



Dave Yost • Auditor of State



**CITY OF AVON LAKE  
LORAIN COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

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

To the City Council:

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, 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, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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

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

### ***Auditor's Responsibility***

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

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Avon Lake, Lorain County, Ohio, as of December 31, 2012, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2013, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



**Dave Yost**  
Auditor of State  
Columbus, Ohio

September 30, 2013

**City of Avon Lake, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2012*  
*(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, 2012. 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 2012 are as follows:

- The City's economic condition continued to improve as municipal income tax revenue increased by \$976,566 over 2011.
- Total Net Position increased \$3,917,762 in 2012 over 2011.
- Major construction projects completed in 2012 included the Canterbury Road improvement; re-routing the eastern transmission line 1 (ETL1) water line; Inwood, Dellwood, and Bellaire Avenues sewer improvements; and the force main and pump station construction.
- Planning, engineering and design began on the Belmar Avenue and Moorewood Avenue sewer separation projects.
- Outstanding Series 2003 general obligation bonds were refunded to take advantage of the current low interest rates and save taxpayer dollars. Total outstanding debt decreased \$1,162,062 from 2011.
- On August 7, 2012, the voters passed a two mill, three year paramedic levy. The levy was a .75 mill increase over the prior levy.
- GenOn Energy Incorporated, the largest landowner in the City, announced that it would close its Avon Lake power plant in April 2015 despite its merger, later in 2012, with NRG Energy Inc.

**Overview of Financial Statements**

This annual financial report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities (on pages 17 and 18) 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 20. 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 Position 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.

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These statements include all assets and deferred outflows of resources and liabilities and deferred inflows of resources using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. Accrual of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's Net Position and changes in them. You can think of the City's Net Position as the difference between assets, what the citizens own, deferred outflows of resources and liabilities, what the citizens owe, and deferred inflows of resources as one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's Net Position 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 Position 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 12. 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 or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (i.e. grants received from Federal and State agencies). 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.



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*Fiduciary Funds*

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

**Notes to the Basic Financial Statements**

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

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

**Analysis of Net Position**

The City's total Net Position changed from a year ago, increasing from \$109,034,209 to \$112,951,971.

Our analysis below focuses on the Net Position (Table 1) and changes in Net Position (Table 2) of the City's governmental and business-type activities.

Table 1- Net Position

	Governmental Activities		Business-Type Activities		Total	
	2012	2011*	2012	2011*	2012	2011*
<b>ASSETS</b>						
Current and other assets	\$ 25,116,064	\$ 23,238,369	\$ 18,257,423	\$ 17,380,129	\$ 43,373,487	\$ 40,618,498
Capital assets, net	55,953,207	57,840,624	88,451,641	86,767,386	144,404,848	144,608,010
<b>Total Assets</b>	<b>81,069,271</b>	<b>81,078,993</b>	<b>106,709,064</b>	<b>104,147,515</b>	<b>187,778,335</b>	<b>185,226,508</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
Deferral on Refunding	310,990	330,159	216,028	-	527,018	330,159
<b>LIABILITIES</b>						
Current and other liabilities	1,460,580	1,220,568	1,195,921	1,784,820	2,656,501	3,005,388
Long-term liabilities:						
Due within one year	1,790,029	1,708,053	3,655,269	3,045,314	5,445,298	4,753,367
Due in more than one year	12,226,686	13,296,159	49,589,598	50,346,789	61,816,284	63,642,948
<b>Total Liabilities</b>	<b>15,477,295</b>	<b>16,224,780</b>	<b>54,440,788</b>	<b>55,176,923</b>	<b>69,918,083</b>	<b>71,401,703</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Property Taxes	5,435,299	5,120,755	-	-	5,435,299	5,120,755
<b>NET POSITION</b>						
Net Investment in						
Capital Assets	44,703,908	45,524,786	35,920,203	33,442,074	80,624,111	78,966,860
Restricted	7,833,010	7,678,289	1,383,230	1,304,490	9,216,240	8,982,779
Unrestricted	7,930,749	6,860,542	15,180,871	14,224,028	23,111,620	21,084,570
<b>Total Net Position</b>	<b>\$ 60,467,667</b>	<b>\$ 60,063,617</b>	<b>\$ 52,484,304</b>	<b>\$ 48,970,592</b>	<b>\$ 112,951,971</b>	<b>\$ 109,034,209</b>

\* - Restated

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

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Total assets increased by \$2,551,827 in 2012. 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) decreased \$203,162. This decrease was due to the collection system and force main and pump station construction projects winding down in 2012 with the force main and pump station project actually completed in during the year.

Current and other assets increased \$2,754,989 mainly from an increase in equity in pooled cash and cash equivalents which resulted from an increase in carryover balances and income taxes.

Total liabilities decreased by \$1,483,620 in 2012 with current liabilities decreasing \$348,887 and long-term liabilities decreasing \$1,134,733. The large decrease in long-term liabilities was primarily due to the payment of and refunding of debt.

Investments in capital assets (land, construction in progress, buildings and improvements, machinery and equipment, vehicles and infrastructure, net of depreciation) less any debt related to acquire those assets that is still outstanding represents the largest portion of net position which increased \$3,917,762 from 2011 to 2012. The Net Investment in Capital Assets increased \$1,657,251 which was the effect of the refunding and payment of debt. Restricted net position increased \$233,461 due primarily to decreases in infrastructure related capital improvement projects. Unrestricted net position increased \$2,027,050 due to municipal income tax, property tax, and estate tax revenue increases over 2011.

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Table 2 shows the changes in net position for governmental activities and business-type activities for the year ended December 31, 2012 compared to December 31, 2011.

	Governmental Activities		Business-Type Activities		Total	
	2012	2011 *	2012	2011 *	2012	2011 *
<b>REVENUES</b>						
Program Revenues:						
Charges for services	\$ 1,833,786	\$ 1,890,041	\$ 16,752,720	\$ 14,989,878	\$ 18,586,506	\$ 16,879,919
Operating grants and contributions	947,621	956,515	222,175	513,007	1,169,796	1,469,522
Capital grants and contributions	315,084	769,020	155,422	2,962,466	470,506	3,731,486
<b>Total Program Revenues</b>	<b>3,096,491</b>	<b>3,615,576</b>	<b>17,130,317</b>	<b>18,465,351</b>	<b>20,226,808</b>	<b>22,080,927</b>
General Revenues:						
Property taxes	5,513,386	4,913,620	-	-	5,513,386	4,913,620
Municipal income taxes	9,763,450	9,001,318	473,049	258,615	10,236,499	9,259,933
Grants and entitlements	2,056,510	2,026,080	-	-	2,056,510	2,026,080
Investment income	123,385	259,795	72,661	127,307	196,046	387,102
All other revenues	370,066	65,757	337,426	101,779	707,492	167,536
<b>Total General Revenues</b>	<b>17,826,797</b>	<b>16,266,570</b>	<b>883,136</b>	<b>487,701</b>	<b>18,709,933</b>	<b>16,754,271</b>
<b>Total Revenues</b>	<b>20,923,288</b>	<b>19,882,146</b>	<b>18,013,453</b>	<b>18,953,052</b>	<b>38,936,741</b>	<b>38,835,198</b>
<b>EXPENSES</b>						
Program Expenses:						
Security of persons and property	8,534,837	8,503,399	-	-	8,534,837	8,503,399
Public health services	140,705	153,410	-	-	140,705	153,410
Leisure time activities	1,239,644	1,266,323	-	-	1,239,644	1,266,323
Community environment	473,952	395,885	-	-	473,952	395,885
Basic utility services	388,614	621,573	-	-	388,614	621,573
Transportation	6,157,639	7,264,429	-	-	6,157,639	7,264,429
General government	3,136,087	2,941,143	-	-	3,136,087	2,941,143
Interest and fiscal charges	473,463	523,145	-	-	473,463	523,145
Water	-	-	9,214,574	9,785,666	9,214,574	9,785,666
Sewer	-	-	5,259,464	3,834,849	5,259,464	3,834,849
<b>Total Expenses</b>	<b>20,544,941</b>	<b>21,669,307</b>	<b>14,474,038</b>	<b>13,620,515</b>	<b>35,018,979</b>	<b>35,289,822</b>
Change in Net Position before Transfers	378,347	(1,787,161)	3,539,415	5,332,537	3,917,762	3,545,376
Transfers	25,703	4,137	(25,703)	(4,137)	-	-
Change in Net Position	404,050	(1,783,024)	3,513,712	5,328,400	3,917,762	3,545,376
Net Position - Beginning of Year, restated	60,063,617	61,846,641	48,970,592	43,642,192	109,034,209	105,488,833
<b>Net Position - End of Year</b>	<b>\$ 60,467,667</b>	<b>\$ 60,063,617</b>	<b>\$ 52,484,304</b>	<b>\$ 48,970,592</b>	<b>\$ 112,951,971</b>	<b>\$ 109,034,209</b>

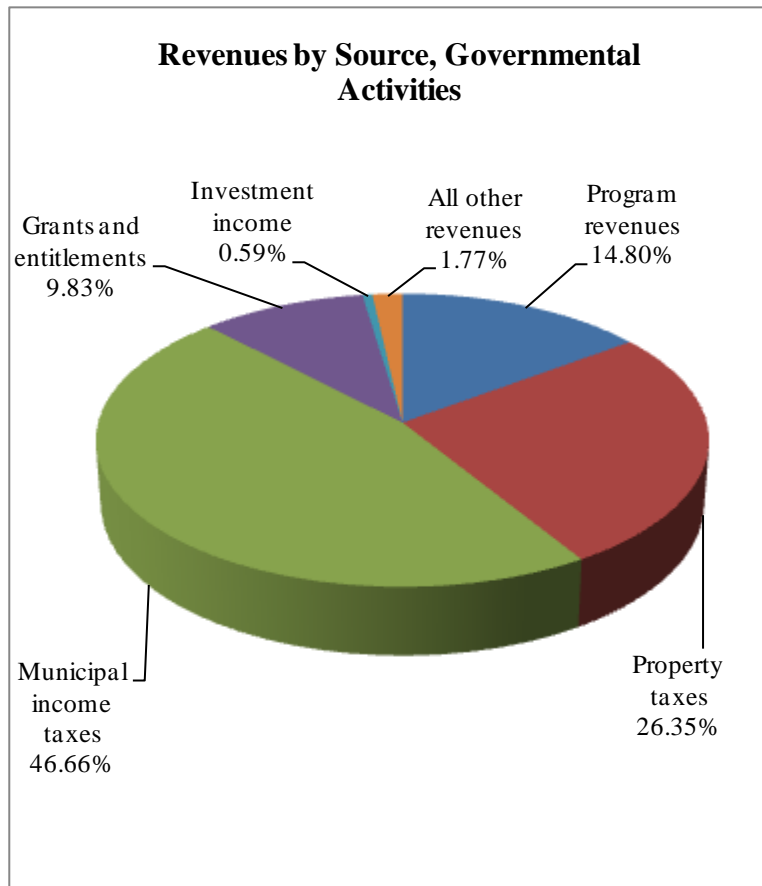
\* - Restated

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

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***Governmental Activities***

Revenues by source of governmental activities for 2012 were comprised of:



***Revenues***

Total revenues increased by \$1,041,142 or 5.24%. The 1.5 percent municipal income tax is the largest revenue source totaling \$9,763,450 or 46.66%. Municipal income tax increased by 762,132 or 8.47%. 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 municipal income tax has increased for each of the last three years. Income tax revenues collected in the first quarter of 2013 increased 3.00 percent over 2012 collections.

