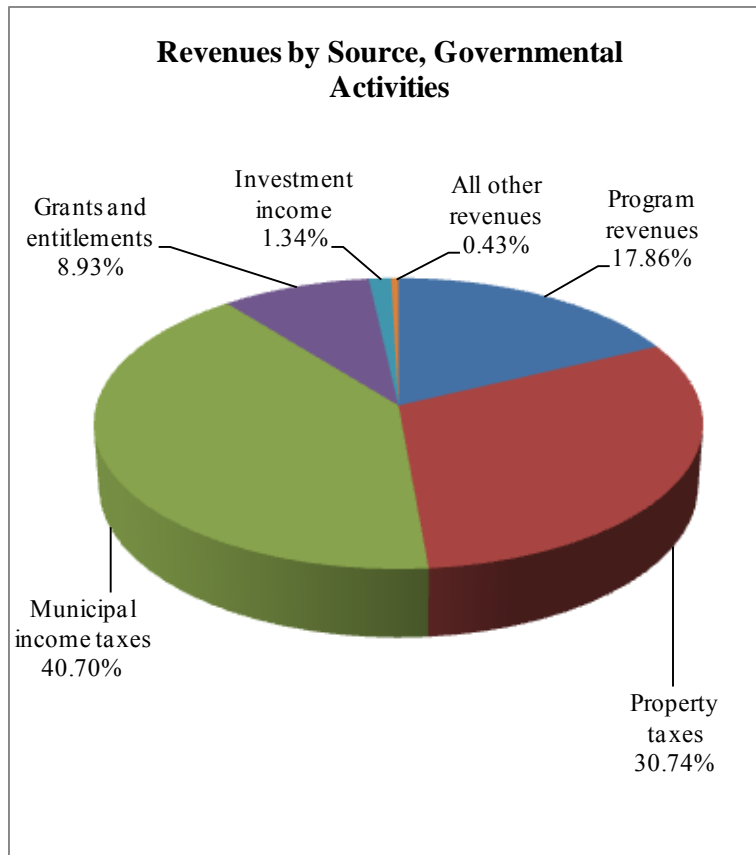
	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
<b>REVENUES</b>						
Program Revenues:						
Charges for services	\$ 1,817,583	\$ 1,275,875	\$ 12,642,798	\$ 11,902,960	\$ 14,460,381	\$ 13,178,835
Operating grants and contributions	1,423,818	1,053,056	-	-	1,423,818	1,053,056
Capital grants and contributions	322,042	733,930	2,959,058	1,083,193	3,281,100	1,817,123
<b>Total Program Revenues</b>	<b>3,563,443</b>	<b>3,062,861</b>	<b>15,601,856</b>	<b>12,986,153</b>	<b>19,165,299</b>	<b>16,049,014</b>
General Revenues:						
Property taxes	6,132,324	5,571,368	-	-	6,132,324	5,571,368
Municipal income taxes	8,118,314	7,559,236	-	-	8,118,314	7,559,236
Grants and entitlements	1,781,735	2,742,305	-	-	1,781,735	2,742,305
Investment income	267,001	161,242	220,757	119,890	487,758	281,132
All other revenues	86,562	221,817	124,981	97,271	211,543	319,088
<b>Total General Revenues</b>	<b>16,385,936</b>	<b>16,255,968</b>	<b>345,738</b>	<b>217,161</b>	<b>16,731,674</b>	<b>16,473,129</b>
<b>Total Revenues</b>	<b>19,949,379</b>	<b>19,318,829</b>	<b>15,947,594</b>	<b>13,203,314</b>	<b>35,896,973</b>	<b>32,522,143</b>
<b>EXPENSES</b>						
Program Expenses:						
Security of persons and property	8,431,818	8,116,714	-	-	8,431,818	8,116,714
Public health and welfare	128,170	111,728	-	-	128,170	111,728
Leisure time activities	628,833	1,653,617	-	-	628,833	1,653,617
Community environment	429,459	302,258	-	-	429,459	302,258
Basic utility services	628,726	44,730	-	-	628,726	44,730
Transportation	7,195,981	6,538,060	-	-	7,195,981	6,538,060
General government	2,833,799	3,324,095	-	-	2,833,799	3,324,095
Interest and fiscal charges	649,798	523,512	-	-	649,798	523,512
Water	-	-	7,912,953	7,294,819	7,912,953	7,294,819
Sewer	-	-	6,115,362	3,140,757	6,115,362	3,140,757
<b>Total Expenses</b>	<b>20,926,584</b>	<b>20,614,714</b>	<b>14,028,315</b>	<b>10,435,576</b>	<b>34,954,899</b>	<b>31,050,290</b>
Change in Net Assets before Transfers	(977,205)	(1,295,885)	1,919,279	2,767,738	942,074	1,471,853
Transfers	(882,072)	(408,931)	882,072	408,931	-	-
Change in Net Assets	(1,859,277)	(1,704,816)	2,801,351	3,176,669	942,074	1,471,853
Net Assets - Beginning of Year	65,139,325	66,844,141	41,643,326	38,466,657	106,782,651	105,310,798
<b>Net Assets - End of Year</b>	<b>\$63,280,048</b>	<b>\$65,139,325</b>	<b>\$44,444,677</b>	<b>\$41,643,326</b>	<b>\$ 107,724,725</b>	<b>\$ 106,782,651</b>

**City of Avon Lake, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2010*  
*(Unaudited)*

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***Governmental Activities***

Revenues by source of governmental activities for 2010 were comprised of:



***Revenues***

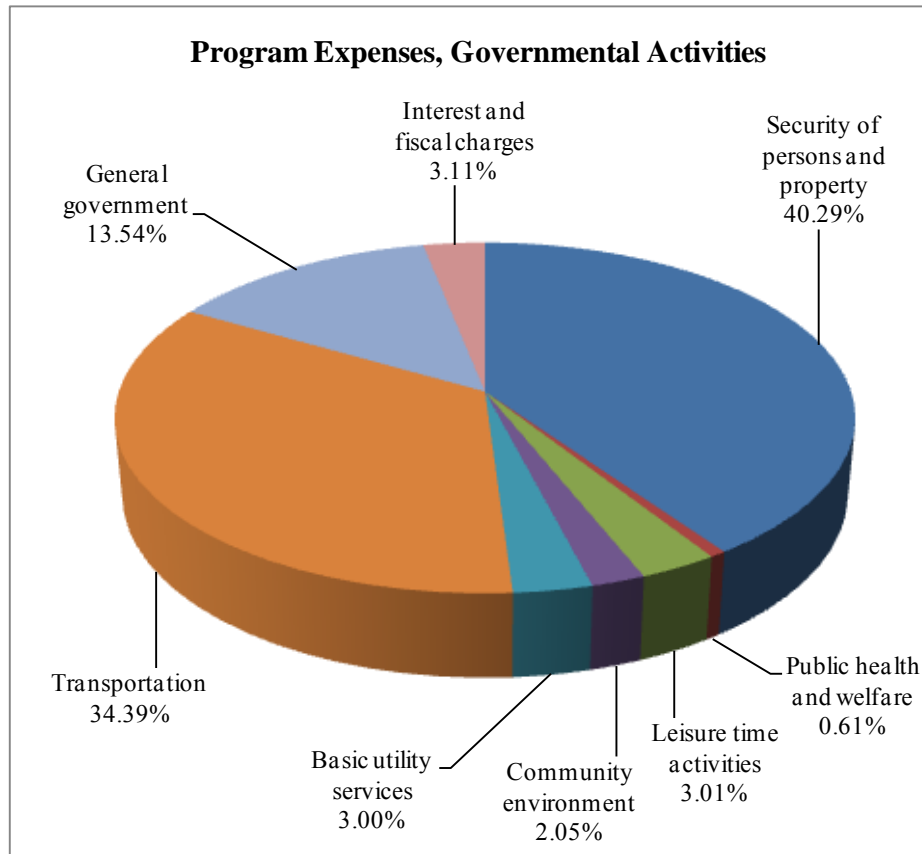
Total revenues increased by \$630,550 or 3.26%. The 1.5 percent municipal income tax is the largest revenue source totaling \$8,118,314 or 40.70%. Municipal income tax increased by \$559,078 or 7.40%. The municipal income tax revenue is allocated by ordinance as follows: the Capital Acquisition and Improvement Fund receives 20%, the Sewer System Construction Fund receives 5% and the remaining 75% is allocated to the General Fund. The next largest revenue source is property taxes totaling \$6,132,324 or 30.74%. Property taxes experienced an increase from 2009 of \$560,956 or 10.07%. These increases were offset most significantly by decreases of \$411,888 in capital grants and contributions and \$960,570 in grants and entitlements.

**City of Avon Lake, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2010*  
*(Unaudited)*

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*Expenses*

Program expenses of governmental activities for 2010 were comprised of:



Program expenses amounted to \$20,926,584 in 2010, of which only \$3,563,443 was supported by program revenues. Security of persons and property, which includes police, fire and paramedic services, represented \$8,431,818 or 40.29% of total program expenses. Transportation, which includes street maintenance, snow removal, etc., represents \$7,195,981 or 34.39% of program expenses. General government, which includes legislative and administrative services of council, mayor, law, finance, building services, and utilities and maintenance of the buildings that house these functions, represents \$2,833,799 or 13.54%. Leisure time activities represented \$628,833 or 3.00% of program expenses and includes recreation pool and special programs. Other program expenses consisting of public health and welfare, community environment and basic utility services amounted to 5.67%. Program expenses increased slightly in 2010 by \$311,870 or 1.51% from the 2009 program expenses.

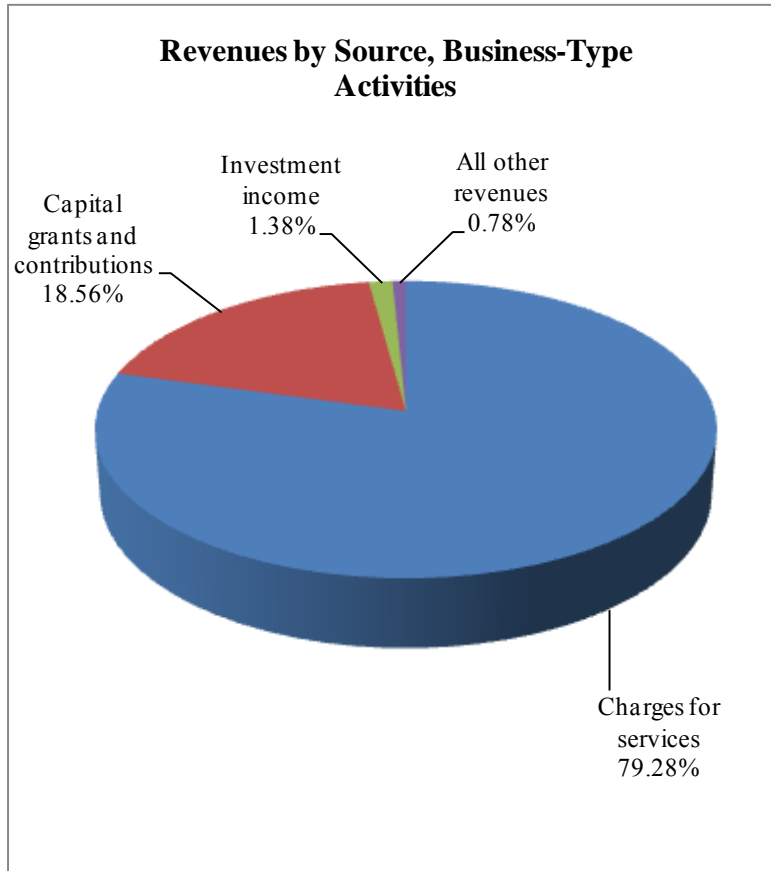
***Business-Type Activities***

The City's major business-type activities consist of the water and sewer services. The Water Fund accounts for the treatment and distribution of water to residential customers, commercial users, and certain non-residential customers. The Sewer Fund accounts for sanitary sewer treatment services provided to residential and commercial users.

**City of Avon Lake, Ohio**  
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*(Unaudited)*

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Revenues by source for business-type activities for 2010 were comprised of:

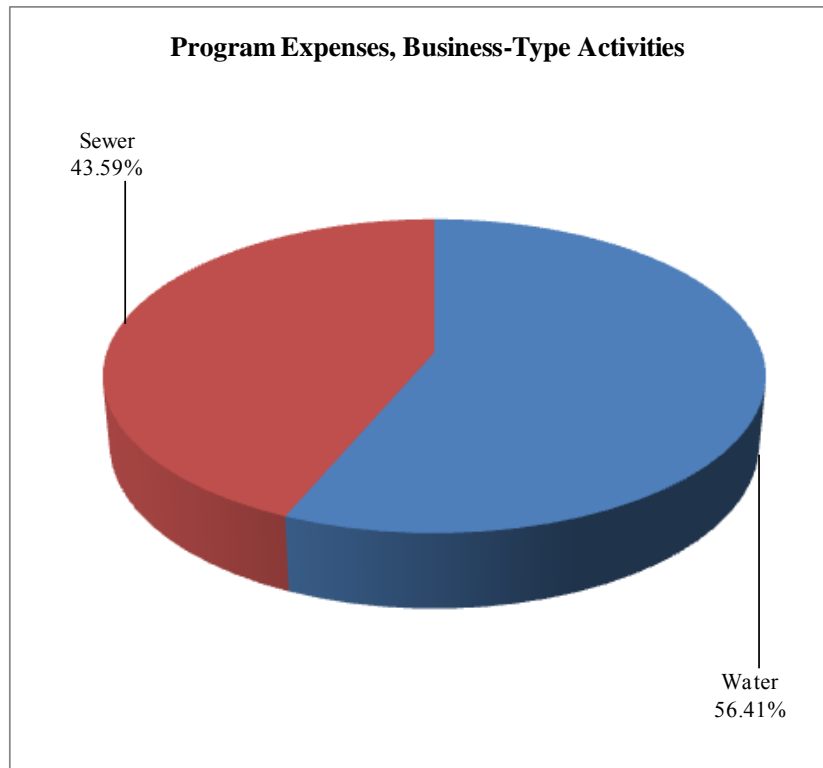


*Revenues*

Program revenue consisting of charges for services and capital grants and contributions represented 97.84% of total revenues for the business-type activities in 2010. Charges for services for the business-type activities amounted to \$12,642,798 with 76.05% provided by water services and 23.95% from sanitary sewer services.

**City of Avon Lake, Ohio**  
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*(Unaudited)*

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*Expenses*

Water operation expenses amounted to \$7,912,953 or 56.41% and sanitary sewer operation expenses amounted to \$6,115,362 or 43.59% of total program expenses for business-type activities in 2010.

**The City's Funds**

Information about the City's major governmental funds begins on page 18. These funds are reported using the modified accrual basis of accounting. All governmental funds had total revenues of \$19,592,451 and expenditures of \$21,679,731 (not including other financing sources and uses). The General Fund's fund balance decreased by \$254,510. 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 has been established by Council at the personal service and other expenditure level for all funds. For these funds, the legal level of budgetary control is at fund/program level. Any budgetary modifications at this level may only be made by resolution of City Council.

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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 \$1,217,585 increasing the overall General Fund final estimated revenues to \$14,457,002 as indicated on page 22. This change represents 8.42% of total final estimated revenue. The General Fund variance from original appropriations to final appropriations was \$19,163, decreasing the overall General Fund final appropriations to \$14,457,002. This change represents 0.13% of total final 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 final estimated revenues remained the same as the Income Tax Transfer Fund original estimated revenues of \$ 8,150,000 as indicated on page 23. This estimate was higher than actual revenues by \$338,493.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

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

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land	\$ 5,469,373	\$ 5,211,373	\$ 1,665,385	\$ 1,665,385	\$ 7,134,758	\$ 6,876,758
Construction in progress	-	2,482,565	25,987,249	5,177,921	25,987,249	7,660,486
Buildings and improvements	17,070,327	13,028,434	19,974,819	20,622,744	37,045,146	33,651,178
Machinery and equipment	1,606,235	1,717,205	2,152,656	2,183,548	3,758,891	3,900,753
Vehicles	1,653,931	1,243,601	347,937	388,289	2,001,868	1,631,890
Infrastructure:	33,004,955	35,148,468	28,463,631	29,436,773	61,468,586	64,585,241
Total Capital Assets,						
Net of Depreciation	<u>\$58,804,821</u>	<u>\$58,831,646</u>	<u>\$78,591,677</u>	<u>\$59,474,660</u>	<u>\$137,396,498</u>	<u>\$118,306,306</u>

Capital assets are major assets that are used in operations and have useful lives of more than one year. The City's total capital assets, net of depreciation amounted to \$137,396,498 at December 31, 2010, which was \$19,090,192 higher than the previous year. In 2010, capital assets, net of depreciation under governmental activities slightly decreased by \$26,825. Business-type capital assets, net of depreciation significantly increased by \$19,117,017.

**City of Avon Lake, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2010*  
(Unaudited)

For more information about the City's capital assets see Note 7 of the Notes to the Basic Financial Statements.

**Debt**

The City's debt obligations consisted of the following:

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
General Obligation Bonds	\$ 9,725,770	\$ 10,234,263	\$ 6,535,221	\$ 7,294,431	\$ 16,260,991	\$ 17,528,694
Special Assessment Bonds	2,271,423	2,404,937	-	-	2,271,423	2,404,937
OWDA Loans	65,835	126,919	33,899,521	15,141,625	33,965,356	15,268,544
OPWC Loans	90,000	100,000	-	-	90,000	100,000
Mortgage Revenue Bonds	-	-	9,340,000	10,195,000	9,340,000	10,195,000
Metro Parks Capital Improvement	-	100,000	-	-	-	100,000
Police/Fire Pension Liability	99,270	101,545	-	-	99,270	101,545
Promissory Note	64,500	-	-	-	64,500	-
Capital Leases	38,046	54,741	60,534	102,571	98,580	157,312
Total Outstanding Debt	<u>\$ 12,354,844</u>	<u>\$ 13,122,405</u>	<u>\$ 49,835,276</u>	<u>\$ 32,733,627</u>	<u>\$ 62,190,120</u>	<u>\$ 45,856,032</u>

At December 31, 2010, the City had outstanding debt and other long-term obligations in the amount of \$12,354,844 for the governmental activities and \$49,835,276 for business-type activities.

Debt for security of persons and property consist of \$3,270,000 for the Safety Center and \$1,265,000 for various purposes including the new fire truck. Debt for transportation consists of \$650,000 for the improvements to Pin Oak Parkway, \$180,748 for Walker Road widening. Debt for basic utility services consists of \$1,965,000 for the Central Avon Lake Ditch Project, \$65,835 for storm sewers along Walker Rd. Debt for leisure time activities consists of \$805,000 for improvements to Weiss Field, \$4,155,000 for the recreational facility, and \$90,000 for Walker Road bike lane.

Debt for Water includes five improvement and expansion projects to the City of Avon Lake's water distribution totaling \$19,420,348. Debt for Sewer consists of \$324,545 for digester repairs and improvements, \$124,551 for sanitary sewer installation along Walker Road, \$1,431,162 for sanitary sewer replacement along Fay Avenue and Vineyard Road, \$1,247,070 for Center Road pump station improvements, \$602,906 for various improvement projects, \$3,620,000 for various sewer separation and storm sewer projects throughout the City of Avon Lake, \$7,370,682 for the Lorain County Rural Wastewater District (LORCO) force main, \$12,887,859 for the LORCO collection system, and \$2,769,650 for the sewer separation project.

The City's last general obligation bond rating from Moody's was Aaa. Other obligations include accrued leave benefits, landfill post-closure costs, promissory note, and police and fire pension liabilities. For more information about the City's debt, see Note 8 and 9 of Notes to the Basic Financial Statements.

**City of Avon Lake, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2010*  
*(Unaudited)*

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**CURRENT FINANCIAL RELATED ACTIVITIES**

The City's governmental activities continued to struggle with many of the same economic issues as other communities including unfunded capital costs, increasing operating costs, and decreasing revenue sources. The fund balance of the General Fund decreased by \$254,510 and total governmental fund balances decreased by \$2,795,914 from 2009 to 2010.

From 2009 to 2010, real estate property values for the City began to show modest improvement with commercial/industrial/public utility property values increasing 0.79% and agricultural/residential property values increasing 1.01%.

The City spent \$977,636 in 2010 and will spend \$1,593,978 in 2011 to resurface and repair various streets throughout the City.

A Powering Our Communities grant from the Northeast Ohio Public Energy Council (NOPEC) was approved in 2011. The grant must be used for energy conservation measures with the initial projects being to retrofit the City Hall windows and install a new heating, ventilating and air conditioning system in the Old Firehouse.

The Ohio Water Development Authority (OWDA) loan financed force main and pump station project continues in 2011. This project will service the Rural Lorain County Wastewater District (LORCO) customers. In addition, the LORCO collection system project continues in 2011. This project is also financed with an OWDA loan and has been approved and granted an additional \$5,000,000 in American Recovery and Reinvestment Act (ARRA) funds.

In early 2011, the Municipal Utilities will complete the Jaycox Road combined sewer separation project which is funded by an OWDA loan. This project includes improvements to the Jaycox, Harvey Parkway, Cherry, Electric, Yoder, and Lake Roads.

Also in early 2011, the Municipal Utilities will complete the LORCO sewers project which is also funded by an OWDA loan. However, due to OWDA receiving ARRA funds, the loan balance has been forgiven.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This report is intended to provide the citizens and anyone interested in the financial aspects of the City a general overview of the financial operations. If there are any questions, please feel free to contact the Finance Director, City of Avon Lake, 150 Avon Belden Road, Avon Lake, Ohio 44012, telephone 440-933-6141.



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# City of Avon Lake, Ohio

## Statement of Net Assets

December 31, 2010

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Equity in Pooled Cash and Cash Equivalents	\$ 11,388,273	\$ 9,413,002	\$ 20,801,275
Cash and Cash Equivalents:			
With Escrow Agents	57,553	-	57,553
Materials and Supplies Inventory	189,579	86,009	275,588
Accounts Receivable	203,337	1,216,869	1,420,206
Accrued Interest Receivable	62,694	30,002	92,696
Intergovernmental Receivable	1,413,673	1,712,475	3,126,148
Prepaid Items	41,782	19,012	60,794
Income Taxes Receivable	3,027,005	-	3,027,005
Property Taxes Receivable	5,792,260	-	5,792,260
Special Assessments Receivable	2,952,420	217,215	3,169,635
Deferred Charges	87,920	439,852	527,772
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	-	1,305,583	1,305,583
Investment in Joint Venture	-	2,362,875	2,362,875
Nondepreciable Capital Assets	5,469,373	27,652,634	33,122,007
Depreciable Capital Assets	53,335,448	50,939,043	104,274,491
<b>Total Assets</b>	<b>84,021,317</b>	<b>95,394,571</b>	<b>179,415,888</b>
<b>LIABILITIES</b>			
Accounts Payable	216,720	158,939	375,659
Accrued Wages and Benefits	268,184	100,930	369,114
Intergovernmental Payable	504,655	211,565	716,220
Accrued Interest Payable	36,731	130,672	167,403
Retainage Payable	26,174	-	26,174
Deferred Revenue	5,093,449	-	5,093,449
Long-term Liabilities:			
Due within one year	1,624,095	2,964,094	4,588,189
Due in more than one year	12,971,261	47,383,694	60,354,955
<b>Total Liabilities</b>	<b>20,741,269</b>	<b>50,949,894</b>	<b>71,691,163</b>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	46,549,247	28,756,401	75,305,648
Restricted for:			
Debt Service	3,237,028	1,305,583	4,542,611
Capital Projects	2,522,821	-	2,522,821
Public Safety	926,011	-	926,011
Parks and Recreation	247,987	-	247,987
Streets and Highways	929,897	-	929,897
Other Purposes	486,773	-	486,773
Unrestricted	8,380,284	14,382,693	22,762,977
<b>Total Net Assets</b>	<b>\$ 63,280,048</b>	<b>\$ 44,444,677</b>	<b>\$ 107,724,725</b>

The notes to the financial statements are an integral part of this statement.