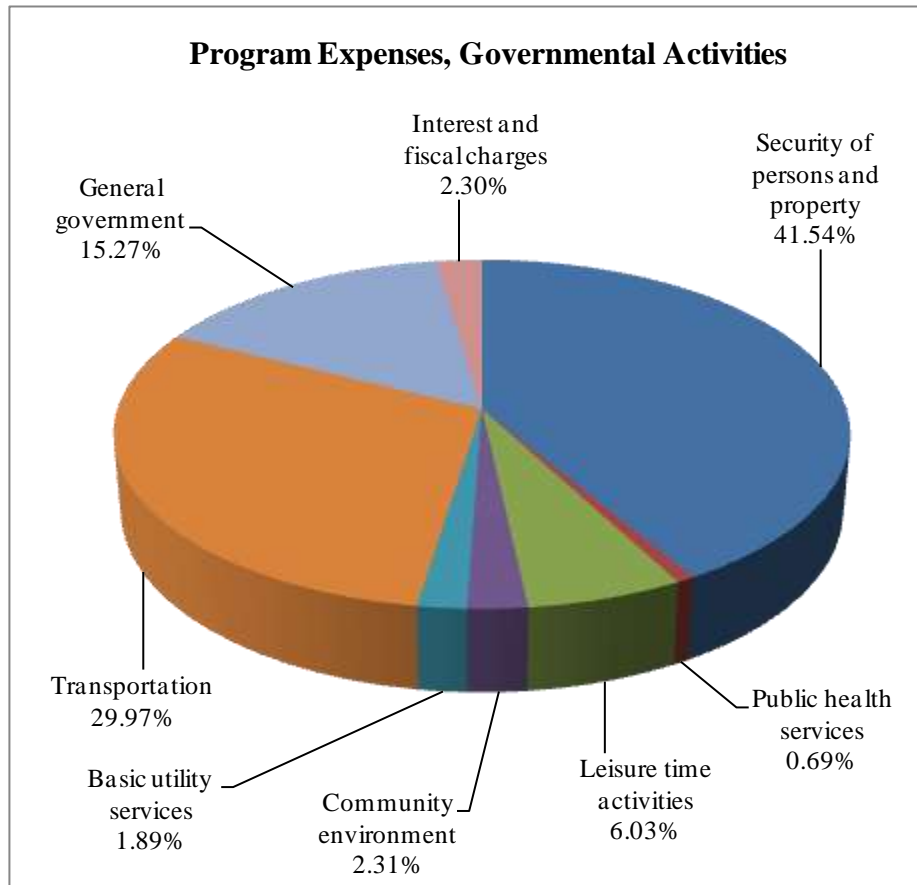
The next largest revenue source is property taxes totaling \$5,513,386 or 26.35%. Property taxes experienced an increase from 2011 of \$599,766 or 12.21%. The capital grants and contributions decreased by \$453,936 and miscellaneous revenues increased \$304,309. An Ohio Public Works Commission Issue Two grant and an energy conservation project grant received in 2011 accounted for the decrease in capital grants and contributions in 2012.

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*Expenses*

Program expenses of governmental activities for 2012 were comprised of:



Program expenses amounted to \$20,544,941 in 2012, of which only \$3,096,491 was supported by program revenues. Security of persons and property, which includes police, fire and paramedic services, represented \$8,534,837 or 41.54% of total program expenses. Transportation, which includes street maintenance, snow removal, etc., represents \$6,157,639 or 29.97% 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 \$3,136,087 or 15.27%. Leisure time activities represented \$1,239,644 or 6.03% 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 7.19%. Program expenses decreased in 2012 by \$1,124,366 or 5.19% from the 2011 program expenses.

Transportation and basic utility expenses decreased due to the mild winter which required less natural gas, overtime for snow plowing, gasoline for snow plows, equipment repairs, and road salt. These program expenses accounted for \$1,339,749 of the decrease and were offset by an increase in general government expenses of \$194,944.

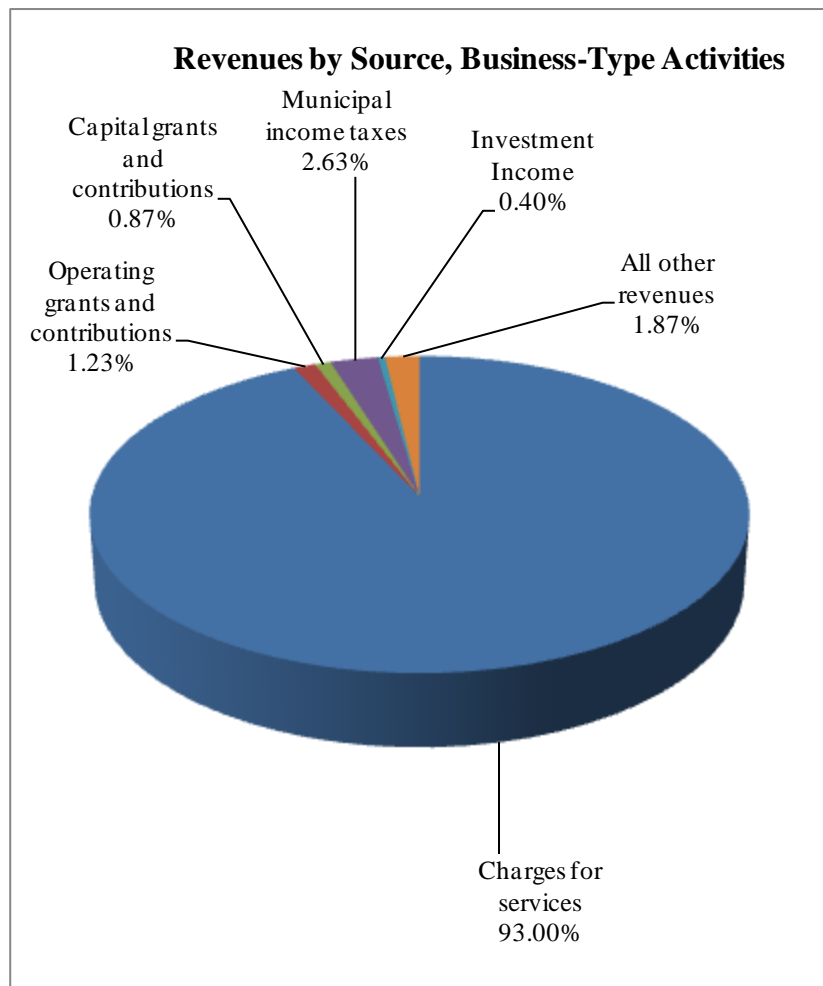
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*(Unaudited)*

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***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.

Revenues by source for business-type activities for 2012 were comprised of:



***Revenues***

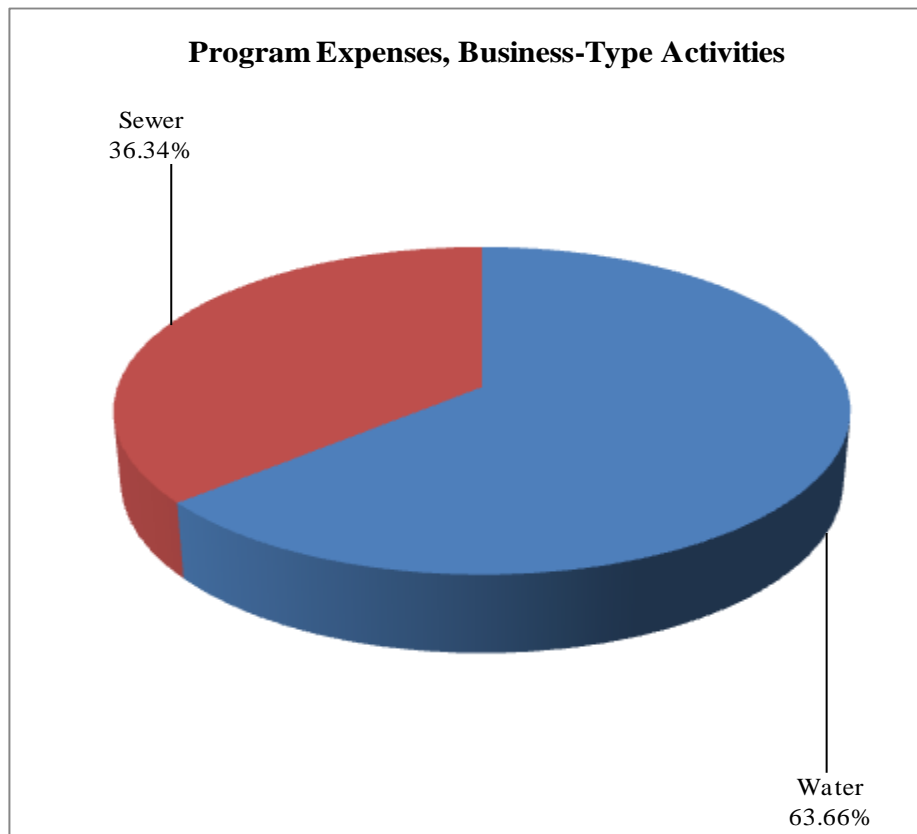
Program revenue consisting of charges for services, operating and capital grants and contributions represented 95.10% of total revenues for the business-type activities in 2012. Charges for services for the business-type activities amounted to \$16,752,720 with 67.72% provided by water services and 32.28% from sanitary sewer services.

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In June 2011 and according to the cooperative agreement between the City of Avon Lake (acting through the Avon Lake Municipal Utilities) and the Lorain County Rural Wastewater District (LORCO), the pump station, force main and related infrastructure became operational and the City began charging customers for services. The sewer revenue increase in 2012 reflects a full year of collections from these charges. Additional supply and overtime expenses accounted for the increase in sewer operating expenses.

Water operations generate the fees charged for the sale of water within Avon Lake and several surrounding communities. Those fees are then used to maintain lines for delivery and to treat water for further consumption. Water operating revenues increased \$1,738,663. A water rate increase of approximately 13 percent for all users took place in 2011. 2012 includes a full year of the rate increase collections as opposed to 2011 which included only half a year.



*Expenses*

Water operation expenses amounted to \$9,214,574 or 63.66% and sanitary sewer operation expenses amounted to \$5,259,464 or 36.4% of total program expenses for business-type activities in 2012.

Total expenses for business-type activities increased by \$853,523 due mainly to increases in additional supply and overtime expenses. 2012 reflects a full year of the pump station, force main and related infrastructure being operational due to the cooperative agreement with LORCO.