**City of Avon Lake, Ohio**  
*Statement of Activities*  
For the Year Ended December 31, 2010

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<b>Governmental activities:</b>				
Security of Persons and Property	\$ 8,431,818	\$ 328,839	\$ 2,348	\$ -
Public Health and Welfare	128,170	-	-	-
Leisure Time Activities	628,833	463,739	11,038	229,000
Community Environment	429,459	-	-	-
Basic Utility Services	628,726	7,189	10,000	-
Transportation	7,195,981	160,049	1,393,473	93,042
General Government	2,833,799	857,767	6,959	-
Interest and Fiscal Charges	649,798	-	-	-
<b>Total Governmental activities</b>	<u>20,926,584</u>	<u>1,817,583</u>	<u>1,423,818</u>	<u>322,042</u>
<b>Business-type activities:</b>				
Water	7,912,953	9,614,319	-	-
Sewer	6,115,362	3,028,479	-	2,959,058
<b>Total Business-type activities</b>	<u>14,028,315</u>	<u>12,642,798</u>	<u>-</u>	<u>2,959,058</u>
<b>Total Primary Government</b>	<u>\$ 34,954,899</u>	<u>\$ 14,460,381</u>	<u>\$ 1,423,818</u>	<u>\$ 3,281,100</u>

**General Revenues:**

Property and Other Taxes levied for:  
    General Purposes  
Income Taxes levied for:  
    General Purposes  
Grants & Entitlements not restricted to specific programs  
Investment Income  
All Other Revenues  
Transfers  
    Total General Revenues  
Change in Net Assets  
Net Assets - Beginning of Year  
**Net Assets - End of Year**

The notes to the financial statements are an integral part of this statement.

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**Net (Expense) Revenue and Changes in Net Assets**

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<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
\$ (8,100,631)	\$ -	(8,100,631)
(128,170)	-	(128,170)
74,944	-	74,944
(429,459)	-	(429,459)
(611,537)	-	(611,537)
(5,549,417)	-	(5,549,417)
(1,969,073)	-	(1,969,073)
(649,798)	-	(649,798)
(17,363,141)	-	(17,363,141)
-	1,701,366	1,701,366
-	(127,825)	(127,825)
-	1,573,541	1,573,541
(17,363,141)	1,573,541	(15,789,600)
6,132,324	-	6,132,324
8,118,314	-	8,118,314
1,781,735	-	1,781,735
267,001	220,757	487,758
86,562	124,981	211,543
(882,072)	882,072	-
15,503,864	1,227,810	16,731,674
(1,859,277)	2,801,351	942,074
65,139,325	41,643,326	106,782,651
\$ 63,280,048	\$ 44,444,677	\$ 107,724,725

**City of Avon Lake, Ohio**  
*Balance Sheet*  
*Governmental Funds*  
*December 31, 2010*

	<b>General Fund</b>	<b>Income Tax Transfer</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>				
Equity in Pooled Cash and Cash Equivalents	\$ 3,438,566	\$ 3,142,969	\$ 4,806,738	\$ 11,388,273
Cash and Cash Equivalents:				
With Escrow Agents	-	-	57,553	57,553
Materials and Supplies Inventory	59,093	-	130,486	189,579
Accrued Interest Receivable	-	-	62,694	62,694
Accounts Receivable	203,337	-	-	203,337
Interfund Receivable	24,126	-	278,987	303,113
Intergovernmental Receivable	776,448	-	637,225	1,413,673
Prepaid Items	34,016	-	7,766	41,782
Income Taxes Receivable	-	3,027,005	-	3,027,005
Property Taxes Receivable	3,924,269	-	1,867,991	5,792,260
Special Assessments Receivable	-	-	2,952,420	2,952,420
<b>Total Assets</b>	<b><u>\$ 8,459,855</u></b>	<b><u>\$ 6,169,974</u></b>	<b><u>\$ 10,801,860</u></b>	<b><u>\$ 25,431,689</u></b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts Payable	\$ 133,919	\$ -	\$ 82,801	\$ 216,720
Accrued Wages and Benefits	210,486	-	57,698	268,184
Intergovernmental Payable	213,095	-	291,560	504,655
Retainage Payable	-	-	26,174	26,174
Interfund Payable	-	-	303,113	303,113
Deferred Revenue	4,708,872	2,231,961	5,280,510	12,221,343
Compensated Absences	5,867	-	-	5,867
<b>Total Liabilities</b>	<b><u>5,272,239</u></b>	<b><u>2,231,961</u></b>	<b><u>6,041,856</u></b>	<b><u>13,546,056</u></b>
<b>Fund Balances:</b>				
Reserved for:				
Encumbrances	137,555	-	179,810	317,365
Inventory	59,093	-	130,486	189,579
Prepaid Items	34,016	-	7,766	41,782
Unreserved:				
Undesignated, Reported in:				
General Fund	2,956,952	-	-	2,956,952
Special Revenue Funds	-	3,938,013	1,889,978	5,827,991
Debt Service Funds	-	-	587,008	587,008
Capital Projects Funds	-	-	1,964,956	1,964,956
<b>Total Fund Balance</b>	<b><u>3,187,616</u></b>	<b><u>3,938,013</u></b>	<b><u>4,760,004</u></b>	<b><u>11,885,633</u></b>
<b>Total Liabilities and Fund Balance</b>	<b><u>\$ 8,459,855</u></b>	<b><u>\$ 6,169,974</u></b>	<b><u>\$ 10,801,860</u></b>	<b><u>\$ 25,431,689</u></b>

The notes to the financial statements are an integral part of this statement.

**City of Avon Lake, Ohio**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities  
 December 31, 2010*

**Total Governmental Funds Balance** \$ 11,885,633

*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 in the funds 58,804,821

Other long-term assets are not available to pay for current-period expenditures  
 and, therefore, are deferred in the funds:

Property and other taxes	\$	785,820	
Municipal income and other taxes		2,231,961	
Special assessments		2,952,420	
Intergovernmental		1,069,000	
Accounts Receivable		88,693	
Total			7,127,894

In the Statement of Activities, interest is accrued on outstanding  
 bonds, whereas in Governmental funds, an interest expenditure  
 is reported when due. (36,731)

Long-term liabilities, including bonds payable, are not due and payable in the  
 current period and therefore are not reported in the funds:

General obligation bonds		(9,725,770)	
Special assessment bonds		(2,271,423)	
OPWC loan		(90,000)	
Deferred Charges related to debt issuance		87,920	
OWDA Loan		(65,835)	
Capital leases		(38,046)	
Other long-term obligations		(909,195)	
Compensated absences		(1,489,220)	
Total			(14,501,569)

**Net Assets of Governmental Activities** \$ 63,280,048

The notes to the financial statements are an integral part of this statement.

**City of Avon Lake, Ohio**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Year Ended December 31, 2010*

	<b>General Fund</b>	<b>Income Tax Transfer</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>				
Property and Other Taxes	\$ 3,757,372	\$ -	\$ 1,621,569	\$ 5,378,941
Income Taxes	-	7,308,383	-	7,308,383
Intergovernmental	2,580,892	-	1,978,407	4,559,299
Interest	-	-	333,840	333,840
Licenses and Permits	297,912	-	47,051	344,963
Fines and Forfeitures	369,260	-	74,685	443,945
Charges for Services	655,003	-	7,190	662,193
Special Assessments	-	-	402,899	402,899
All Other Revenues	114,264	-	43,724	157,988
<b>Total Revenues</b>	<u>7,774,703</u>	<u>7,308,383</u>	<u>4,509,365</u>	<u>19,592,451</u>
<b>EXPENDITURES</b>				
Security of Persons and Property	6,396,305	-	2,150,016	8,546,321
Public Health and Welfare	73,700	-	54,470	128,170
Leisure Time Activities	718,471	-	425,069	1,143,540
Community Environment	383,005	-	4,033	387,038
Basic Utility Services	633,357	-	2,475	635,832
Transportation	2,754,130	-	2,428,964	5,183,094
General Government	2,341,171	-	163,635	2,504,806
Capital Outlay	-	-	1,466,267	1,466,267
Debt Service:		-		
Principal Retirement	2,300	-	940,666	942,966
Interest and Fiscal Charges	3,593	-	645,785	649,378
Bond Issuance Costs	-	-	92,319	92,319
<b>Total Expenditures</b>	<u>13,306,032</u>	<u>-</u>	<u>8,373,699</u>	<u>21,679,731</u>
Excess of Revenues (Under) Expenditures	<u>(5,531,329)</u>	<u>7,308,383</u>	<u>(3,864,334)</u>	<u>(2,087,280)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Inception of Capital Lease	12,247	-	-	12,247
Promissory Notes Issued	-	-	64,500	64,500
Refunding Bonds Issued	-	-	4,980,000	4,980,000
Premium on Bonds Issued	-	-	109,961	109,961
Payment to Refunded Bonds Escrow Account	-	-	(4,993,270)	(4,993,270)
Transfer In	5,889,993	-	3,049,491	8,939,484
Transfer Out	(625,421)	(8,378,937)	(817,198)	(9,821,556)
<b>Total Other Financing Sources (Uses)</b>	<u>5,276,819</u>	<u>(8,378,937)</u>	<u>2,393,484</u>	<u>(708,634)</u>
Net Change in Fund Balances	(254,510)	(1,070,554)	(1,470,850)	(2,795,914)
Fund Balances - Beginning of Year	3,442,126	5,008,567	6,230,854	14,681,547
<b>Fund Balances - End of Year</b>	<u>\$ 3,187,616</u>	<u>\$ 3,938,013</u>	<u>\$ 4,760,004</u>	<u>\$ 11,885,633</u>

The notes to the financial statements are an integral part of this statement.

**City of Avon Lake, Ohio**  
*Reconciliation of the Statement of Revenues, Expenditures and Changes  
 In Fund Balance of Governmental Funds to the Statement of Activities  
 For the Year Ended December 31, 2010*

**Net Change in Fund Balances-Total Governmental Funds** \$ (2,795,914)

*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 Outlay	\$	3,172,494	
Depreciation		<u>(3,155,420)</u>	
Total			17,074

In the Statement of Activities, only the loss on the disposal of capital assets is reported, whereas, in the Governmental Funds, the proceeds from the disposals increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the capital assets. (43,899)

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

Property and other taxes		753,383	
Municipal income taxes		809,931	
Special assessments		(402,900)	
Intergovernmental		(561,077)	
Accounts Receivable		(175,570)	
Interest		<u>(66,839)</u>	
Total			356,928

Other financing sources in the Governmental funds increase long-term liabilities in the Statement of Net Assets. These sources were attributed to the inception of a capital lease, proceeds from refunding general obligation and special assessment bonds and the related premiums and losses on refunding. (4,676,669)

Repayment of bond principal and capital leases are expenditures in the Governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 5,406,455

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in Governmental funds.

Compensated absences		(233,770)	
Other long-term obligations		14,377	
Accrued interest on bonds		8,221	
Deferred charges related to debt issuance		<u>87,920</u>	
Total			<u>(123,252)</u>

**Change in Net Assets of Governmental Activities** \$ (1,859,277)

The notes to the financial statements are an integral part of this statement.



**City of Avon Lake, Ohio**  
*Statement of Revenues, Expenditures and Changes in Fund Balance –  
 Budget (Non-GAAP Basis) and Actual  
 General Fund  
 For the Year Ended December 31, 2010*

	Budget Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
<b>Revenues:</b>				
Property Taxes	\$ 3,426,331	\$ 3,520,328	\$ 3,423,166	\$ (97,162)
Other Taxes	325,000	325,000	334,206	9,206
Intergovernmental	2,088,509	3,012,097	2,454,786	(557,311)
Charges for Services	669,600	819,600	636,922	(182,678)
Licenses and Permits	256,125	306,125	297,911	(8,214)
Fines and Forfeitures	267,000	267,000	349,436	82,436
Contributions and Donations	20,000	20,000	6,959	(13,041)
Rental Income	30,000	30,000	56,713	26,713
Other	107,750	107,750	39,890	(67,860)
<b>Total Revenues</b>	<b>7,190,315</b>	<b>8,407,900</b>	<b>7,599,989</b>	<b>(807,911)</b>
<b>Expenditures:</b>				
<b>Current:</b>				
General Government	2,775,108	2,795,066	2,432,223	362,843
Security of Persons and Property	6,008,551	6,043,548	5,821,686	221,862
Public Health and Welfare	85,983	85,983	85,983	-
Transportation	3,620,674	3,544,262	3,433,173	111,089
Community Environment	412,068	412,068	382,142	29,926
Leisure Time Activities	885,145	885,145	736,056	149,089
<b>Total Expenditures</b>	<b>13,787,529</b>	<b>13,766,072</b>	<b>12,891,263</b>	<b>874,809</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>(6,597,214)</b>	<b>(5,358,172)</b>	<b>(5,291,274)</b>	<b>66,898</b>
<b>Other Financing Sources (Uses):</b>				
Sale of Capital Assets	500	500	10	(490)
Advances In	48,602	48,602	24,320	(24,282)
Advances Out	(48,602)	(48,602)	(36,820)	11,782
Transfers In	6,000,000	6,000,000	5,889,993	(110,007)
Transfers Out	(640,034)	(642,328)	(625,421)	16,907
<b>Total Other Sources (Uses)</b>	<b>5,360,466</b>	<b>5,358,172</b>	<b>5,252,082</b>	<b>(106,090)</b>
<b>Net Change</b>	<b>(1,236,748)</b>	<b>-</b>	<b>(39,192)</b>	<b>(39,192)</b>
Fund Balances at Beginning of Year	3,010,619	3,010,619	3,010,619	-
Prior Year Encumbrances Appropriated	290,338	290,338	290,338	-
<b>Fund Balances at End of Year</b>	<b>\$ 2,064,209</b>	<b>\$ 3,300,957</b>	<b>\$ 3,261,765</b>	<b>\$ (39,192)</b>

The notes to the financial statements are an integral part of this statement.

**City of Avon Lake, Ohio**  
*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, 2010*

	Budget Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
Revenues:				
Municipal Income Tax	\$ 8,150,000	\$ 8,150,000	\$ 7,811,507	\$ (338,493)
Total Revenues	<u>8,150,000</u>	<u>8,150,000</u>	<u>7,811,507</u>	<u>(338,493)</u>
Expenditures:				
Current:				
General Government:	150,000	260,007	268,044	(8,037)
Total Expenditures	<u>150,000</u>	<u>260,007</u>	<u>268,044</u>	<u>(8,037)</u>
Excess of Revenues Over (Under) Expenditures	<u>8,000,000</u>	<u>7,889,993</u>	<u>7,543,463</u>	<u>(346,530)</u>
Other Financing Sources (Uses):				
Transfers Out	(8,000,000)	(8,378,937)	(8,378,937)	-
Total Other Sources (Uses)	<u>(8,000,000)</u>	<u>(8,378,937)</u>	<u>(8,378,937)</u>	<u>-</u>
Net Change	-	(488,944)	(835,474)	(346,530)
Fund Balances at Beginning of Year	3,978,443	3,978,443	3,978,443	-
Fund Balances at End of Year	<u>\$ 3,978,443</u>	<u>\$ 3,489,499</u>	<u>\$ 3,142,969</u>	<u>\$ (346,530)</u>

The notes to the financial statements are an integral part of this statement.

**City of Avon Lake, Ohio**  
*Statement of Fund Net Assets*  
*Proprietary Funds*  
*December 31, 2010*

	<b>Business-Type Activities - Enterprise Funds</b>		
	<b>Water</b>	<b>Sewer</b>	<b>Total</b>
<b>ASSETS</b>			
<b>Current Assets:</b>			
Equity in Pooled Cash and Cash Equivalents	\$ 6,193,844	\$ 3,219,158	\$ 9,413,002
Materials and Supplies Inventory	76,559	9,450	86,009
Accrued Interest Receivable	23,942	6,060	30,002
Accounts Receivable	678,991	537,878	1,216,869
Interfund Receivable	800,000	-	800,000
Intergovernmental Receivable	1,712,475	-	1,712,475
Prepaid Items	15,053	3,959	19,012
Special Assessments Receivable	-	217,215	217,215
<b>Total Current Assets</b>	<b>9,500,864</b>	<b>3,993,720</b>	<b>13,494,584</b>
<b>Noncurrent Assets:</b>			
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	1,305,583	-	1,305,583
Deferred Charges	430,824	9,028	439,852
Investment in Joint Venture	2,362,875	-	2,362,875
Capital Assets:			
Land	671,708	993,677	1,665,385
Construction in Progress	-	25,987,249	25,987,249
Depreciable Capital Assets, Net of Depreciation	34,926,849	16,012,194	50,939,043
<b>Total Noncurrent Assets</b>	<b>39,697,839</b>	<b>43,002,148</b>	<b>82,699,987</b>
<b>Total Assets</b>	<b>49,198,703</b>	<b>46,995,868</b>	<b>96,194,571</b>
<b>LIABILITIES</b>			
<b>Current Liabilities:</b>			
Accounts Payable	41,838	117,101	158,939
Accrued Wages and Benefits	44,397	56,533	100,930
Compensated Absences Payable	67,694	77,251	144,945
Intergovernmental Payable	144,425	67,140	211,565
Interfund Payable	-	800,000	800,000
Accrued Interest Payable	114,578	16,094	130,672
General Obligation Bonds Payable	535,228	278,308	813,536
Revenue Bonds Payable	880,000	-	880,000
OWDA Loans Payable	726,557	342,859	1,069,416
Capital Leases Payable	1,860	54,337	56,197
<b>Total Current Liabilities</b>	<b>2,556,577</b>	<b>1,809,623</b>	<b>4,366,200</b>
<b>Noncurrent Liabilities:</b>			
Compensated Absences Payable	158,894	208,673	367,567
General Obligation Bonds Payable	1,777,087	3,944,598	5,721,685
Revenue Bonds Payable	8,460,000	-	8,460,000
OWDA Loans Payable	7,017,445	25,812,660	32,830,105
Capital Leases Payable	2,169	2,168	4,337
<b>Total Noncurrent Liabilities</b>	<b>17,415,595</b>	<b>29,968,099</b>	<b>47,383,694</b>
<b>Total Liabilities</b>	<b>19,972,172</b>	<b>31,777,722</b>	<b>51,749,894</b>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	16,198,211	12,558,190	28,756,401
Restricted for:			
Debt Service	1,305,583	-	1,305,583
Unrestricted	11,722,737	2,659,956	14,382,693
<b>Total Net Assets</b>	<b>\$ 29,226,531</b>	<b>\$ 15,218,146</b>	<b>\$ 44,444,677</b>

The notes to the financial statements are an integral part of this statement.

**City of Avon Lake, Ohio**  
*Statement of Revenues, Expenses and Changes in Fund Net Assets*  
*Proprietary Funds*  
*For the Year Ended December 31, 2010*

	<b>Business-Type Activities - Enterprise Funds</b>		
	<b>Water</b>	<b>Sewer</b>	<b>Total</b>
<b>OPERATING REVENUES</b>			
Charges for Services	\$ 9,044,712	\$ 3,028,479	\$ 12,073,191
Miscellaneous	84,510	40,471	124,981
<b>Total Operating Revenues</b>	<u>9,129,222</u>	<u>3,068,950</u>	<u>12,198,172</u>
<b>OPERATING EXPENSES</b>			
Salaries	1,749,706	2,437,226	4,186,932
Purchased Services	784,411	95,970	880,381
Materials and Supplies	3,175,815	2,488,621	5,664,436
Depreciation	1,114,221	726,849	1,841,070
<b>Total Operating Expense</b>	<u>6,824,153</u>	<u>5,748,666</u>	<u>12,572,819</u>
Operating Income (Loss)	<u>2,305,069</u>	<u>(2,679,716)</u>	<u>(374,647)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest	183,562	37,195	220,757
Interest and Fiscal Charges	(1,088,800)	(366,696)	(1,455,496)
Intergovernmental	569,607	-	569,607
<b>Total Nonoperating Revenues (Expenses)</b>	<u>(335,631)</u>	<u>(329,501)</u>	<u>(665,132)</u>
Capital Grants	-	2,959,058	2,959,058
Transfers In	-	900,209	900,209
(Transfers Out)	-	(18,137)	(18,137)
Change in Net Assets	<u>1,969,438</u>	<u>831,913</u>	<u>2,801,351</u>
Net Assets - Beginning of Year	<u>27,257,093</u>	<u>14,386,233</u>	<u>41,643,326</u>
<b>Net Assets - End of Year</b>	<u>\$ 29,226,531</u>	<u>\$ 15,218,146</u>	<u>\$ 44,444,677</u>

The notes to the financial statements are an integral part of this statement.

**City of Avon Lake, Ohio**  
*Statement of Cash Flows*  
*Proprietary Funds*  
For the Year Ended December 31, 2010

	<b>Business-Type Activities - Enterprise Funds</b>		
	<b>Water</b>	<b>Sewer</b>	<b>Total</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash Received from Customers and Users	\$ 9,019,699	\$ 3,555,572	\$ 12,575,271
Other Cash Receipts	84,510	40,471	124,981
Cash Payments to Employees for Services	(1,712,602)	(2,389,304)	(4,101,906)
Cash Payments for Goods and Services	(4,063,051)	(3,777,970)	(7,841,021)
Net Cash Provided by (Used in) Operating Activities	<u>3,328,556</u>	<u>(2,571,231)</u>	<u>757,325</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Intergovernmental Revenue	225,496	-	225,496
Advances In	-	800,000	800,000
Advances Out	(800,000)	-	(800,000)
Transfers In	-	900,209	900,209
Transfers Out	-	(18,137)	(18,137)
Net Cash Provided by (Used in) Noncapital Financing Activities	<u>(574,504)</u>	<u>1,682,072</u>	<u>1,107,568</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Proceeds from Sale of G.O. Bonds	-	19,702,222	19,702,222
Principal Paid on G.O. Bonds	(250,963)	(197,854)	(448,817)
Principal Paid on Revenue Bonds	(855,000)	-	(855,000)
Principal Paid on OWDA Loans	(679,345)	(264,981)	(944,326)
Principal Paid on Capital Leases Payable	(1,092)	(51,186)	(52,278)
Interest Payments	(1,325,620)	(430,660)	(1,756,280)
Payments for Capital Acquisitions	(64,331)	(19,755,050)	(19,819,381)
Special Assessments	-	30,830	30,830
Capital Grant	-	2,959,058	2,959,058
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>(3,176,351)</u>	<u>1,992,379</u>	<u>(1,183,972)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest on Investments	123,007	31,135	154,142
Net Cash Provided by Investing Activities	<u>123,007</u>	<u>31,135</u>	<u>154,142</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(299,292)	1,134,355	835,063
Cash and Cash Equivalents - Beginning of Year	7,798,719	2,084,803	9,883,522
<b>Cash and Cash Equivalents - End of Year</b>	<u>\$ 7,499,427</u>	<u>\$ 3,219,158</u>	<u>\$ 10,718,585</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>			
Operating Income (Loss)	\$ 2,305,069	\$ (2,679,716)	\$ (374,647)
Adjustments:			
Depreciation	1,114,221	726,849	1,841,070
(Increase) Decrease in Assets:			
Accounts Receivable	(25,013)	(37,424)	(62,437)
Materials and Supplies Inventory	(37,329)	13,804	(23,525)
Prepaid Items	(15,053)	(3,959)	(19,012)
Increase (Decrease) in Liabilities:			
Accounts Payable	18,414	(634,045)	(615,631)
Accrued Wages	10,005	10,851	20,856
Compensated Absences Payable	(31,933)	76,290	44,357
Intergovernmental Payable	(9,825)	(43,881)	(53,706)
Net Cash Provided by (Used in) Operating Activities	<u>\$ 3,328,556</u>	<u>\$ (2,571,231)</u>	<u>\$ 757,325</u>

The notes to the financial statements are an integral part of this statement.

**City of Avon Lake, Ohio**  
*Statement of Fiduciary Assets and Liabilities*

*December 31, 2010*

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	<b>Agency Funds</b>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 1,399,527</u>
Total Assets	<u>\$ 1,399,527</u>
<b>Liabilities</b>	
Intergovernmental Payable	\$ 173,856
Due to Others	<u>1,225,671</u>
Total Liabilities	<u>\$ 1,399,527</u>

The notes to the financial statements are an integral part of this statement.

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**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*

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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 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, except the Board of Utilities has direct responsibility over the water and sewer 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 organization. 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 and NOPEC as jointly governed organizations. The City is also a member of the Medina-Lorain Water Consortium, a joint venture (See Note 14).

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.

A. **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.



**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*  
(Continued)

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

A. **Basis of Presentation** (Continued)

*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.

B. **Fund Accounting**

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

*Governmental Funds*

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets 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:

**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*  
*(Continued)*

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

**B. Fund Accounting**

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 out to other funds.

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:

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 and certain non-residential customers.

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.

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 City has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. 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.

**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*  
(Continued)

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

**C. 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.

**D. Basis of Accounting**

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

*Revenues - Exchange and Non-exchange Transactions*

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

**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*  
(Continued)

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

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

*Revenues - Exchange and Non-exchange Transactions* (Continued)

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (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, 2010, but which were levied to finance fiscal year 2011 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.

**E. 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. The legal level of budgetary control has been established by Council at the personal service and other expenditure level for all funds.

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.

**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*  
(Continued)

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

E. **Budgetary Process** (Continued)

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 2010.

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.

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.

**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*  
(Continued)

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

E. **Budgetary Process** (Continued)

*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.