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**The City's Funds**

Information about the City's major governmental funds begins on page 20. These funds are reported using the modified accrual basis of accounting. All governmental funds had total revenues of \$20,149,025 and expenditures of \$19,452,370 (not including other financing sources and uses). The General Fund's fund balance decreased by \$226,842. The City closely monitors its revenues and expenditures to maintain a sound fund balance.

**General Fund Analysis**

The General Fund is the chief operating fund of the City. At the beginning of the current year, total fund balance for the General Fund was \$3,354,992. General Fund expenditures (including transfers out) for the current year were \$14,015,982, with revenues and other financing sources of \$13,789,140, leaving a fund balance of \$3,128,150, and an unassigned balance of \$636,982 in the General Fund.

As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures (including transfers out). The General Fund's unassigned fund balance represents 4.91 percent of total General Fund expenditures while total fund balance represents 24.13 percent of that same amount. The City's General Fund balance decreased by \$226,842 in 2012 when compared to 2011.

**Other Major Funds Analysis**

The City's water fund experienced an increase of \$2,771,340 in its 2012 net position compared to 2011. The main contributors to this increase were reductions in overtime and contractual services expenses and a full year of revenues from the approximately 13 percent increase in water rates that occurred in the last half of 2011.

The City's sewer fund experienced an increase of \$742,372 in its net position compared to 2011. The main contributor to this increase was a full year of customer charges related to the pump station, force main, and related infrastructure project.

**General Fund Budgeting Highlights**

The City's budget is prepared according to the laws of the State of Ohio and is based on accounting for certain transactions on a cash basis for receipts, expenditures, and encumbrances. The most significant budgeted fund is the general fund. The legal level of budgetary control is at the personnel and other levels within the departments for the general fund and at the personnel and other levels for all other funds. Any budgetary modifications at these levels may only be made by an ordinance of City Council. During 2012, a number of supplemental appropriation measures were authorized by the City Council. Administrative control of the budget is maintained through the establishment of detailed line-item budgets. Transfers are contained in the annual appropriation measure and are permitted once the permanent appropriation measure has been passed by City Council.



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*(Unaudited)*

Strong emphasis is placed on fund balances. The Finance Director reviews the fund balances on a daily basis. Special attention is paid to the City's most active funds, which are the general, water and sewer funds. All recommendations for a budget change come from the Finance Director to the Finance Committee of Council for review before going to the whole Council for ordinance enactment on the change. The Finance Committee receives a monthly report showing the beginning fund balance for all funds at the beginning of the year, month-to-date and year-to-date revenues and expenditures, and the current fund balance.

Line item reports are reviewed regularly by the Finance Director. The department heads also monitor their appropriations to ensure the entire operation of the City operates within the appropriations.

For the general fund, original budgeted revenues are \$13,397,000, final budgeted revenues are \$13,695,051 and actual revenue collections are \$13,747,104. The majority of the increase in actual revenue over the final budgeted amounts is due to receiving more estate tax revenue than expected. Actual general fund expenditures were \$13,001,200 or \$1,422,820 less than the final budget. The decrease in actual expenditures represents the City's proactive management and legislative action to control costs when practicable.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

Capital assets, net of depreciation, at December 31, 2012 and 2011 consisted of:

Table 3- Capital Assets (Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2012	2011 *	2012	2011 *	2012	2011 *
Land	\$ 5,283,340	\$ 5,283,340	\$ 1,601,738	\$ 1,601,738	\$ 6,885,078	\$ 6,885,078
Construction in progress	-	805,378	19,050,158	27,842,900	19,050,158	28,648,278
Buildings and improvements	16,127,174	16,395,720	18,700,360	19,330,668	34,827,534	35,726,388
Machinery and equipment	915,162	965,806	1,630,173	1,663,772	2,545,335	2,629,578
Vehicles	1,514,252	1,483,549	264,835	292,814	1,779,087	1,776,363
Infrastructure	32,113,279	32,906,831	47,204,377	36,035,494	79,317,656	68,942,325
Total Capital Assets, Net of Depreciation	<u>\$ 55,953,207</u>	<u>\$ 57,840,624</u>	<u>\$ 88,451,641</u>	<u>\$ 86,767,386</u>	<u>\$ 144,404,848</u>	<u>\$ 144,608,010</u>

\* - Restated

Capital assets are major assets that are used in operations and have useful lives of more than one year. Total capital assets for the City of Avon Lake for the year ended December 31, 2012, were \$144,404,848 which reflects a decrease of \$203,162 from the 2011 ending balance of \$144,608,010. Governmental activities capital assets, net of depreciation, decreased \$1,887,417 from 2011. The City's annual street improvement program was reduced in 2012 in order to stay within the capital budget. Business-type capital assets, net of depreciation, increased \$1,684,255 as a result of continuing additions to the collection system project.

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

**City of Avon Lake, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2012*  
(Unaudited)

**Debt**

The outstanding debt and other long-term obligations for the City of Avon Lake as of December 31, 2012 was \$64,514,761 which consisted of \$11,767,295 for governmental activities and \$52,747,466 for business-type activities. The City-wide balance reflects a decrease of \$1,162,062 from the previous year's balance of \$65,676,823.

The City's debt and other long-term obligations consisted of the following:

**Table 4- Outstanding Debt**

	Governmental Activities		Business-Type Activities		Total	
	2012	2011 *	2012	2011 *	2012	2011 *
General Obligation Bonds	\$ 8,595,954	\$ 9,270,229	\$ 5,177,681	\$ 5,751,630	\$ 13,773,635	\$ 15,021,859
Special Assessment Bonds	1,928,697	2,178,825	-	-	1,928,697	2,178,825
Long-term Notes Payable	938,972	1,073,610	-	-	938,972	1,073,610
OWDA Loans	-	-	39,988,768	38,472,429	39,988,768	38,472,429
OPWC Loans	76,666	83,333	-	-	76,666	83,333
Mortgage Revenue Bonds	-	-	7,545,000	8,460,000	7,545,000	8,460,000
ETLI Loan Payable	-	-	-	247,638	-	247,638
Equipment Loan	115,000	-	-	-	115,000	-
Police/Fire Pension Liability	92,006	94,418	-	-	92,006	94,418
Promissory Note	20,000	40,000	-	-	20,000	40,000
Capital Leases	-	-	36,017	4,711	36,017	4,711
Total Outstanding Debt	<u>\$ 11,767,295</u>	<u>\$ 12,740,415</u>	<u>\$ 52,747,466</u>	<u>\$ 52,936,408</u>	<u>\$ 64,514,761</u>	<u>\$ 65,676,823</u>

\* - Restated

During 2012, the City continued several sewer projects that were funded by the Ohio Water Development Authority (OWDA). The City received \$3,023,222 in loan proceeds from OWDA.

During 2012, the City refunded the 2003 Series bonds which were originally issued for various sewer projects and Weiss Field improvements.

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

**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, increased operating costs, and decreasing revenue sources in addition to the announcement by GenOn Energy Incorporated that it will close its power plant in April 2015.

The municipal income tax revenue increased by \$976,566 in 2012 and property tax revenue increased \$599,766; however, State funding cuts decreased intergovernmental revenues by \$415,615.

**City of Avon Lake, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2012*  
*(Unaudited)*

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\$420,234 was expended in 2012 to resurface and repair various streets throughout the City. This is a decrease of \$1,488,683 from 2011 street expenditures. Asphalt work was completed on Avondale Avenue, Walker Road, Westshore Drive, and Avalon Drive. Concrete work was completed on Bexley Circle, Walnut Court, Newbury Drive, Marbrook Lane, Ashley Circle, Electric Boulevard, and Firestone Drive.

The Ohio Water Development Authority (OWDA) loan financed force main and pump station project was completed in 2012. This project will service the Rural Lorain County Wastewater District (LORCO) customers. In addition, the collection system project continues into 2013. This project is also financed with an OWDA and will also service LORCO.

The Municipal Utilities began work on the Moorewood Avenue combined sewer separation project which will eventually be funded by an Ohio Water Development Authority (OWDA) loan. The ETL1 (Eastern Transmission Line) project to relocate the water transmission line under interstate 90 project was completed in 2012.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This report is intended to provide the citizens and anyone interested in the financial aspects of the City of Avon Lake 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.

**City of Avon Lake, Ohio**  
*Basic Financial Statements*  
*For the Year Ended December 31, 2012*

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**City of Avon Lake, Ohio**  
*Statement of Net Position*  
 December 31, 2012

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Equity in Pooled Cash and Cash Equivalents	\$ 11,536,019	\$ 10,094,328	\$ 21,630,347
Cash and Cash Equivalents:			
With Escrow Agents	57,734	-	57,734
Materials and Supplies Inventory	141,163	79,575	220,738
Accounts Receivable	434,520	1,751,134	2,185,654
Accrued Interest Receivable	52,765	29,009	81,774
Intergovernmental Receivable	1,536,571	2,263,458	3,800,029
Prepaid Items	48,378	36,860	85,238
Municipal Income Taxes Receivable	3,372,035	177,475	3,549,510
Property Taxes Receivable	5,792,221	-	5,792,221
Special Assessments Receivable	2,144,658	149,203	2,293,861
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	-	1,383,230	1,383,230
Investment In Joint Venture	-	2,293,151	2,293,151
Nondepreciable Capital Assets	5,283,340	20,651,896	25,935,236
Depreciable Capital Assets	50,669,867	67,799,745	118,469,612
<b>Total Assets</b>	<u>81,069,271</u>	<u>106,709,064</u>	<u>187,778,335</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferral on Refunding	310,990	216,028	527,018
<b>Total Deferred Outflows of Resources</b>	<u>310,990</u>	<u>216,028</u>	<u>527,018</u>
<b>LIABILITIES</b>			
Accounts Payable	159,906	320,666	480,572
Contracts Payable	206,766	-	206,766
Accrued Wages and Benefits	352,332	124,914	477,246
Intergovernmental Payable	632,163	614,165	1,246,328
Matured Compensated Absences Payable	47,365	41,652	89,017
Accrued Interest Payable	44,603	94,524	139,127
Retainage Payable	17,445	-	17,445
Long-term Liabilities:			
Due within one year	1,790,029	3,655,269	5,445,298
Due in more than one year	12,226,686	49,589,598	61,816,284
<b>Total Liabilities</b>	<u>15,477,295</u>	<u>54,440,788</u>	<u>69,918,083</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Property Taxes	5,435,299	-	5,435,299
<b>Total Deferred Inflows of Resources</b>	<u>5,435,299</u>	<u>-</u>	<u>5,435,299</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	44,703,908	35,920,203	80,624,111
Restricted for:			
Debt Service	2,325,001	1,304,490	3,629,491
Capital Projects	3,665,802	-	3,665,802
Public Safety	802,316	-	802,316
Parks and Recreation	267,011	-	267,011
Streets and Highways	771,079	-	771,079
Other Purposes	1,801	78,740	80,541
Unrestricted	7,930,749	15,180,871	23,111,620
<b>Total Net Position</b>	<u>\$ 60,467,667</u>	<u>\$ 52,484,304</u>	<u>\$ 112,951,971</u>