F. **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, repurchase agreements, investments in U.S. agencies and instrumentalities and the City invested in STAR Ohio, an investment pool managed by the State Treasurer's Office. STAR Ohio allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2010.

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 Fund during 2010 amounted to \$296,506 which includes \$196,870 assigned from other City funds.

The cash of the Municipal Court is included in the "equity in pooled cash and cash equivalents" line item on the Statement of Fiduciary Net Assets. The balances of these accounts are presented on the balance sheet as "equity in pooled cash and cash equivalents" and represent checking accounts.

The City presents "Cash and Cash Equivalents with Escrow Agents" on its Statement of Net Assets. In governmental activities, the restricted cash of \$57,553 represents cash restricted for contractor retainage. During 2010, this restricted cash was invested in money market interest bearing accounts.

In business-type activities, the restricted cash of \$1,305,583 represents cash segregated by the City from funds held by trustees in accordance with the trust agreement associated with the water system mortgage revenue refunding bonds issued on April 22, 2005. During 2010, this restricted cash was invested in U.S. Treasury obligations. See Note 8 for additional information regarding these bonds and related segregated assets.

**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*  
(Continued)

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

F. **Cash Equivalents** (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.

G. **Inventories**

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

H. **Prepaid Expenses**

Payments made to vendors for services that will benefit periods beyond December 31, 2010 are recorded as prepaid items using the consumption method. A current asset for the period amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed.

I. **Capital Assets**

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net 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:

**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*  
(Continued)

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

I. **Capital Assets** (Continued)

<u>Description</u>	<u>Governmental Activities Useful Lives</u>	<u>Business-Type Activities Useful 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 25 years
Infrastructure	10 to 75 years	10 to 75 years

J. **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.

K. **Capitalization of Interest**

The City’s policy is to delay capitalizing net interest on proprietary funds 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 2010, proprietary funds incurred no interest costs on construction projects.

L. **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.



**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*  
*(Continued)*

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

**M. 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.

**N. 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 and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases and long-term loans are recognized as a liability on the fund financial statements when due.

**O. 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 and inventories are recorded as a reservation of fund balance.

**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*  
(Continued)

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

**P. 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. Net assets restricted for other purposes represents cash restricted for contractor retainage. None of this amount was restricted by enabling legislation.

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

**Q. 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.

**R. 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.

**S. 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.

**T. Extraordinary and Special Items**

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

**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*  
(Continued)

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

**U. Use of 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.

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:

- Revenues are recorded when received in cash (budget) as opposed to when susceptible accrual (GAAP);
- Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP). Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).

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

	General	Income Tax Transfer
GAAP Basis	\$ (254,510)	\$ (1,070,554)
<u>Increase (Decrease) Due to:</u>		
Revenue Accruals	(162,631)	235,080
Expenditure Accruals	557,582	-
Outstanding Encumbrances	(179,633)	-
Budget Basis	\$ (39,192)	\$ (835,474)

**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*  
(Continued)

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NOTE 4: **ACCOUNTABILITY AND COMPLIANCE**

A. **Deficit Fund Balances**

At December 31, 2010, the COPS Fast, Police Pension, Fire Pension and Cove Avenue Improvements funds had deficit fund balances of \$29,913, \$81,858, \$69,136 and \$243,447, respectively. These deficit fund balances are the result of adjustments for accrued liabilities in these funds. The General Fund is liable for any deficits in these funds and previous transfers when cash is needed, not when accruals occur.

B. **Excess of Expenditures Over Appropriations**

For the year ended December 31, 2010, expenditures exceeded appropriations in the Income Tax Transfer Fund by \$8,037. Those over-expenditures were funded by available fund balances.

NOTE 5: **DEPOSITS AND INVESTMENTS**

A. **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.

**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*  
(Continued)

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

A. **Legal Requirements** (Continued)

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.

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.

Custodial credit risk is the risk that, in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, the carrying amount of the City's deposits was \$267,627 and \$2,645 of petty cash and the bank balance was \$742,309. Of the bank balance, \$729,272 was covered by federal depository insurance, and \$13,037 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.

**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*  
(Continued)

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

**B. Deposits**

The City has no deposit policy for custodial risk beyond the requirements of the State Statute. Ohio law requires the deposits to be either insured or be protected by the eligible securities pledged to and deposited either with the City or a qualified trustee by the financial institution as security for repayment, or by collateral pool of eligible securities deposited with a qualified trustee and pledged to secure repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of all deposits being secured.

**C. Investments**

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The money market mutual funds, repurchase agreement, Federal Home Loan Bank Bonds, Federal Farm Credit Banks Bonds, Freddie Mac Bonds, Fannie Mae Bonds and Federal Home Loan Mortgage Corporation Bonds are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent but not in the City's name. The City has no investment policy dealing with investment custodial credit risk beyond the requirement in the State statute that prohibits payments for investments prior to the delivery of the securities representing such investments to the finance director or qualified trustee.

Investments are reported at fair value. As of December 31, 2010, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturities</u>
Federal Home Loan Bank	\$ 2,936,882	1/21/2011 - 9/11/2015
Federal Farm Credit Bank	306,975	6/20/2012
Federal Home Loan Mortgage Corp.	1,576,077	1/7/2011 - 3/23/2012
Federal Nation Mtg Assn.	313,491	2/5/2014
Freddie Mac	3,659,078	4/11/2011 - 7/7/2015
Fannie Mae	3,636,587	8/15/2011 - 7/28/2015
United States Treasury Notes	1,117,914	11/15/2011 - 4/30/2013
Money Market Mutual Funds	1,759,074	< 1 year
Repurchase Agreement	1,045,000	< 1 year
STAR Ohio	6,942,588	< 1 year
Total Investments	<u>\$ 23,293,666</u>	

**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*  
(Continued)

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

**D. Interest Rate Risk**

As a means of limiting its exposure to fair value losses caused by rising interest rates, the City's investment policy requires that operating funds be invested primarily in short-term investments maturing within five years from the date of purchase and that the City's investment portfolio be structured so that the securities mature to meet cash requirements for ongoing operations and/of long-term debt payments. The stated intent of the policy is to avoid the need to sell securities prior to maturity. Currently, no investments have been purchased with a life greater than five years.

**E. Credit Risk**

All of the City's investments in United States debt securities carry a rating of AAA by Standard & Poor's. STAR Ohio carries a rating of AAAM by Standard and Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

The City has no investment policy that addresses credit risk.

**F. Concentration of Credit Risk**

The following is the City's allocation as of December 31, 2010:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment</u>
Federal Home Loan Bank	\$ 2,936,882	12.61%
Federal Farm Credit Bank	306,975	1.32%
Federal Home Loan Mortgage Corp.	1,576,077	6.77%
Federal Nation Mtg Assn.	313,491	1.35%
Freddie Mac	3,659,078	15.71%
Fannie Mae	3,636,587	15.61%
United States Treasury Notes	1,117,914	4.80%
Money Market Mutual Funds	1,759,074	7.55%
Repurchase Agreement	1,045,000	4.49%
STAR Ohio	6,942,588	29.79%
Total Investments	<u>\$ 23,293,666</u>	<u>100.00%</u>

**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*  
(Continued)

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

F. **Concentration of Credit Risk** (Continued)

To avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions, dealers, or maturities, the Finance Director will diversify the Active Portfolio per the City's investment policy to not exceed the allowable percentages of each investment as follows:

<u>Investment Type</u>	<u>Percentage of Investments</u>
United States Treasury Obligations	100.00%
Authorized U.S. Federal Agency Securities	50.00%
Certificates of Deposit	50.00%
STAR Ohio	90.00%
Repurchase Agreement	40.00%

NOTE 6: **RECEIVABLES**

Receivables at December 31, 2010, 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.

A. **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 2009. 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.

Tangible personal property tax revenues received in calendar year 2010 (other than public utility property) represent the collection of calendar year 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. The October 2009 tangible personal property tax settlement was the last property tax settlement for general personal property taxes. Tangible personal property taxes received from telephone companies in calendar year 2010 were levied after October 1, 2009, on the value as of December 31, 2009.



**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*  
(Continued)

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NOTE 6: **RECEIVABLES** (Continued)

A. **Property Taxes** (Continued)

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. Tangible personal property taxes paid by April 30 are usually received by the City prior to June 30.

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, 2010 was \$7.34 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2010 property tax receipts were based are as follows:

Real Property - 2010:	
Residential/Agriculture	\$ 679,942,600
Other Real Estate	88,491,930
Tangible Personal Property - 2010:	
Public Utilities	57,503,930
Total Valuation	\$ 825,938,460

B. **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.

By City ordinance, effective December 13, 1993, 75 percent of the income tax proceeds were credited to the General Fund, 20 percent of the income tax proceeds were credited to the Income Tax Capital Improvement Fund (a capital projects fund) and 5 percent of the income tax proceeds were credited to the Sewer Fund (an enterprise fund).

**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*  
*(Continued)*

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NOTE 6: **RECEIVABLES** (Continued)

C. **Intergovernmental Revenues**

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
Governmental Activities	
Homestead and Rollback	\$ 323,938
Gasoline Tax	392,196
Commercial Activities Tax	66,747
Local Government	402,564
Motor Vehicle	49,968
Auto Registration	53,478
Estate Tax	72,913
Miscellaneous	<u>51,869</u>
Total Governmental Activities	<u>1,413,673</u>
 Business-Type Activities	
Water	<u>1,712,475</u>
 Total Intergovernmental Receivable	<u><u>\$3,126,148</u></u>

**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*  
(Continued)

**NOTE 7: CAPITAL ASSETS**

	Balances 12/31/2009	Additions	Disposals	Balances 12/31/2010
<b>Governmental Activities</b>				
Nondepreciable Assets:				
Land	\$ 5,211,373	\$ 258,000	\$ -	\$ 5,469,373
Construction in progress	2,482,565	1,983,815	(4,466,380)	-
Total Nondepreciable Assets	<u>7,693,938</u>	<u>2,241,815</u>	<u>(4,466,380)</u>	<u>5,469,373</u>
Depreciable Assets:				
Buildings and Improvements	16,865,235	4,494,297	(190,964)	21,168,568
Machinery and Equipment	5,744,893	266,125	(62,053)	5,948,965
Vehicles	3,758,280	636,637	-	4,394,917
Infrastructure	63,024,392	-	-	63,024,392
Total Depreciable Assets	<u>89,392,800</u>	<u>5,397,059</u>	<u>(253,017)</u>	<u>94,536,842</u>
Less Accumulated Depreciation				
Buildings and Improvements	(3,836,801)	(416,243)	154,803	(4,098,241)
Machinery and Equipment	(4,027,688)	(369,357)	54,315	(4,342,730)
Vehicles	(2,514,679)	(226,307)	-	(2,740,986)
Infrastructure	(27,875,924)	(2,143,513)	-	(30,019,437)
Total Accumulated Depreciation	<u>(38,255,092)</u>	<u>(3,155,420)</u>	<u>209,118</u>	<u>(41,201,394)</u>
Total Depreciable Assets, Net	<u>51,137,708</u>	<u>2,241,639</u>	<u>(43,899)</u>	<u>53,335,448</u>
Governmental Activities Capital Assets, Net	<u>\$ 58,831,646</u>	<u>\$ 4,483,454</u>	<u>\$ (4,510,279)</u>	<u>\$ 58,804,821</u>
<b>Business-Type Activities</b>				
Nondepreciable Assets:				
Land	\$ 1,665,385	\$ -	\$ -	\$ 1,665,385
Construction in progress	5,177,921	20,809,328	-	25,987,249
Total Nondepreciable Assets	<u>6,843,306</u>	<u>20,809,328</u>	<u>-</u>	<u>27,652,634</u>
Depreciable Assets:				
Buildings and Improvements	37,515,988	-	(65,800)	37,450,188
Machinery and Equipment	3,945,376	148,759	(2,611)	4,091,524
Vehicles	783,245	-	-	783,245
Infrastructure	43,935,114	-	-	43,935,114
Total Depreciable Assets	<u>86,179,723</u>	<u>148,759</u>	<u>(68,411)</u>	<u>86,260,071</u>
Less Accumulated Depreciation				
Buildings and Improvements	(16,893,244)	(647,925)	65,800	(17,475,369)
Machinery and Equipment	(1,761,828)	(179,651)	2,611	(1,938,868)
Vehicles	(394,956)	(40,352)	-	(435,308)
Infrastructure	(14,498,341)	(973,142)	-	(15,471,483)
Total Accumulated Depreciation	<u>(33,548,369)</u>	<u>(1,841,070)</u>	<u>68,411</u>	<u>(35,321,028)</u>
Total Depreciable Assets, Net	<u>52,631,354</u>	<u>(1,692,311)</u>	<u>-</u>	<u>50,939,043</u>
Business-Type Activities Capital Assets, Net	<u>\$ 59,474,660</u>	<u>\$ 19,117,017</u>	<u>\$ -</u>	<u>\$ 78,591,677</u>

**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*  
(Continued)

NOTE 7: **CAPITAL ASSETS** (Continued)

Depreciation expense was charged to governmental functions as follows:

Security of Persons and Property	\$ 300,112
Leisure Time Activities	222,196
Community Environment	1,660
Basic Utility Services	17,856
Transportation	2,096,293
General Government	<u>517,303</u>
Total Depreciation Expense	<u><u>\$3,155,420</u></u>

NOTE 8: **LONG-TERM OBLIGATIONS**

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

	Original Issue Date	Maturity Date	Interest Rate	Original Issue Amount
Governmental Activities				
General Obligation Bonds				
Refunding	2001	2020	3.3% - 5.5%	\$ 525,160
Safety Center	2001	2020	3.3% - 5.5%	4,994,101
Recreational Facility	2003	2028	3.0% - 5.0%	1,000,000
Pin Oak Parkway	2001	2020	2.75% - 4.75%	498,659
LTGO Various Purpose	2009	2017	2.0% - 3.5%	1,430,000
Recreational Facility	2009	2028	3.0% - 5.0%	4,500,000
Refunding	2010	2020	2.0% - 3.75%	3,110,000
Special Assessment Bonds				
CALDP	2001	2020	3.3% - 5.5%	2,999,996
Pin Oak Parkway	2001	2020	2.75% - 4.75%	886,341
Refunding	2010	2020	2.0% - 3.75%	1,870,000
Ohio Water Development Authority Loan				
Walker Road	1990	2012	7.76%	700,698
Ohio Public Works Commission Loan				
Walker Road/Bike Lane	2009	2024	0.00%	100,000
Business-Type Activities				
General Obligation Bonds				
Refunding	2001	2020	3.3% - 5.5%	6,499,726
Refunding	2001	2020	3.3% - 5.5%	1,727,775
Wastewater Collection System	2003	2028	3.0% - 5.0%	4,500,000
Refunding	2010	2020	2.0% - 2.35%	425,000
Mortgage Revenue Bonds				
Water System Refunding	2005	2026	3.0% - 5.0%	14,075,000
Ohio Water Development Authority Loans				
Walker Road	1990	2012	7.76%	1,348,577
Water Plant Expansion	1991	2017	7.84%	9,084,095
Wastewater Improvements	1998	2018	5.76%	638,031
Water System Improvements	2003	2025	4.51%	4,764,656
Fay/Vineyard Sanitary Sewer	2008	2029	4.15%	1,548,287
Center Road Pump Station	2008	2029	4.28%	1,356,266
LORCO Force Main (*)	2009	2041	3.68%	7,370,682
LORCO Collection Systems (*)	2009	2041	4.08%	12,887,859
Sewer Separation (*)	2010	2041	3.27%	2,769,650

\* - OWDA project remains open as of December 31, 2010

**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*  
(Continued)

NOTE 8: **LONG-TERM OBLIGATIONS** (Continued)

Changes in the City's long-term obligations during 2010 were as follows:

	Outstanding 12/31/2009	Additions	Reductions	Outstanding 12/31/2010	Amount Due in One Year
<b>Governmental activities</b>					
General obligation bonds					
Refunding bonds (2001)					
various % through 2020	\$ 180,748	\$ -	\$ -	\$ 180,748	\$ 41,464
Capital appreciation bonds (2001)	18,843	-	18,843	-	-
Accretion on CABs	20,512	2,731	23,243	-	-
Safety center (2001)					
various % through 2020	3,204,101	-	2,959,101	245,000	245,000
Pin Oak Parkway (2001)					
various % through 2020	270,059	-	36,000	234,059	36,000
Recreational facility (2003)					
various % through 2028	835,000	-	30,000	805,000	30,000
Various purpose (2009)					
various % through 2017	1,430,000	-	165,000	1,265,000	165,000
Recreational facility (2009)					
various % through 2028	4,275,000	-	120,000	4,155,000	130,000
Refunding bonds (2010)					
various through 2020	-	3,110,000	85,000	3,025,000	45,000
Unamortized premium	-	68,671	5,359	63,312	-
Unamortized loss on refunding	-	(268,287)	(20,938)	(247,349)	-
Total general obligation bonds	<u>10,234,263</u>	<u>2,913,115</u>	<u>3,421,608</u>	<u>9,725,770</u>	<u>692,464</u>
Special assessment bonds					
Pin Oak Parkway (2001)					
various % through 2020	479,941	-	64,000	415,941	64,000
CALDP (2001)					
various % through 2020	1,924,996	-	1,779,996	145,000	145,000
Refunding bonds (2010)					
various % through 2020	-	1,870,000	50,000	1,820,000	25,000
Unamortized premium	-	41,290	3,192	38,098	-
Unamortized loss on refunding	-	(159,983)	(12,367)	(147,616)	-
Total special assessment bonds	<u>2,404,937</u>	<u>1,751,307</u>	<u>1,884,821</u>	<u>2,271,423</u>	<u>234,000</u>
OWDA loan - Walker Road (1990)					
7.76% through 2012	126,919	-	61,084	65,835	65,835
OPWC loan- Walker Rd/Bike Lane					
0.0% through 2024	100,000	-	10,000	90,000	6,667
Total loans	<u>226,919</u>	<u>-</u>	<u>71,084</u>	<u>155,835</u>	<u>72,502</u>
Capital lease obligations	54,741	12,247	28,942	38,046	30,335
Landfill postclosure costs	722,027	84,963	61,565	745,425	62,119
Police and fire pension	101,545	-	2,275	99,270	2,373
Metro parks capital improvements	100,000	-	100,000	-	-
Promissory note	-	64,500	-	64,500	24,500
Compensated absences	1,275,541	275,422	55,876	1,495,087	505,802
Total governmental activities	<u>\$ 15,119,973</u>	<u>\$ 5,101,554</u>	<u>\$ 5,626,171</u>	<u>\$ 14,595,356</u>	<u>\$ 1,624,095</u>

**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*  
(Continued)

NOTE 8: **LONG-TERM OBLIGATIONS** (Continued)

	Outstanding 12/31/2009	Additions	Reductions	Outstanding 12/31/2010	Amount Due in One Year
<b>Business-type activities</b>					
General obligation bonds					
Refunding bonds (2001)					
various % through 2020	\$ 2,914,252	\$ -	\$ 390,000	\$ 2,524,252	\$ 668,536
Capital appreciation bonds (2001)	303,817	-	303,817	-	-
Accretion on CABs	321,362	42,778	364,140	-	-
Wastewater collection system (2003)					
various % through 2028	3,755,000	-	135,000	3,620,000	140,000
Refunding bonds (2010)					
various % through 2020	-	425,000	10,000	415,000	5,000
Unamortized premium	-	8,968	1,034	7,934	-
Unamortized loss on refunding	-	(36,132)	(4,167)	(31,965)	-
Total general obligation bonds	<u>7,294,431</u>	<u>440,614</u>	<u>1,199,824</u>	<u>6,535,221</u>	<u>813,536</u>
Mortgage revenue bonds					
Water system refunding (2005)					
various % through 2026	10,195,000	-	855,000	9,340,000	880,000
OWDA					
Walker Road (1990)					
7.76% through 2012	240,112	-	115,561	124,551	124,551
Water plant expansion (1991)					
7.84% through 2017	4,394,101	-	494,891	3,899,210	533,690
Wastewater improvements (1998)					
5.76% through 2018	358,446	-	33,901	324,545	35,854
Water system improvements (2003)					
4.51% through 2025	4,029,246	-	184,454	3,844,792	192,867
Fay/Vineyard sanitary sewer (2008)					
4.15% through 2029	1,490,927	-	59,765	1,431,162	62,271
Center Road pump station (2008)					
4.28% through 2029	1,302,824	-	55,754	1,247,070	58,165
LORCO force main (2009)					
3.68% through 2041	1,067,773	6,302,909	-	7,370,682	-
LORCO collection system (2009)					
4.08% through 2041	2,258,196	10,629,663	-	12,887,859	-
Sewer separation (2010)					
3.27% through 2041	-	2,769,650	-	2,769,650	62,018
Total OWDA	<u>15,141,625</u>	<u>19,702,222</u>	<u>944,326</u>	<u>33,899,521</u>	<u>1,069,416</u>
Capital lease obligations	102,571	10,241	52,278	60,534	56,197
Compensated absences	468,155	46,982	2,625	512,512	144,945
Total business-type activities	<u>\$ 33,201,782</u>	<u>\$ 20,200,059</u>	<u>\$ 3,054,053</u>	<u>\$ 50,347,788</u>	<u>\$ 2,964,094</u>

**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*  
(Continued)

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NOTE 8: **LONG-TERM OBLIGATIONS** (Continued)

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 income 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 post-closure costs are based on estimates as of December 31, 2010. 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. In the event that the developer receives less than \$100,000 per year, the City 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.

On March 28, 2001, the City issued \$16,746,758 in total 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 sewage 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.

A portion of the bonds mentioned above, \$4,994,101 were used 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, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*  
(Continued)

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NOTE 8: **LONG-TERM OBLIGATIONS** (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 percent 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 percent 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 May 20, 2010, the City issued \$5,405,000 in Various Purpose Improvement Refunding Bonds, Series 2010 to partially refund the aforementioned bonds previously issued in 2001 for the Safety Center, CALDP and Water improvements. The bonds were issued with interest rates ranging from 2.00 percent to 3.75 percent. The bonds were issued for a ten year period with final maturity during fiscal year 2020. These bonds will be retired through the City's Debt Service Fund and Water Fund.

Proceeds were deposited in an irrevocable trust with an escrow agent to provide for future debt payments on the refunded 2001 Various Improvement Bonds. As a result, \$4,955,000 of these bonds was considered defeased and the liability for the refunded bonds has been removed from the City's financial statements. The amount still outstanding as December 31, 2010 is \$4,955,000.

On September 12, 2001, the City issued \$1,385,000 in new bonds to cover the cost of retiring \$1,000,000 in 2001 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 constructing outdoor recreational facilities.



**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*  
*(Continued)*

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NOTE 8: **LONG-TERM OBLIGATIONS** (Continued)

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.

On December 29, 2009, the City issued \$ 1,430,000 in LTGO Various Purpose Bonds, Series 2009. These bonds were used to improve Moore Road by reconstructing storm sewers and storm water drainage facilities, the construction of a storage facility for use by the service department and the purchase of a fire truck.

On July 21, 2009, the City issued \$4,500,000 in Recreational Facilities Improvement Bonds, Series 2009. These bonds were used for the reconstruction of the City's pool facility.

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 the end of the 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 percent interest over a twenty-five year period beginning July 1, 1992 through January 1, 2017.

On August 24, 1990, the City entered into a loan agreement with OWDA for \$1,950,000 (capitalized interest of \$99,278 was added at the end of the construction period for a total of \$2,049,275). 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. This debt has a fixed rate of 7.76 percent interest over a twenty-year period beginning July 1, 1992 through January 1, 2012.

On March 26, 1998, the City entered into a loan agreement with OWDA for \$638,031. These funds were used to repair 2 digesters at the Wastewater facility. This debt has a fixed rate of 5.76 percent interest over a twenty-year period beginning January 1, 1999 through July 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 percent to 7.0 percent. This rate subsidy went into effect with January 1, 2004 payments. The City has 4 outstanding loans falling into these parameters.

On December 11, 2003, an OWDA loan agreement for \$4,585,637 was entered into by the City (capitalized interest of \$179,019 was added at the end of the construction period for a total of \$4,764,656). These funds were used to increase its capacity to 40 million gallons per day ensuring the necessary capacity for the City and surrounding communities well into the future. This debt has a fixed rate of 4.51% interest over a twenty-year period beginning January 1, 2006 through July 1, 2025.

During 2009, the City entered into a loan agreement in the amount of \$1,356,266 with OWDA for the Center Road pump station improvement project. This debt has a fixed rate of 4.28 percent interest over a twenty-year period beginning July 1, 2009 through November 1, 2029.

**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*  
(Continued)

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NOTE 8: **LONG-TERM OBLIGATIONS** (Continued)

During 2009, the City entered into a loan agreement in the amount of \$ 1,548,287 with OWDA for the Fay Avenue and Vineyard Road sanitary sewer replacement project. This debt has a fixed rate of 4.15 percent interest over a twenty-year period beginning July 1, 2009 through January 1, 2029.