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

**City of Avon Lake, Ohio**  
*Statement of Activities*  
For the Year Ended December 31, 2012

	<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>Primary Government:</b>				
<b>Governmental activities:</b>				
Security of Persons and Property	\$ 8,534,837	\$ 395,176	\$ -	\$ -
Public Health Services	140,705	-	-	-
Leisure Time Activities	1,239,644	499,203	7,782	225,000
Community Environment	473,952	-	-	-
Basic Utility Services	388,614	144,040	-	-
Transportation	6,157,639	158,564	909,418	90,084
General Government	3,136,087	636,803	30,421	-
Interest and Fiscal Charges	473,463	-	-	-
<b>Total Governmental activities</b>	<u>20,544,941</u>	<u>1,833,786</u>	<u>947,621</u>	<u>315,084</u>
<b>Business-type activities:</b>				
Water	9,214,574	11,344,168	222,175	32,000
Sewer	5,259,464	5,408,552	-	123,422
<b>Total Business-type activities</b>	<u>14,474,038</u>	<u>16,752,720</u>	<u>222,175</u>	<u>155,422</u>
<b>Total Primary Government</b>	<u>\$ 35,018,979</u>	<u>\$ 18,586,506</u>	<u>\$ 1,169,796</u>	<u>\$ 470,506</u>

**General Revenues:**

Property Taxes levied for:

General Purposes

Debt Service Purpose

Other Purposes

Municipal Income Taxes levied for:

General Purposes

Sewer

Grants & Entitlements not restricted to specific programs

Investment Income

All Other Revenues

Transfers

Total General Revenues and Transfers

Change in Net Position

Net Position - Beginning of Year, Restated

**Net Position - End of Year**

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

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

<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
\$ (8,139,661)	\$ -	\$ (8,139,661)
(140,705)	-	(140,705)
(507,659)	-	(507,659)
(473,952)	-	(473,952)
(244,574)	-	(244,574)
(4,999,573)	-	(4,999,573)
(2,468,863)	-	(2,468,863)
(473,463)	-	(473,463)
<u>(17,448,450)</u>	<u>-</u>	<u>(17,448,450)</u>
-	2,383,769	2,383,769
-	272,510	272,510
-	2,656,279	2,656,279
<u>(17,448,450)</u>	<u>2,656,279</u>	<u>(14,792,171)</u>
3,876,214	-	3,876,214
285,046	-	285,046
1,352,126	-	1,352,126
9,763,450	-	9,763,450
-	473,049	473,049
2,056,510	-	2,056,510
123,385	72,661	196,046
370,066	337,426	707,492
25,703	(25,703)	0
<u>17,852,500</u>	<u>857,433</u>	<u>18,709,933</u>
404,050	3,513,712	3,917,762
<u>60,063,617</u>	<u>48,970,592</u>	<u>109,034,209</u>
<u>\$ 60,467,667</u>	<u>\$ 52,484,304</u>	<u>\$ 112,951,971</u>

**City of Avon Lake, Ohio**  
*Balance Sheet*  
*Governmental Funds*  
*December 31, 2012*

	<b>General Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>			
Equity in Pooled Cash and Cash Equivalents	\$ 2,496,553	\$ 9,039,466	\$ 11,536,019
Cash and Cash Equivalents:			
With Escrow Agents	-	57,734	57,734
Materials and Supplies Inventory	68,825	72,338	141,163
Accrued Interest Receivable	-	52,765	52,765
Accounts Receivable	176,599	257,921	434,520
Interfund Receivable	45,000	224,782	269,782
Intergovernmental Receivable	876,764	659,807	1,536,571
Prepaid Items	40,290	8,088	48,378
Municipal Income Taxes Receivable	2,662,133	709,902	3,372,035
Property and Other Taxes Receivable	3,588,388	2,203,833	5,792,221
Special Assessments Receivable	-	2,144,658	2,144,658
<b>Total Assets</b>	<b>\$ 9,954,552</b>	<b>\$ 15,431,294</b>	<b>\$ 25,385,846</b>
<b>LIABILITIES</b>			
Accounts Payable	\$ 83,975	\$ 75,931	\$ 159,906
Accrued Wages and Benefits	275,159	77,173	352,332
Contracts Payable	-	206,766	206,766
Intergovernmental Payable	558,590	73,573	632,163
Matured Compensated Absences Payable	47,365	-	47,365
Retainage Payable	-	17,445	17,445
Interfund Payable	-	269,782	269,782
<b>Total Liabilities</b>	<b>965,089</b>	<b>720,670</b>	<b>1,685,759</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Property Taxes	3,334,184	2,101,115	5,435,299
Unavailable Revenue - Delinquent Property Taxes	165,712	102,718	268,430
Unavailable Revenue - Income Taxes	1,538,006	410,135	1,948,141
Unavailable Revenue - Other	823,411	2,871,907	3,695,318
<b>Total Deferred Inflows of Resources</b>	<b>5,861,313</b>	<b>5,485,875</b>	<b>11,347,188</b>
<b>FUND BALANCES</b>			
Nonspendable	154,115	80,426	234,541
Restricted	-	2,603,420	2,603,420
Committed	365,421	6,635,452	7,000,873
Assigned	1,971,632	145,545	2,117,177
Unassigned (Deficits)	636,982	(240,094)	396,888
<b>Total Fund Balances</b>	<b>3,128,150</b>	<b>9,224,749</b>	<b>12,352,899</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 9,954,552</b>	<b>\$ 15,431,294</b>	<b>\$ 25,385,846</b>

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



**City of Avon Lake, Ohio**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Position of Governmental Activities  
 December 31, 2012*

**Total Governmental Funds Balance** \$ 12,352,899

*Amounts reported for Governmental Activities in the Statement of Net Position  
 are different because:*

Capital Assets used in Governmental Activities are not financial resources  
 and, therefore, are not reported in the funds 55,953,207

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

Delinquent property taxes	\$	268,430	
Municipal income taxes		1,948,141	
Special assessments		2,144,658	
Intergovernmental		1,240,609	
Charges for services		310,051	
Total			5,911,889

In the Statement of Activities, interest is accrued on outstanding  
 bonds, whereas in Governmental funds, an interest expenditure  
 is reported when due. (44,603)

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		(8,542,543)	
Special assessment bonds		(1,902,941)	
OPWC Loan		(76,666)	
Notes Payable		(936,942)	
Deferral on Refunding		310,990	
Unamortized Bond Premium		(81,197)	
Other long-term obligations		(872,020)	
Compensated absences		(1,604,406)	
Total			(13,705,725)

**Net Position of Governmental Activities** **\$ 60,467,667**

The notes to the basic 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, 2012*

	<b>General Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>			
Property and Other Taxes	\$ 3,815,002	\$ 1,637,172	\$ 5,452,174
Municipal Income Taxes	6,814,841	2,592,805	9,407,646
Intergovernmental	1,489,556	1,370,835	2,860,391
Interest	-	123,385	123,385
Fees, Licenses, and Permits	264,386	-	264,386
Fines and Forfeitures	272,020	71,211	343,231
Charges for Services	1,012,197	90,252	1,102,449
Contributions and Donations	4,003	8,332	12,335
Special Assessments	-	465,612	465,612
All Other Revenues	117,135	281	117,416
<b>Total Revenues</b>	<u>13,789,140</u>	<u>6,359,885</u>	<u>20,149,025</u>
<b>EXPENDITURES</b>			
Security of Persons and Property	6,208,034	2,167,178	8,375,212
Public Health Services	91,942	58,892	150,834
Leisure Time Activities	865,363	52,604	917,967
Community Environment	425,771	56,765	482,536
Basic Utility Services	388,614	-	388,614
Transportation	2,575,355	1,880,690	4,456,045
General Government	2,406,561	146,771	2,553,332
Capital Outlay	-	508,078	508,078
Debt Service:			
Principal Retirement	-	1,136,937	1,136,937
Interest and Fiscal Charges	2,831	459,915	462,746
Bond Issuance Costs	-	20,069	20,069
<b>Total Expenditures</b>	<u>12,964,471</u>	<u>6,487,899</u>	<u>19,452,370</u>
Excess of Revenues (Under) Expenditures	<u>824,669</u>	<u>(128,014)</u>	<u>696,655</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Loans Issued	-	115,000	115,000
Refunding Bonds Issued	-	765,000	765,000
Premium on Bond Issuance	-	11,122	11,122
Payment to Refunded Bond Escrow Account	-	(756,053)	(756,053)
Transfers In	-	1,747,894	1,747,894
Transfers Out	(1,051,511)	(670,680)	(1,722,191)
<b>Total Other Financing Sources (Uses)</b>	<u>(1,051,511)</u>	<u>1,212,283</u>	<u>160,772</u>
Net Change in Fund Balances	<u>(226,842)</u>	<u>1,084,269</u>	<u>857,427</u>
Fund Balances - Beginning of Year	<u>3,354,992</u>	<u>8,140,480</u>	<u>11,495,472</u>
<b>Fund Balances - End of Year</b>	<u>\$ 3,128,150</u>	<u>\$ 9,224,749</u>	<u>\$ 12,352,899</u>

The notes to the basic 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, 2012*

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**Net Change in Fund Balances-Total Governmental Funds** \$ 857,427

*Amounts reported for Governmental Activities in the Statement of Activities  
 are different because:*

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

Capital Outlay	\$ 1,316,278	
Depreciation	<u>(3,203,695)</u>	
Total		(1,887,417)

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

Delinquent Property taxes	61,212	
Municipal income taxes	355,804	
Special assessments	(407,958)	
Intergovernmental	252,676	
Charges for services	<u>212,079</u>	
Total		473,813

Other financing sources in the Governmental funds increase long-term liabilities in the Statement of Net Position. These sources were attributed to the issuance of General Obligation Refunding debt, the respective premiums issued and other long term liabilities. (891,122)

Repayment of bond principal, the refunding of debt and other long term liabilities are expenditures in the Governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. 1,945,631

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	(50,993)	
Accrued interest on bonds	4,628	
Amortization of Bond Premium	17,305	
Amortization of Deferral on Refunding	<u>(65,222)</u>	
Total		<u>(94,282)</u>

**Change in Net Position of Governmental Activities** \$ 404,050

The notes to the basic 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, 2012*