The City entered into a loan agreement with OWDA for the LORCO force main project. The loan has a fixed rate of 3.68 percent interest over a thirty year period beginning July 1, 2011 through January 1, 2041. As of December 2010, the loan balance for the portion of the project completed was \$ 7,370,682.

The City entered into a loan agreement with OWDA for the LORCO collection system. The loan has a fixed rate of 4.08 percent interest over a twenty-nine year period beginning January 1, 2012 through January 1, 2041. As of December 2010, the loan balance for the portion of the project completed was \$12,887,859.

The City entered into a loan agreement with OWDA for the Sewer separation project. The loan has a fixed rate of 3.27 percent interest over a thirty year period beginning January 1, 2011 through January 1, 2041. As of December 2010, the loan balance for the portion of the project completed was \$2,769,650.

In June 2009, the City entered into a loan agreement with OPWC for \$ 100,000. These funds were used for the paving of Walker Road and a bike lane. The debt is a zero percent interest loan over fourteen years beginning January 1, 2010 through July 1, 2014.

On April 22, 2005, the City issued \$14,075,000 water system mortgage revenue refunding serial bonds series 2005. The bonds were issued in order to (i) currently refund certain Water System Mortgage Revenue Refunding Bonds, Series 1993A of the City, dated March 1, 1993 with aggregate outstanding principal amount of \$4,250,000, (ii) advance refund certain Water System Mortgage Revenue Refunding Bonds, Series 2000A of the City, dated July 1, 2000 with aggregate outstanding principal amount of \$9,115,000. The present value of these to refunding issues will save approximately \$502,300 in interest combined.

The serial bonds maturing on or after October 1, 2016 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 April 1, 2015 in multiples of \$5,000 at the redemption price of 100 percent of the principal amount redeemed plus accrued interest to the redemption date.

Mandatory Sinking Fund Redemption - None of the Bonds are subject to mandatory redemption pursuant to sinking fund requirements.

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.

**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*  
(Continued)

NOTE 8: **LONG-TERM OBLIGATIONS** (Continued)

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, 2010:

Revenue Bond Future Debt Service \$ 1,305,583

On July 28, 2010, the City entered into an agreement with a private party for the purchase of approximately five acres of land to be used for park purposes. The City has signed a promissory note of \$64,500 toward the purchase of the land to be paid in three annual installments. This note carries a zero percent interest rate and will mature in fiscal year 2013. The City has received a grant from the Clean Ohio Conservation Fund that will cover 75 percent of the total cost.

Principal and interest requirements to retire long-term obligations, except landfill post-closure costs, recreation fee credits, Metro Parks capital improvements, compensated absences, police and fire pension, and capital leases at December 31, 2010 are as follows:

Year Ended	Governmental Activities			
	General Obligation Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2011	\$ 692,464	\$ 507,137	\$ 234,000	\$ 167,995
2012	724,800	334,886	244,000	69,019
2013	769,228	316,149	247,200	62,666
2014	778,656	294,629	255,400	55,807
2015	766,400	271,603	263,600	48,255
2016-2020	3,453,259	981,664	1,136,741	118,010
2021-2025	1,590,000	462,265	-	-
2026-2030	1,135,000	102,777	-	-
	<u>\$ 9,909,807</u>	<u>\$ 3,271,110</u>	<u>\$ 2,380,941</u>	<u>\$ 521,752</u>

Year Ended	Governmental Activities				
	OWDA Loans		OPWC Loan	Total Principal	Total Interest
	Principal	Interest	Principal		
2011	\$ 65,835	\$ 4,603	\$ 6,667	\$ 998,966	\$ 679,735
2012	-	-	6,667	975,467	403,905
2013	-	-	6,667	1,023,095	378,815
2014	-	-	6,667	1,040,723	350,436
2015	-	-	6,667	1,036,667	319,858
2016-2020	-	-	33,335	4,623,335	1,099,674
2021-2025	-	-	23,330	1,613,330	462,265
	<u>\$ 65,835</u>	<u>\$ 4,603</u>	<u>\$ 90,000</u>	<u>\$ 11,311,583</u>	<u>\$ 3,694,688</u>

**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*  
(Continued)

NOTE 8: **LONG-TERM OBLIGATIONS** (Continued)

Year Ended	Business-Type Activities			
	General Obligation Bonds		Mortgage Revenue Bond	
	Principal	Interest	Principal	Interest
2011	\$ 813,536	\$ 307,175	\$ 880,000	\$ 420,290
2012	856,200	267,077	915,000	389,490
2013	903,572	222,916	950,000	352,890
2014	955,944	175,472	385,000	314,890
2015	165,000	138,593	395,000	299,490
2016-2020	915,000	587,188	2,265,000	1,217,140
2021-2025	1,135,000	367,163	2,885,000	596,625
2026-2030	815,000	82,067	665,000	29,925
	<u>\$ 6,559,252</u>	<u>\$ 2,147,651</u>	<u>\$ 9,340,000</u>	<u>\$ 3,620,740</u>

Year Ended	Business-Type Activities			
	OWDA Loans		Total	Total
	Principal	Interest	Principal	Interest
2011	\$ 886,962	\$ 538,418	\$ 2,580,498	\$ 1,265,883
2012	815,114	478,878	2,586,314	1,135,445
2013	871,617	424,489	2,725,189	1,000,295
2014	932,204	366,282	2,273,148	856,644
2015	997,177	303,979	1,557,177	742,062
2016-2020	2,221,943	797,548	5,401,943	2,601,876
2021-2025	1,468,081	170,444	5,488,081	1,134,232
2026-2030	-	-	1,480,000	111,992
	<u>\$ 8,193,098</u>	<u>\$ 3,080,038</u>	<u>\$ 24,092,350</u>	<u>\$ 8,848,429</u>

There are five OWDA loans that are still in construction phase and final amortization schedules have not been completed as of December 31, 2010. Therefore, the previous table does not include outstanding principal and interest payments for the five OWDA loans. This information will be provided once final amortization schedules are available.

**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*  
(Continued)

NOTE 9: **CAPITAL LEASES**

The City is obligated under certain leases accounted for as capital leases. The leased assets are included in capital assets and the related obligations are included under long-term debt. Equipment and related accumulated depreciation under capital leases are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Equipment	\$ 110,788	\$ 262,170
Less:		
Accumulated Depreciation	<u>(46,918)</u>	<u>(35,560)</u>
	<u>\$ 63,870</u>	<u>\$ 226,610</u>

The following is a schedule of future minimum lease payments under capital leases together with the net present value of the minimum lease payments as of December 31, 2010.

<u>Year Ending December 31,</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2011	\$ 32,411	\$ 58,696
2012	2,772	3,720
2013	2,772	1,175
2014	2,481	-
2015	402	-
Total Minimum Lease Payments	<u>40,838</u>	<u>63,591</u>
Less Amount Representing Interest	<u>(2,792)</u>	<u>(3,057)</u>
Net Present Value of Minimum Lease Payments	<u>\$ 38,046</u>	<u>\$ 60,534</u>

NOTE 10: **OPERATING LEASES**

The City is obligated under leases accounted for as operating leases. Total lease expense for the year ended December 31, 2010 was \$20,641 for Governmental Activities and \$5,815 for Business-type Activities. The following is a schedule of future minimum lease payments required under operating leases that have initial or remaining noncancellable lease terms in excess of one year as of December 31, 2010.

<u>Year Ending December 31,</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2011	\$ 23,769	\$ 6,076
2012	14,645	6,076
2013	7,757	6,076
2014	7,757	6,076
2015	3,324	5,557
thereafter	233	368,000
Total Minimum Lease Payments	<u>\$ 57,485</u>	<u>\$ 397,861</u>

**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*  
(Continued)

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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 Pension 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 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 in nature to, but less than, the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town Street, Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. For the year ended December 31, 2010, the members of all three plans were required to contribute 10.00 percent of their annual covered salaries. The City's contribution rate of 14.00 percent was allocated to fund pension benefits for members of: the Traditional Plan was 8.50 percent from January 1 through February 28, 2010 and 9.00 percent from March 1 through December 31, 2010; the Combined Plan was 9.27 percent from January 1 through February 28, 2010 and 9.77 percent from March 1 through December 31, 2010. The City's required contributions for pension obligations to the Traditional Pension and Combined plans for the years ended December 31, 2010, 2009, and 2008 were \$602,542, \$473,603, and \$387,920, respectively; 78.64 percent has been contributed for 2010 and 100 percent has been contributed for 2009 and 2008. Contributions to the Member-Directed Plan for 2010 were \$23,223 made by the City and \$16,588 made by the plan members.

**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 OP&F, 140 E. Town Street, Columbus, Ohio 43215-5164.

**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*  
(Continued)

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NOTE 11: **DEFINED BENEFIT PENSION PLANS**

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

Plan members are required to contribute 10.00 percent of their annual covered salary, while the City is required to contribute 19.50 percent and 24.0 percent for police officers and firefighters, respectively. The portion of the City's contributions to fund pension obligations was 12.75 percent for police officers and 17.25 percent for firefighters. The City's contributions for pension obligations to OP&F for police and firefighters were \$276,708 and \$264,793 for the year ended December 31, 2010, \$288,064 and \$404,045 for the year ended December 31, 2009, \$324,103 and \$388,406 for the year ended December 31, 2008, respectively; 79.13 percent for police and 78.60 for firefighters has been contributed for 2010 and 100 percent for 2009 and 2008.

NOTE 12: **POST-EMPLOYMENT BENEFITS**

**A. Ohio Public Employees Retirement System**

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

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

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

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town Street, Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*  
(Continued)

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NOTE 12: **POST-EMPLOYMENT BENEFITS** (Continued)

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

*Funding Policy* – The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care benefits. The 2010 local government employer contribution rate was 14.00 percent of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.00 percent of covered payroll for local government employers. Active members do not make contributions to the OPEB Plan.

OPERS' Post Employment Health Care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 5.50 percent from January 1 through February 28, 2010 and 5.00 percent from March 1 through December 31, 2010. The portion of employer contributions allocated to health care for members in the Combined Plan was 4.73 percent from January 1 through February 28, 2010 and 4.23 percent from March 1 through December 31, 2010. The OPERS Board of Trustees is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's required employer contributions for 2010, 2009, and 2008 which were used to fund post-employment benefits were \$343,151, \$345,320 and \$387,921, respectively. 78.64 percent has been contributed for 2010 and 100 percent has been contributed for 2009 and 2008.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Board of Trustees on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007, and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

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

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

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

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



**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*  
(Continued)

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NOTE 12: **POST-EMPLOYMENT BENEFITS** (Continued)

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

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the Plan. That report may be obtained by writing to OP&F, 140 E. Town Street, Columbus, OH 43215-5164.

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

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2010, the employer contribution allocated to the health care plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of the Sections 115 and 401(h).

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

The City's contributions for 2010, 2009, and 2008 that were used to fund post-employment benefits were \$146,492 for police and \$103,615 for firefighters, \$152,401 for police and \$157,909 for firefighters, and \$171,468 for police and \$151,797 for firefighters, respectively. 79.13 percent for police and 78.60 for firefighters has been contributed for 2010 and 100 percent for 2009 and 2008.

**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*  
(Continued)

NOTE 13: **RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City, during 2010, contracted with Trident/Argonaut Insurance Company for the following types of insurance:

Company	Type	Coverage
Trident/Argonaut Insurance Company	Blanket Building and Content Replacement	\$ 56,534,590
	Miscellaneous Equipment	2,104,601
	Earthquake Coverage	1,000,000
	Flood Coverage	1,000,000
	Hazardous Substance	100,000
	Public Employee Dishonesty	100,000
	Faithful Performance of Duty	100,000
	Money and Securities In/Out Coverage	25,000
	Forgery and Alteration	25,000
	General Liability - Each Occurrence	1,000,000
	Employee Benefits Liability	1,000,000
	Law Enforcement Liability - Each Occurrence	1,000,000
	Public Official Liability - Each Occurrence	1,000,000
	Employment Practice - Each Occurrence	1,000,000
	Automobile Liability	1,000,000
	Excess Liability - Each Occurrence	5,000,000

There have not been any significant reductions in insurance coverage from coverage in the prior year and the amounts of settlements have not exceeded coverage for any of the prior three years.

The City participates in the State of Ohio's workers' compensation program. The City pays the Ohio Bureau of Workers' Compensation a premium based on a rate per \$100 of salaries. Accident history and administrative costs form the basis for the rate.

NOTE 14: **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. The Alliance includes nine city, four village, and nine township members along with 38 associate 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.

**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*  
(Continued)

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NOTE 14: **JOINTLY GOVERNED ORGANIZATIONS/JOINT VENTURES** (Continued)

A. **Lorain County Community Alliance Council of Governments** (Continued)

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. Financial information can be obtained by contacting Bill Holtzman, Elyria Township Trustee, at 41416 Griswold Road, Elyria, Ohio 44035, who serves as fiscal agent.

B. **Northeast Ohio Public Energy Council (NOPEC)**

The City is a member of the Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of electricity. NOPEC is currently comprised of 126 communities who have been authorized by ballot to purchase electricity on behalf of their citizens. The intent of NOPEC is to provide electricity at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity to the citizens of its member communities.

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each community then elect one person to serve on the eight-member NOPEC Board of Directors. In 2010, the City made no contributions to NOPEC. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. Financial information can be obtained by contacting Joseph Migliorini, Board Chairman, at 31320 Solon Road, Suite 20, Solon, Ohio 44139 or at the website [www.nopecinfo.org](http://www.nopecinfo.org).

C. **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, 2010, the City's equity interest in the Consortium was \$2,362,875. Financial information can be obtained from the City of Avon Lake Finance Director, 150 Avon Belden Road, Avon Lake, Ohio 44012.

**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*  
(Continued)

NOTE 15: **CONTINGENT LIABILITIES**

**A. Grants**

The City received financial assistance in the form of grants from the State and Federal agencies. The grant agreements specify the terms and conditions under which the grant funds may be received and disbursed and also give the grantor agencies the authority to audit the grant activity. If the audit resulted in a claim for reimbursement of the grant funds, the claim could result in a liability to the affected funds.

**B. Litigation**

The City is party to legal proceedings. 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: **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 transfers for the year ended December 31, 2010 consisted of the following:

<u>Transfer To</u>	<u>Transfer From</u>				<u>Total</u>
	<u>General Fund</u>	<u>Income Tax Transfer</u>	<u>Nonmajor Governmental Funds</u>	<u>Sewer Fund</u>	
Governmental Funds:					
General Fund	\$ -	\$ 5,889,993	\$ -	\$ -	\$ 5,889,993
Non-Major Governmental Funds	625,421	1,600,000	805,933	18,137	3,049,491
Total Governmental Funds	<u>625,421</u>	<u>7,489,993</u>	<u>805,933</u>	<u>18,137</u>	<u>8,939,484</u>
Enterprise Funds:					
Sewer Fund		888,944	11,265		900,209
Total Enterprise Funds	-	<u>888,944</u>	<u>11,265</u>	-	<u>900,209</u>
Total	<u>\$ 625,421</u>	<u>\$ 8,378,937</u>	<u>\$ 817,198</u>	<u>\$ 18,137</u>	<u>\$ 9,839,693</u>

**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*  
(Continued)

NOTE 16: **INTERFUND BALANCES AND TRANSFERS** (Continued)

Interfund balances for the year ended December 31, 2010 consisted of the following:

	Interfund Receivable	Interfund Payable
Governmental Funds:		
General Fund	\$ 24,126	\$ -
Income Tax Transfer Fund	-	-
Non-Major Governmental Funds	278,987	303,113
Total Governmental Funds	303,113	303,113
Enterprise Funds:		
Water Fund	800,000	-
Sewer Fund	-	800,000
Total Enterprise Funds	800,000	800,000
Total	\$ 1,103,113	\$ 1,103,113

Interfund balances at December 31, 2010 consisted of \$24,126 due to the General Fund from the COPS Fund, \$35,550 due to the Miller Road Park Breakwall Fund from the Capital Improvement Fund, and \$243,437 due to the Debt Service Fund from the Cove Avenue Improvement Fund. The General Fund and the Miller Road Park Breakwall Fund advanced monies to the Capital Improvement Fund to cover project expenditures and to the COPS Fund until repaid by grant proceeds. The Debt Service Fund issued manuscript debt for Cove Avenue improvements in anticipation of the collection of special assessments.

NOTE 17: **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 Post-closure Costs liability reflects an estimate of the remaining costs to perform the required maintenance and monitoring functions for approximately 15 years. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*  
(Continued)

**NOTE 18: CONSTRUCTION COMMITMENTS**

As of December 31, 2010, the City had the following significant contractual commitments:

Contractor	Total Contractor Amount	Amount Paid as of 12/31/2010	Remaining on the Contract
<b><i>LORCO Force Main &amp; Pump Stations Construction Project:</i></b>			
Mr. Excavator, Inc.	\$ 1,552,872	\$ 508,172	\$ 1,044,700
Underground Utilities, Inc.	1,805,153	1,522,411	282,742
Fabrizi Trucking & Paving Company, Inc.	1,625,100	1,051,560	573,540
Dave Sugar Excavating, LLC.	1,338,156	1,307,106	31,050
<b><i>Total Project</i></b>	<b><u>6,321,281</u></b>	<b><u>4,389,249</u></b>	<b><u>1,932,032</u></b>
<b><i>LORCO Sewer Projects:</i></b>			
DiGioia-Suburban Excavating, LLC	\$ 1,483,170	\$ 460,522	\$ 1,022,648
Underground Utilities, Inc.	1,397,560	1,249,050	148,510
Fabrizi Trucking & Paving Company, Inc.	784,591	318,403	466,188
Elite Excavating Company of Ohio, Inc.	1,334,678	931,083	403,595
<b><i>Total Project</i></b>	<b><u>4,999,999</u></b>	<b><u>2,959,058</u></b>	<b><u>2,040,941</u></b>
<b><i>Sewer Separation Project:</i></b>			
DiGioia-Suburban Excavating, LLC	\$ 2,844,997	\$ 2,602,008	\$ 242,989
<b><i>Total Project</i></b>	<b><u>2,844,997</u></b>	<b><u>2,602,008</u></b>	<b><u>242,989</u></b>
<b><i>LORCO Force Main &amp; Pump Stations Construction Project:</i></b>			
DiGioia-Suburban Excavating, LLC	\$ 1,709,301	\$ 1,167,365	\$ 541,936
Underground Utilities, Inc.	3,489,578	3,324,502	165,076
Precise Boring of Ohio, LLC	29,850	-	29,850
Elite Excavating Company of Ohio, Inc.	2,953,390	2,604,933	348,457
Fabrizi Trucking & Paving Company, Inc.	1,872,663	1,369,673	502,990
<b><i>Total Project</i></b>	<b><u>10,054,782</u></b>	<b><u>8,466,473</u></b>	<b><u>1,588,309</u></b>
<b>Totals</b>	<b><u>24,221,059</u></b>	<b><u>18,416,788</u></b>	<b><u>5,804,271</u></b>

**NOTE 19: CHANGES IN ACCOUNTING PRINCIPLES**

For fiscal year 2010, the City implemented GASB Statements No. 51, *Accounting and Financial Reporting for Intangible Assets*, No. 53, *Accounting and Financial Reporting for Derivative Instruments*, and No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*.

GASB Statement No. 51 improves the quality of financial reporting by reducing inconsistencies that have developed in accounting and financial reporting for intangible assets.

GASB Statement No. 53 improves the quality of financial reporting by requiring governments to measure derivative instruments, with the exception of synthetic guaranteed investment contract that are fully benefit-responsive, at fair value in their economic resources measurement focus financial statements.

**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*  
*(Continued)*

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NOTE 19: **CHANGES IN ACCOUNTING PRINCIPLES** (Continued)

GASB Statement No. 58 improves the quality of financial reporting by providing more consistent recognition, measurement, display, and disclosure guidance for governments that file for Chapter 9 bankruptcy.

The implementation of the aforementioned GASB Statements did not affect the presentation of the financial statements of the City.

NOTE 20: **SUBSEQUENT EVENT**

In June 2011, the City issued five-year bond anticipation notes for \$146,000 for the purpose of improving Avon Belden Road (Route 83) at its intersection with Webber Road and for \$941,000 for the purpose of improving 1,516 feet of Canterbury Road by installing storm and sanitary sewers, water lines and concrete pavement. The notes have a maturity date of June 1, 2016, and an interest of 2.95 percent.

Also, in 2011, the City issued general obligation bonds in the amount of \$585,327 for the purpose of paying a portion of the cost of realigning a segment of the water main known as the Eastern Transmission Line 1 (ETL1) to accommodate construction of a new interchange on interstate highway I-90. The bonds have a maturity date of October 1, 2021 and an interest rate of 2.202 percent.

In July 2012, the City issued general obligation bonds in the amount of \$4,195,000 to refund the Various Purpose General Obligation Bonds, Series 2003.



# Dave Yost • Auditor of State

## 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 the 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, (the City) as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 30, 2012. 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 as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the City's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2010-02 described in the accompanying schedule of findings to be a material weakness.



### **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 an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2010-01.

We also noted certain matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated October 30, 2012.

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

We intend this report solely for the information and use of management, Council and others within the City. We intend it for no one other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

**Dave Yost**  
Auditor of State

October 30, 2012

CITY OF AVON LAKE  
LORAIN COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2010

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

FINDING NUMBER 2010-01

**Material Non-Compliance**

**Proper Encumbering**

Ohio Rev. Code Section 5705.41(D) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto.

The fiscal officer must certify the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Further, contracts and orders for expenditures lacking prior certification shall be null and void.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in Sections 5705.41(D)(1), and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. **"Then and Now" Certificate** – If the fiscal officer can certify that both at the time the contract or order was made ("then"), and at the time the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the taxing authority can authorize the drawing of a warrant for the payment of the amount due. The taxing authority has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution. Amounts less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority.
2. **Blanket Certificate** – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. **Super Blanket Certificate** – A fiscal officer may also issue so-called "super blanket" certificates for any amount for expenditures and contracts from a specific line-item appropriation account in a specified fund for most professional services, fuel, oil, food items and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the fiscal year. More than one super blanket certificate may be outstanding at one particular time for a particular line-item appropriation account.

**CITY OF AVON LAKE  
LORAIN COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2010**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2010-01 (Continued)**

**Material Non-Compliance (Continued)**

**Proper Encumbering (Continued)**

In addition to the aforementioned requirements, the City of Avon Lake Charter, Section 58, states that no contract, agreement, or other obligation involving the expenditure of money in excess of \$1,000 shall be entered into, nor shall any ordinance, resolution, or order for the expenditure of money be passed or issued by Council or be authorized by any officer of the Municipality, unless the Director of Finance shall have certified in writing that the money required for such contract, agreement, obligation or expenditure is in the treasury to the credit of the fund from which it is to be drawn and not appropriated for any other purpose.

Testing indicated 42 out of 76 transactions (55%) requiring certification from the Director of Finance were not properly certified.

Unless the exceptions noted above are used, prior certification for expenditures is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the City's funds exceeding budgetary spending limitations, we recommend the City properly certify the availability of funds for any orders or contracts involving the expenditure of money to ensure compliance with this requirement. Where prior certification is not feasible, we encourage the City to utilize then and now certificates or blanket certificates.

We recommend the Taxing Authority certify purchases to which the Charter and the Ohio Revised Code applies. The most convenient certification method is to use purchase orders that include the certification language required to authorize disbursements. The Director of Finance should sign the certification at the time the City incurs a commitment (for any of the City's funds), and only when the requirements are satisfied. The Director of Finance should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

**Official's Response**

Concerning finding number 2010-01 noncompliance, ORC 5705.41(D), the City has taken corrective action on the non-compliance finding and recommendations made by the Auditor of State.

CITY OF AVON LAKE  
LORAIN COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2010

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

FINDING NUMBER 2010-02

**Material Weakness**

**Proper Reporting of Financial Statements**

Sound financial reporting is the responsibility of the Finance Director and City Council and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

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

- The City overstated transfers-in and expenditures by \$564,517 in the Sewer Fund.
- The City overstated transfers-out and understated expenditures by \$564,517 in the Water Fund.

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

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

**Official's Response**

Concerning finding number 2010-02 material weakness, Proper Reporting of Financial Statements, the City has taken corrective action in 2012 on the material weakness comment made by the Auditor of State.

**CITY OF AVON LAKE  
LORAIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2010**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2009-01	5705.36(A)(2) – Nine funds had appropriations exceeding actual revenues at December 31, 2009.	Yes	
2009-02	ORC 5705.41(D) – 46 out of 60 transactions were not properly encumbered.	No	Repeated as Finding 2010-01

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# Dave Yost • 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  
NOVEMBER 13, 2012