	Budget Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
<b>REVENUES</b>				
Property and Other Taxes	\$ 3,805,809	\$ 3,805,809	\$ 3,811,481	\$ 5,672
Municipal Income Taxes	6,750,000	6,750,000	6,750,000	0
Intergovernmental	1,319,780	1,617,831	1,616,391	(1,440)
Charges for Services	903,861	903,861	907,152	3,291
Fees, Licenses and Permits	209,050	209,050	268,437	59,387
Fines and Forfeitures	276,200	276,200	270,850	(5,350)
Contributions and Donations	5,800	5,800	4,003	(1,797)
All Other Revenues	126,500	126,500	118,790	(7,710)
<b>Total Revenues</b>	<u>13,397,000</u>	<u>13,695,051</u>	<u>13,747,104</u>	<u>52,053</u>
<b>EXPENDITURES</b>				
Current:				
General Government	3,049,535	3,002,980	2,566,820	436,160
Security of Persons and Property	6,380,665	6,370,978	6,140,955	230,023
Public Health Services	111,283	111,283	99,275	12,008
Basic Utility Services	388,614	388,614	388,614	-
Transportation	3,278,982	3,268,727	2,623,274	645,453
Community Environment	434,035	431,587	397,233	34,354
Leisure Time Activities	850,717	849,851	785,029	64,822
<b>Total Expenditures</b>	<u>14,493,831</u>	<u>14,424,020</u>	<u>13,001,200</u>	<u>1,422,820</u>
Excess of Revenues Over (Under) Expenditures	(1,096,831)	(728,969)	745,904	1,474,873
<b>OTHER FINANCING SOURCES (USES)</b>				
Advances In	88,126	112,252	88,126	(24,126)
Transfers Out	(1,052,881)	(1,211,858)	(1,211,858)	-
<b>Total Other Financing Sources (Uses)</b>	<u>(964,755)</u>	<u>(1,099,606)</u>	<u>(1,123,732)</u>	<u>(24,126)</u>
Net Change in Fund Balances	(2,061,586)	(1,828,575)	(377,828)	1,450,747
Fund Balances - Beginning of Year	1,945,971	1,945,971	1,945,971	-
Prior Year Encumbrances Appropriated	279,280	279,280	279,280	-
<b>Fund Balances - End of Year</b>	<u>\$ 163,665</u>	<u>\$ 396,676</u>	<u>\$ 1,847,423</u>	<u>\$ 1,450,747</u>

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

**City of Avon Lake, Ohio**  
*Statement of Fund Net Position*  
*Proprietary Funds*  
*December 31, 2012*

	<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	\$ 7,090,835	\$ 3,003,493	\$ 10,094,328
Materials and Supplies Inventory	53,441	26,134	79,575
Accrued Interest Receivable	23,609	5,400	29,009
Accounts Receivable	829,284	921,850	1,751,134
Intergovernmental Receivable	1,393,196	870,262	2,263,458
Prepaid Items	20,629	16,231	36,860
Municipal Income Taxes Receivable	-	177,475	177,475
Special Assessments Receivable	-	149,203	149,203
<i>Total Current Assets</i>	<u>9,410,994</u>	<u>5,170,048</u>	<u>14,581,042</u>
<b>Noncurrent Assets:</b>			
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	1,304,490	78,740	1,383,230
Investment in Joint Venture	2,293,151	-	2,293,151
Capital Assets:			
Land	621,716	980,022	1,601,738
Construction in Progress	-	19,050,158	19,050,158
Depreciable Assets, Net of Depreciation	34,364,131	33,435,614	67,799,745
<i>Total Noncurrent Assets</i>	<u>38,583,488</u>	<u>53,544,534</u>	<u>92,128,022</u>
<b>Total Assets</b>	<u>47,994,482</u>	<u>58,714,582</u>	<u>106,709,064</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferreal on Refunding	15,787	200,241	216,028
<b>Total Deferred Outflows of Resources</b>	<u>15,787</u>	<u>200,241</u>	<u>216,028</u>
<b>LIABILITIES</b>			
<b>Current Liabilities:</b>			
Accounts Payable	205,535	115,131	320,666
Accrued Wages and Benefits	59,421	65,493	124,914
Matured Compensated Absences Payable	5,164	36,488	41,652
Intergovernmental Payable	498,303	115,862	614,165
Accrued Interest Payable	87,429	7,095	94,524
Compensated Absences Payable	74,432	80,274	154,706
General Obligation Bonds Payable	598,706	349,866	948,572
Revenue Bonds Payable	950,000	-	950,000
OWDA Loans Payable	831,515	743,329	1,574,844
Capital Leases Payable	13,574	13,573	27,147
<i>Total Current Liabilities</i>	<u>3,324,079</u>	<u>1,527,111</u>	<u>4,851,190</u>
<b>Noncurrent Liabilities:</b>			
Compensated Absences Payable	139,016	203,679	342,695
General Obligation Bonds Payable	641,230	3,587,879	4,229,109
Revenue Bonds Payable	6,595,000	-	6,595,000
OWDA Loans Payable	5,408,735	33,005,189	38,413,924
Capital Leases Payable	4,435	4,435	8,870
<i>Total Noncurrent Liabilities</i>	<u>12,788,416</u>	<u>36,801,182</u>	<u>49,589,598</u>
<b>Total Liabilities</b>	<u>16,112,495</u>	<u>38,328,293</u>	<u>54,440,788</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	19,958,439	15,961,764	35,920,203
Restricted for:			
Debt Service	1,304,490	-	1,304,490
Other Purposes	-	78,740	78,740
Unrestricted	10,634,845	4,546,026	15,180,871
<b>Total Net Position</b>	<u>\$ 31,897,774</u>	<u>\$ 20,586,530</u>	<u>\$ 52,484,304</u>

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

**City of Avon Lake, Ohio**  
*Statement of Revenues, Expenses and Changes in Fund Net Position*  
*Proprietary Funds*  
*For the Year Ended December 31, 2012*

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<b>OPERATING REVENUES</b>			
Charges for Services	\$ 11,279,788	\$ 5,408,552	\$ 16,688,340
Miscellaneous	327,391	10,035	337,426
<b>Total Operating Revenues</b>	<u>11,607,179</u>	<u>5,418,587</u>	<u>17,025,766</u>
<b>OPERATING EXPENSES</b>			
Salaries	2,047,584	2,146,262	4,193,846
Purchased Services	2,639,112	186,411	2,825,523
Materials and Supplies	2,463,443	332,089	2,795,532
Depreciation	1,101,165	1,019,831	2,120,996
Other	2,454	5,256	7,710
<b>Total Operating Expense</b>	<u>8,253,758</u>	<u>3,689,849</u>	<u>11,943,607</u>
Operating Income	<u>3,353,421</u>	<u>1,728,738</u>	<u>5,082,159</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Income Taxes	-	473,049	473,049
Interest	60,180	12,481	72,661
Interest and Fiscal Charges	(960,816)	(1,480,185)	(2,441,001)
Intergovernmental	222,175	-	222,175
Bond Issuance Costs	-	(89,430)	(89,430)
Gain on Investment in Joint Venture	64,380	-	64,380
<b>Total Nonoperating Revenues (Expenses)</b>	<u>(614,081)</u>	<u>(1,084,085)</u>	<u>(1,698,166)</u>
Capital Contributions	32,000	123,422	155,422
Transfers Out	-	(25,703)	(25,703)
Change in Net Position	<u>2,771,340</u>	<u>742,372</u>	<u>3,513,712</u>
Net Position - Beginning of Year, Restated	<u>29,126,434</u>	<u>19,844,158</u>	<u>48,970,592</u>
<b>Net Position - End of Year</b>	<u>\$ 31,897,774</u>	<u>\$ 20,586,530</u>	<u>\$ 52,484,304</u>

The notes to the basic 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, 2012

	<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	\$ 11,177,308	\$ 5,236,059	\$ 16,413,367
Other Cash Receipts	327,391	10,035	337,426
Cash Payments to Employees for Services	(2,092,496)	(2,008,837)	(4,101,333)
Cash Payments for Goods and Services	(5,379,006)	(475,562)	(5,854,568)
Other Cash Payments	(2,454)	(4,905)	(7,359)
Net Cash Provided by Operating Activities	<u>4,030,743</u>	<u>2,756,790</u>	<u>6,787,533</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Intergovernmental Revenue	633,733	-	633,733
Income Taxes	-	450,000	450,000
Advance Out	(450,000)	-	(450,000)
Transfers Out	-	(25,703)	(25,703)
Net Cash Provided by Noncapital Financing Activities	<u>183,733</u>	<u>424,297</u>	<u>608,030</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Proceeds from OWDA Loans	-	3,023,222	3,023,222
Principal Paid on G.O. Bonds	(565,100)	(301,100)	(866,200)
Principal Paid on Revenue Bonds	(915,000)	-	(915,000)
Principal Paid on OWDA Loans	(777,195)	(729,688)	(1,506,883)
Principal paid on ETL1 Loan	(247,638)	-	(247,638)
Principal Paid on Capital Leases	(9,861)	(9,861)	(19,722)
Interest Payments	(974,022)	(1,481,464)	(2,455,486)
Payments for Capital Acquisitions	(242,564)	(3,413,057)	(3,655,621)
Special Assessments	-	31,018	31,018
Net Cash Used in Capital and Related Financing Activities	<u>(3,731,380)</u>	<u>(2,880,930)</u>	<u>(6,612,310)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest on Investments	60,980	14,025	75,005
Net Cash Provided by Investing Activities	<u>60,980</u>	<u>14,025</u>	<u>75,005</u>
Net Increase in Cash and Cash Equivalents	544,076	314,182	858,258
Cash and Cash Equivalents - Beginning of Year	<u>7,851,249</u>	<u>2,768,051</u>	<u>10,619,300</u>
<b>Cash and Cash Equivalents - End of Year</b>	<u><u>\$ 8,395,325</u></u>	<u><u>\$ 3,082,233</u></u>	<u><u>\$ 11,477,558</u></u>

**City of Avon Lake, Ohio**  
*Statement of Cash Flows*  
*Proprietary Funds*  
For the Year Ended December 31, 2012  
(Continued)

	<u>Business-Type Activities-Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<b>RECONCILIATION OF OPERATING INCOME</b>			
<b>TO NET CASH PROVIDED BY OPERATING</b>			
<b>ACTIVITIES</b>			
Operating Income	\$ 3,353,421	\$ 1,728,738	\$ 5,082,159
Adjustments:			
Depreciation	1,101,165	1,019,831	2,120,996
(Increase) Decrease in Assets:			
Accounts Receivable	(102,480)	(172,493)	(274,973)
Intergovernmental Receivable	411,558	-	411,558
Materials and Supplies Inventory	20,936	(14,021)	6,915
Prepaid Items	(3,853)	(9,354)	(13,207)
Increase (Decrease) in Liabilities:			
Accounts Payable	41,567	52,943	94,510
Contracts Payable	(177,181)	-	(177,181)
Accrued Wages	(4,325)	25,966	21,641
Matured Compensated Absences Payable	(67,871)	(32,107)	(99,978)
Intergovernmental Payable	(584,460)	40,044	(544,416)
Compensated Absences Payable	42,266	117,243	159,509
Net Cash Provided by Operating Activities	<u>\$ 4,030,743</u>	<u>\$ 2,756,790</u>	<u>\$ 6,787,533</u>

**NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES**

Capital Contributions	\$ 32,000	\$ 123,422	\$ 155,422
Capital Lease	25,514	25,514	51,028
Refunding Bond Issued	-	3,430,000	3,430,000
Premium on Bond Issued	-	50,739	50,739
Payment to Refunded Bond Escrow Agent	-	(3,390,309)	(3,390,309)
Bond Issuance Costs	-	(89,430)	(89,430)

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



**City of Avon Lake, Ohio**  
*Statement of Fiduciary Assets and Liabilities*  
*Agency Funds*  
*December 31, 2012*

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	<u>Agency Funds</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$ 906,760
Intergovernmental Receivable	450,000
Total Assets	<u>\$1,356,760</u>
<b>Liabilities</b>	
Intergovernmental Payable	\$ 386,142
Deposits Held and Due to Others	970,618
Total Liabilities	<u>\$1,356,760</u>

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

**City of Avon Lake, Ohio**  
*Basic Financial Statements*  
*For the Year Ended December 31, 2012*

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**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*

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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 the Northeast Ohio Public Energy Council (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 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 position 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, 2012*  
(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 Position and the Statement of Activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The Statement of Net Position presents the financial condition of the governmental and business-type activities of the City at year-end. The Statement of Activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City. 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 deferred outflows of resources compared to liabilities and deferred inflows of resources is reported as fund balance.

**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*  
*(Continued)*

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

**B. Fund Accounting**

The following is the City's major governmental fund:

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

The other governmental funds of the City account for grants and other resources whose use is restricted, committed, or assigned.

Proprietary Funds

Proprietary fund reporting focuses on changes in net position, 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 Fund – The water 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 Fund – The sewer 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 position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City has no trust funds. Agency funds are 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, 2012*  
(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 deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of the City are included on the Statement of Net Position. The Statement of Activities presents increases (i.e., revenues) and decreases (i.e., expenses) to net position.

*Fund Financial Statements*

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and deferred outflows of resources and current liabilities and deferred inflows of resources generally are included on the balance sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include 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 deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of these funds are included on the Statement of Net Position. The Statement of Changes in Fund Net Position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The Statement of Cash Flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

**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 outflows/inflows of resources 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, 2012*  
*(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 Outflows/Inflows of Resources*

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the City, deferred outflows of resources include a deferral on refunding reported in the government-wide statement of net position. A deferral on refunding results from the difference in the carrying value of the refunding debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes and unavailable revenues. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2012, but which were levied to finance year 2013 operations. These amounts have been recorded as deferred inflows on both the government-wide Statement of Net Position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes delinquent property taxes, municipal income taxes, and other revenues. These amounts are deferred and recognized as inflows of resources in the period the amounts become available.

**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*  
(Continued)

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

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

*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 City 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.

*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 2012.



**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*  
(Continued)

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

E. **Budgetary Process** (Continued)

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.

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 constrain 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 a part of restricted, committed, or assigned 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, investments in U.S. agencies, and 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, 2012.

**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*  
*(Continued)*

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

F. **Cash Equivalents** (Continued)

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 (non-major governmental fund) during 2012 amounted to \$102,942 which includes \$90,950 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 Assets and Liabilities. 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 Position. In governmental activities, the \$57,734 represents cash held by escrow agent for contractor retainage. During 2012, this amount was invested in money market interest bearing accounts.

In business-type activities, the restricted cash of \$1,304,490 in the Water Fund 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 2012, this restricted cash was invested in U.S. Treasury obligations. The restricted cash of \$78,740 in the Sewer Fund represents cash segregated by the City from funds related to construction projects with the Lorain County Rural Wastewater District (LORCO). See Note 8 for additional information regarding these bonds and related segregated assets.

For purposes of the Statement of Cash Flows and for presentation on the Statement of Net position/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 expended/expensed when used. Inventories consist of expendable supplies.

H. **Prepaid Expenses**

Payments made to vendors for services that will benefit periods beyond December 31, 2012 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 Position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide Statement of Net Position and in the respective funds.

**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*  
(Continued)

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

I. **Capital Assets** (Continued)

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 ten thousand 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:

Description	Governmental Activities Useful Lives	Business-Type Activities Useful Lives
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". These amounts are eliminated in the Statement of Net Position; 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 2012, proprietary funds did not have any capitalized interest costs.

**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*  
*(Continued)*

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

L. **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 "matured 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.

M. **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.

**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*  
(Continued)

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

N. **Fund Balance**

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

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

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

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

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

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

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

**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*  
(Continued)

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

**O. Net Position**

Net Position is the residual amount when comparing assets and deferred outflows of resources to liabilities and deferred inflows of resources. The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. The restricted component of net position is reported when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

The government-wide statement of net position reports \$9,216,240 of the restricted component of net position, none of which is restricted by enabling legislation. The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted components of net position are available.

**P. 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.

**Q. 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.

**R. Interfund Activity**

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

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

**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*  
(Continued)

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

**S. Extraordinary and Special Items**

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

**T. 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 is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and 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 basis) rather than as a part of restricted, committed, and assigned fund balances (GAAP basis); and
- Some funds are included in the General Fund (GAAP basis), but have separate legally adopted budgets (budget basis).

**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*  
(Continued)

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

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

	General
GAAP Basis- Net Change in Fund Balance	\$ (226,842)
 <u>Increase (Decrease) Due to:</u>	
Revenue Accruals	42,824
Expenditure Accruals	88,373
Outstanding Encumbrances	(281,523)
Funds with Separate Legally Adopted Budgets	(660)
 Budgetary Basis-Net Change in Fund Balance	 \$ (377,828)

NOTE 4: **ACCOUNTABILITY AND COMPLIANCE**

A. **Deficit Fund Balances**

At December 31, 2012, the Troy School Driveway and Cove Avenue Improvements funds (non-major governmental funds) had deficit fund balances of \$45,000 and \$195,094, 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.



**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*  
(Continued)

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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, 2012*  
(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.

B. **Deposits**

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 \$2,273,313 with \$2,645 in petty cash and the bank balance was \$2,462,061. The City's bank balance was fully covered by federal depository insurance.

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.

**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*  
(Continued)

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

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 Federal Home Loan Bank Bonds, Federal Farm Credit Banks Bonds, Freddie Mac Bonds, Fannie Mae Bonds, Federal National Mortgage Association 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, 2012, the City had the following investments

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturities</u>
Federal Home Loan Bank	\$ 1,418,096	1/16/2013 - 5/17/2017
Federal Home Loan Mortgage Corp.	511,940	1/7/2014
Federal National Mtg Assn.	308,592	2/5/2014
Freddie Mac	3,468,473	5/29/2013 - 9/29/2017
Fannie Mae	5,118,462	4/09/2013 - 4/27/2017
United States Treasury Notes	2,945,450	3/15/2013 - 3/31/2016
Money Market Mutual Funds	3,570,489	n/a
STAR Ohio	4,360,611	n/a
Total Investments	<u>\$ 21,702,113</u>	

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.

**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*  
(Continued)

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

E. **Credit Risk**

All of the City's investments in United States debt securities carry a rating of AA+ 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, 2012:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment</u>
Federal Home Loan Bank	\$ 1,418,096	6.53%
Federal Home Loan Mortgage Corp.	511,940	2.36%
Federal Nation Mtg Assn.	308,592	1.42%
Freddie Mac	3,468,473	15.98%
Fannie Mae	5,118,462	23.59%
United States Treasury Notes	2,945,450	13.57%
Money Market Mutual Funds	3,570,489	16.45%
STAR Ohio	4,360,611	20.10%
Total Investments	<u>\$ 21,702,113</u>	<u>100.00%</u>

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%

**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*  
(Continued)

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NOTE 6: **RECEIVABLES**

Receivables at December 31, 2012, 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 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 2012. 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.

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 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.

**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*  
*(Continued)*

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NOTE 6: **RECEIVABLES** (Continued)

A. **Property Taxes** (Continued)

The full tax rate for all City operations for the year ended December 31, 2012 was \$8.13 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2012 property tax receipts were based are as follows:

Real Property - 2012:		
Residential/Agriculture	\$	639,492,550
Other Real Estate		89,283,070
Tangible Personal Property - 2012:		
Public Utilities		<u>56,523,430</u>
Total Valuation	\$	<u><u>785,299,050</u></u>

B. **Income Taxes**

The City levies a municipal income tax of 1.50 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, 2012*  
(Continued)

NOTE 6: **RECEIVABLES** (Continued)

**C. Intergovernmental Revenues**

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
Homestead and Rollback	\$ 329,410
Gasoline Tax	385,161
Local Government	201,282
Motor Vehicle	51,800
Auto Registration	56,406
Estate Tax	410,048
Avon Lake City School District	45,000
Miscellaneous	57,464
Total Governmental Activities	1,536,571
Business-Type Activities	
Water	1,393,196
Sewer	870,262
Total Business-Type Activities	2,263,458
Total Intergovernmental Receivable	\$3,800,029

Per a cooperative agreement between Lorain County Rural Wastewater District (LORCO) and Avon Lake Municipal Utilities (ALMU) dated December 7, 2009, LORCO shall pay a tap fee of \$775,000 to ALMU contingent upon the certification of the system. This agreement was amended on September 15, 2011 and the project certification date was November 18, 2011. Therefore, the repayment of the tap fees will be \$100,000 on each of the fourth, fifth, sixth, seventh, eighth, ninth and tenth anniversaries of the certification date and \$75,000 on the eleventh anniversary. In the agreement amended on September 15, 2011, LORCO shall pay to ALMU an amount equal to \$31,754 on each of the fourth, fifth, and sixth anniversaries of the certification date, in respect of the accumulated interest for deferring the tap fee by three years. The City has recorded the intergovernmental receivable in the Sewer Fund.

**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*  
(Continued)

**NOTE 7: CAPITAL ASSETS**

	Restated Balances 12/31/2011	Additions	Disposals	Balances 12/31/2012
<b>Governmental Activities</b>				
Nondepreciable Assets:				
Land	\$ 5,283,340	\$ -	\$ -	\$ 5,283,340
Construction in progress	805,378	87,970	(893,348)	-
Total Nondepreciable Assets	<u>6,088,718</u>	<u>87,970</u>	<u>(893,348)</u>	<u>5,283,340</u>
Depreciable Assets:				
Buildings and Improvements	20,853,092	269,212	-	21,122,304
Machinery and Equipment	3,557,456	74,360	(109,638)	3,522,178
Vehicles	4,133,227	261,416	(175,706)	4,218,937
Infrastructure	65,183,203	1,516,668	-	66,699,871
Total Depreciable Assets	<u>93,726,978</u>	<u>2,121,656</u>	<u>(285,344)</u>	<u>95,563,290</u>
Less Accumulated Depreciation				
Buildings and Improvements	(4,457,372)	(537,758)	-	(4,995,130)
Machinery and Equipment	(2,591,650)	(125,004)	109,638	(2,607,016)
Vehicles	(2,649,678)	(230,713)	175,706	(2,704,685)
Infrastructure	(32,276,372)	(2,310,220)	-	(34,586,592)
Total Accumulated Depreciation	<u>(41,975,072)</u>	<u>(3,203,695)</u>	<u>285,344</u>	<u>(44,893,423)</u>
Total Depreciable Assets, Net	<u>51,751,906</u>	<u>(1,082,039)</u>	<u>-</u>	<u>50,669,867</u>
Governmental Activities Capital Assets, Net	<u>\$ 57,840,624</u>	<u>\$ (994,069)</u>	<u>\$ (893,348)</u>	<u>\$ 55,953,207</u>
<b>Business-Type Activities</b>				
Nondepreciable Assets:				
Land	\$ 1,601,738	\$ -	\$ -	\$ 1,601,738
Construction in progress	27,842,900	3,633,287	(12,426,029)	19,050,158
Total Nondepreciable Assets	<u>29,444,638</u>	<u>3,633,287</u>	<u>(12,426,029)</u>	<u>20,651,896</u>
Depreciable Assets:				
Buildings and Improvements	37,401,188	-	-	37,401,188
Machinery and Equipment	2,849,700	85,803	-	2,935,503
Vehicles	630,362	-	-	630,362
Infrastructure	52,585,305	12,512,190	-	65,097,495
Total Depreciable Assets	<u>93,466,555</u>	<u>12,597,993</u>	<u>-</u>	<u>106,064,548</u>
Less Accumulated Depreciation				
Buildings and Improvements	(18,070,520)	(630,308)	-	(18,700,828)
Machinery and Equipment	(1,185,928)	(119,402)	-	(1,305,330)
Vehicles	(337,548)	(27,979)	-	(365,527)
Infrastructure	(16,549,811)	(1,343,307)	-	(17,893,118)
Total Accumulated Depreciation	<u>(36,143,807)</u>	<u>(2,120,996)</u>	<u>-</u>	<u>(38,264,803)</u>
Total Depreciable Assets, Net	<u>57,322,748</u>	<u>10,476,997</u>	<u>-</u>	<u>67,799,745</u>
Business-Type Activities Capital Assets, Net	<u>\$ 86,767,386</u>	<u>\$ 14,110,284</u>	<u>\$ (12,426,029)</u>	<u>\$ 88,451,641</u>



**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*  
*(Continued)*

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

Depreciation expense was charged to governmental functions as follows:

Security of Persons and Property	\$ 197,691
Leisure Time Activities	324,322
Transportation	2,263,237
General Government	<u>418,445</u>
Total Depreciation Expense	<u><u>\$3,203,695</u></u>

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**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*  
(Continued)

**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:

	<u>Original Issue Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Original Issue Amount</u>
<b>Governmental Activities</b>				
General Obligation Bonds				
Refunding	2001	2020	3.3% - 5.5%	\$ 525,160
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
Refunding	2012	2028	1.0% - 2.75%	765,000
Special Assessment Bonds				
Pin Oak Parkway	2001	2020	2.75% - 4.75%	886,341
Refunding	2010	2020	2.0% - 3.75%	1,870,000
Street Improvement Notes				
Canterbury Road	2011	2016	2.95%	925,000
Webber Road	2011	2016	2.95%	146,000
Ohio Public Works Commission Loan				
Walker Road/Bike Lane	2009	2024	0.00%	100,000
Promissory Note	2010	2013	0.00%	64,500
Equipment Loan	2012	2017	0.00%	115,000
<b>Business-Type Activities</b>				
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
Refunding	2012	2028	1.0% - 2.75%	3,430,000
Mortgage Revenue Bonds				
Water System Refunding	2005	2026	3.0% - 5.0%	14,075,000
Ohio Water Development Authority Loans				
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%	9,718,470
LORCO Collection Systems (*)	2009	2041	4.08%	18,387,672
Sewer Separation	2010	2041	3.27%	3,018,029
ETL1 Loan Payable	2011	2021	2.20%	585,327

\* - OWDA project remains open as of December 31, 2012

**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*  
(Continued)

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

Changes in the City's long-term obligations during 2012 were as follows:

	Restated Outstanding 12/31/2011	Additions	Reductions	Outstanding 12/31/2012	Amount Due in One Year
<b>Governmental activities</b>					
General obligation bonds					
Refunding bonds (2001)					
various % through 2014	\$ 139,284	\$ -	\$ 43,800	\$ 95,484	\$ 46,428
Pin Oak Parkway (2001)					
various % through 2020	198,059	-	36,000	162,059	37,800
Recreational facility (2003)					
various % through 2028	775,000	-	740,000	35,000	35,000
Various purpose (2009)					
various % through 2017	1,100,000	-	170,000	930,000	170,000
Recreational facility (2009)					
various % through 2028	4,025,000	-	140,000	3,885,000	165,000
Refunding bonds (2010)					
various through 2020	2,980,000	-	305,000	2,675,000	315,000
Unamortized premium	52,886	-	10,270	42,616	-
Refunding bonds (2012)					
various through 2028	-	765,000	5,000	760,000	10,000
Unamortized premium	-	11,122	327	10,795	-
Total general obligation bonds	<u>9,270,229</u>	<u>776,122</u>	<u>1,450,397</u>	<u>8,595,954</u>	<u>779,228</u>
Special assessment bonds					
Pin Oak Parkway (2001)					
various % through 2020	351,941	-	64,000	287,941	67,200
Refunding bonds (2010)					
various % through 2020	1,795,000	-	180,000	1,615,000	180,000
Unamortized premium	31,884	-	6,128	25,756	-
Total special assessment bonds	<u>2,178,825</u>	<u>-</u>	<u>250,128</u>	<u>1,928,697</u>	<u>247,200</u>
Notes Payable					
Street Improvement Notes (2011)					
2.95 % through 2016	1,071,000	-	134,058	936,942	134,058
Unamortized premium	2,610	-	580	2,030	-
Total notes payable	<u>1,073,610</u>	<u>-</u>	<u>134,638</u>	<u>938,972</u>	<u>134,058</u>
OPWC loan- Walker Rd/Bike Lane					
0.0% through 2024	83,333	-	6,667	76,666	6,667
Equipment Loan	-	115,000	-	115,000	23,000
Landfill postclosure costs	697,655	10,782	63,423	645,014	59,929
Police and fire pension	94,418	-	2,412	92,006	2,515
Promissory note	40,000	-	20,000	20,000	20,000
Compensated absences	1,566,142	138,835	100,571	1,604,406	517,432
Total Governmental activities	<u>\$ 15,004,212</u>	<u>\$ 1,040,739</u>	<u>\$ 2,028,236</u>	<u>\$ 14,016,715</u>	<u>\$ 1,790,029</u>

**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*  
(Continued)

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

	Restated Outstanding 12/31/2011	Additions	Reductions	Outstanding 12/31/2012	Amount Due in One Year
<b>Business-type activities</b>					
General obligation bonds					
Refunding bonds (2001)					
various % through 2020	\$ 1,855,716	\$ -	\$ 706,200	\$ 1,149,516	\$ 748,572
Wastewater collection system (2003)					
various % through 2028	3,480,000	-	3,330,000	150,000	150,000
Refunding bonds (2012)					
various % through 2028	-	3,430,000	10,000	3,420,000	45,000
Unamortized premium	-	50,739	1,492	49,247	-
Refunding bonds (2010)					
various % through 2020	410,000	-	5,000	405,000	5,000
Unamortized premium	5,914	-	1,996	3,918	-
Total general obligation bonds	<u>5,751,630</u>	<u>3,480,739</u>	<u>4,054,688</u>	<u>5,177,681</u>	<u>948,572</u>
Mortgage revenue bonds					
Water system refunding (2005)					
various % through 2026	<u>8,460,000</u>	<u>-</u>	<u>915,000</u>	<u>7,545,000</u>	<u>950,000</u>
OWDA					
Water plant expansion (1991)					
7.84% through 2017	3,365,520	-	575,532	2,789,988	620,654
Wastewater improvements (1998)					
5.76% through 2018	288,691	-	37,919	250,772	40,103
Water system improvements (2003)					
4.51% through 2025	3,651,925	-	201,663	3,450,262	210,861
Fay/Vineyard sanitary sewer (2008)					
4.15% through 2029	1,388,903	-	57,644	1,331,259	60,061
Center Road pump station (2008)					
4.28% through 2029	1,218,388	-	49,992	1,168,396	52,154
LORCO force main (2009)					
3.68% through 2041	9,589,777	313,884	185,191	9,718,470	192,069
LORCO collection system (2009)					
4.08% through 2041	16,013,214	2,709,338	334,880	18,387,672	334,880
Sewer separation (2010)					
3.27% through 2041	2,956,011	-	64,062	2,891,949	64,062
Total OWDA	<u>38,472,429</u>	<u>3,023,222</u>	<u>1,506,883</u>	<u>39,988,768</u>	<u>1,574,844</u>
Capital lease obligations					
ETL1 Loan Payable	4,711	51,028	19,722	36,017	27,147
2.202% through 2021	247,638	-	247,638	-	-
Compensated absences	479,522	22,589	4,710	497,401	154,706
Total business-type activities	<u>\$ 53,415,930</u>	<u>\$ 6,577,578</u>	<u>\$ 6,748,641</u>	<u>\$ 53,244,867</u>	<u>\$ 3,655,269</u>

**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*  
(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 will be repaid from resources within the water and sewer funds. 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, 2012. 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.

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).

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.

**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*  
(Continued)

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

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, 2012 is \$4,545,000.

On June 8, 2011, The City issued \$1,071,000 in Street Improvement Notes, Series 2011. \$925,000 will be used to pay for the Improvement of Canterbury Road and \$146,000 will be used to pay for the improvement of Webber Road. These notes will be retired though the City's Capital Projects Fund.

On July 12, 2012, the City issued \$4,195,000 in Various Purpose Improvement Refunding Bonds, Series 2012 to partially refund bonds previously issued in 2003 for the Recreational facility and Wastewater collection systems. The bonds were issued with interest rates ranging from 1.00 percent to 2.75 percent. The bonds were issued for a sixteen year period with final maturity during fiscal year 2028. These bonds will be retired through the City's Debt Service Fund and Sewer Fund.

Proceeds were deposited in an irrevocable trust with an escrow agent to provide for future debt payments on the refunded 2003 Various Improvement Bonds. As a result, \$3,895,000 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, 2012 is \$3,895,000.

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 Pine 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.

**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*  
*(Continued)*

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

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.

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. During 2012, the City refunded a portion of these bonds.

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 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.

**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*  
(Continued)

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

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 percent 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.

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.

During 2012, the City entered into a loan agreement in the amount of \$9,718,470 with OWDA for the LORCO force main project. This debt has a fixed rate of 3.68 percent interest over a thirty year period beginning July 1, 2012 through January 1, 2042.

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 2012, the loan balance for the portion of the project completed was \$18,387,672.

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 2012, the loan balance for the portion of the project completed was \$2,891,949.

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.



**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*  
(Continued)

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

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

The restricted assets balance in the water fund segregates funds held by the City from funds held by the trustees in accordance with the trust agreement. Restricted assets relating to the water system mortgage revenue refunding bonds consisted of the following at December 31, 2012:

Revenue Bond Future Debt Service \$ 1,304,490

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, promissory note, compensated absences, police and fire pension, and capital leases at December 31, 2012 are as follows:

Governmental Activities					
Year Ended	General Obligation Bonds		Special Assessment Bonds		
	Principal	Interest	Principal	Interest	
	2013	\$ 779,228	\$ 332,424	\$ 247,200	
2014	788,656	278,536	255,400	55,807	
2015	776,400	256,408	263,600	48,255	
2016	803,259	233,541	276,741	39,798	
2017	795,000	208,151	415,000	53,638	
2018-2022	2,490,000	675,569	445,000	24,574	
2023-2027	1,725,000	293,542	-	-	
2028	385,000	16,033	-	-	
	<u>\$ 8,542,543</u>	<u>\$ 2,294,204</u>	<u>\$ 1,902,941</u>	<u>\$ 284,738</u>	

Governmental Activities					
Year Ended	Notes		OPWC Loan		
	Principal	Interest	Principal	Total Principal	Total Interest
	2013	\$ 134,058	\$ 27,640	\$ 6,667	\$ 1,167,153
2014	134,058	23,685	6,667	1,184,781	358,028
2015	134,058	19,730	6,667	1,180,725	324,393
2016	534,768	15,776	6,667	1,621,435	289,115
2017	-	-	6,667	1,216,667	261,789
2018-2022	-	-	33,335	2,968,335	700,143
2023-2027	-	-	9,996	1,734,996	293,542
2028	-	-	-	385,000	16,033
	<u>\$ 936,942</u>	<u>\$ 86,831</u>	<u>\$ 76,666</u>	<u>\$ 11,459,092</u>	<u>\$ 2,665,773</u>

**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*  
(Continued)

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

Year Ended	Business-Type Activities			
	General Obligation Bonds		Mortgage Revenue Bond	
	Principal	Interest	Principal	Interest
2013	\$ 948,572	\$ 317,628	\$ 950,000	\$ 352,890
2014	1,000,944	125,714	385,000	314,890
2015	210,000	70,813	395,000	299,490
2016	210,000	66,613	415,000	283,690
2017	210,000	62,413	430,000	266,675
2018-2022	1,095,000	247,865	2,490,000	989,125
2023-2027	1,205,000	126,309	2,480,000	304,200
2028-2032	245,000	6,738	-	-
	<u>\$ 5,124,516</u>	<u>\$ 1,024,093</u>	<u>\$ 7,545,000</u>	<u>\$ 2,810,960</u>

Year Ended	Business-Type Activities			
	OWDA Loans		Total	Total
	Principal	Interest	Principal	Interest
2013	\$ 1,175,902	\$ 822,974	\$ 3,074,474	\$ 1,493,492
2014	1,248,396	755,694	2,634,340	1,196,298
2015	1,325,746	683,967	1,930,746	1,054,270
2016	1,408,152	607,622	2,033,152	957,925
2017	657,012	525,911	1,297,012	854,999
2018-2022	3,462,940	2,206,213	7,047,940	3,443,203
2023-2027	3,268,029	1,463,559	6,953,029	1,894,068
2028-2032	1,997,092	958,999	2,242,092	965,737
2033-2037	2,144,936	594,854	2,144,936	594,854
2038-2041	2,020,942	170,892	2,020,942	170,892
	<u>\$ 18,709,147</u>	<u>\$ 8,790,685</u>	<u>\$ 31,378,663</u>	<u>\$ 12,625,738</u>

There are two OWDA loans where the final amortization schedules have not been completed as of December 31, 2012, due to one still in construction phase and another one is in the process of being finalized. Therefore, the previous table does not include outstanding principal and interest payments for those OWDA loans. This information will be provided once final amortization schedules are available.

In 2011, an agency fund within the City provided a loan to the City 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. This loan carries an interest rate of 2.202 percent and was paid in full in 2012. The City will repay the loan with resources provided by the Cities of Avon and North Ridgeville. During 2012, the Cities of Avon and North Ridgeville provided 100 percent of the resources which were used by the City to repay the loan in full.

**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*  
(Continued)

**NOTE 9: CAPITAL LEASES**

In prior years, the City entered into a capital lease for a check scanner and in 2012 the City entered into a capital lease for an Atomic Spectrophotometer. These leases meet the criteria of a capital lease pursuant to generally accepted accounting principles. Capital lease payments are reflected as a reduction of the liability in the enterprise fund statements. Capital assets were recorded in the amount of \$10,241 for the utilities department check scanner and \$51,028 for the Atomic Spectrophotometer. These amounts represent the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded in the long-term liabilities section of the enterprise fund statements. Principal payments in 2012 totaled \$19,722 in the business-type activities.

Equipment and related accumulated depreciation under capital leases are as follows:

	Business-Type Activities
Equipment	\$ 61,269
Less:	
Accumulated Depreciation	(14,919)
	\$ 46,350

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, 2012.

Year Ending December 31,	Business-Type Activities
2013	\$ 28,425
2014	9,020
Total Minimum Lease Payments	37,445
Less Amount Representing Interest	(1,428)
Net Present Value of Minimum Lease Payments	\$ 36,017

**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*  
(Continued)

**NOTE 10: OPERATING LEASES**

The City is obligated under leases accounted for as operating leases. Total lease expense for the year ended December 31, 2012 was \$19,088 for Governmental Activities and \$6,076 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, 2012.

Year Ending December 31,	Governmental Activities	Business-Type Activities
2013	\$ 18,378	\$ 6,076
2014	18,495	6,076
2015	14,217	5,557
2016	10,971	4,000
2017	4,581	4,000
thereafter	-	360,000
Total Minimum Lease Payments	\$ 66,642	\$ 385,709

**NOTE 11: DEFINED BENEFIT PENSION PLANS**

**A. Ohio Public Employees Retirement System**

*Plan Description* - 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 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. While members in the State and local divisions may participate in all three plans, law enforcement (generally sheriffs, deputy sheriffs and township police) and public safety divisions exist only within the traditional pension 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.

**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*  
(Continued)

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**NOTE 11: DEFINED BENEFIT PENSION PLANS**

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

*Funding Policy* - The Ohio Revised Code provides statutory authority for member and employer contributions. For the year ended December 31, 2012, members in State and local classifications contributed 10.0 percent of covered payroll and public safety and law enforcement members contributed 11.5 percent and 12.1 percent, respectively. Employer contribution rates are actuarially determined. State statute sets a maximum contribution rate for the City of 14.0 percent.

The City's contribution rate for 2012 was 14.00 percent of covered payroll. For 2012, a portion of the City's contribution of covered payroll was allocated to fund the post-employment health care plan. The portion of employer contributions allocated to health care for members in the Traditional and Combined Plan was 4.00 percent and 6.05 percent, respectively. The OPERS Board of Trustees is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care benefits provided. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's required contributions for pension obligations to the Traditional and Combined Plans for years ended December 31, 2012, 2011, and 2010 were \$728,777, \$702,002, and \$602,542, respectively; 71.17 percent has been contributed for 2012 and 100 percent has been contributed for 2011 and 2010. Contributions to the Member-Directed Plan for 2012 were \$28,283 made by the City and \$20,202 made by the plan members.

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

*Plan Description* - 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.

*Funding Policy* - Plan members are required to contribute 10.00 percent of their annual covered salary to fund pension obligations, while the City is required to contribute 19.50 percent and 24.0 percent for police officers and firefighters, respectively. Contributions are authorized by State statute. For 2012, a portion of the City's contribution equal to 6.75 percent of covered payroll was allocated to fund the post-employment health care plan. For 2011, this allocation was also 6.75 percent. The City's contributions for pension obligations to OP&F for police and firefighters were \$304,719 and \$419,600 for the year ended December 31, 2012, \$296,600 and \$410,338 for the year ended December 31, 2011, \$276,708 and \$264,793 for the year ended December 31, 2010, respectively. For 2012, 75.33 percent for police and 82.42 percent for firefighters has been contributed with the balance for both police and firefighters being reported as an intergovernmental payable. The full amount has been contributed for 2011 and 2010.

**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*  
(Continued)

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NOTE 11: **DEFINED BENEFIT PENSION PLANS**

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

In addition to the current contributions, the City pays installments on the accrued liability incurred within the State of Ohio established pension system for police and firefighters in 1967. As of December 31, 2012, the liability of the City was \$92,006 payable in semi-annual payments through the year 2035. This is an accounting liability of the City which will not vary. The liability is reported as “long-term liabilities” in the governmental activities column on the statement of Net Position.

NOTE 12: **POST-EMPLOYMENT BENEFITS**

**A. Ohio Public Employees Retirement System**

*Plan Description* - OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment healthcare plan for qualifying members of both the Traditional and Combined pension plans, which includes a medical plan, prescription drug program, and Medicare Part B premium reimbursement. 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 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.

Disclosures for the health care plan are presented separately in the OPERS financial report which 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 health care coverage provided by OPERS meets the definition of an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 45.

*Funding Policy* – The post employment health care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). State statute requires that public employers fund post-employment health care through contributions to OPERS. A portion of each employer’s contribution to the Traditional and Combined plans is set aside for the funding of the post-employment health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2012, local government employers contributed at a rate of 14.00 percent of covered payroll. Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding post-employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional and Combined Plan was 4.00 percent and 6.05 percent, respectively.

**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*  
(Continued)

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

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

The retirement board is also authorized to establish rules for the payment of a portion of the health care benefits provided by the retiree's or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the post-employment health care plan.

The City's contributions allocated to fund post-employment health care benefits for local government employees for the years ended December 31, 2012, 2011, and 2010 were \$291,511, \$280,801 and \$343,151, respectively. For 2012, 71.17 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2011 and 2010.

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

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

*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.

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. That report is also available on OP&F's website at [www.op-f.org](http://www.op-f.org).

**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*  
*(Continued)*

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

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

*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 is 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, 2012, 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 to OP&F which were allocated to fund post-employment health care benefits for police and firefighters were \$161,322 and \$164,191 for the year ended December 31, 2012, \$157,023 and \$160,567 for the year ended December 31, 2011, and \$146,492 and \$103,615 for the year ended December 31, 2010, respectively. For 2012, 75.33 percent has been contributed for police and 82.42 percent has been contributed for firefighters with the balance for both police and firefighters are being reported as an intergovernmental payable. The full amount has been contributed for 2011 and 2010.



**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*  
(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 2012, contracted with U.S. Specialty Insurance Company for the following types of insurance:

Company	Type	Coverage
U.S. Specialty Insurance Company	Blanket Building and Content Replacement	\$ 56,404,903
	Miscellaneous Equipment	5,437,513
	Earthquake Coverage	1,000,000
	Flood Coverage	1,000,000
	Hazardous Substance	250,000
	Public Employee Dishonesty	100,000
	Faithful Performance of Duty	100,000
	Money and Securities In/Out Coverage	100,000
	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	
Arlington/Roe Insurance Company	Terrorism Insurance	2,000,000

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, 2012*  
(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 Virginia Haynes, 226 Middle Avenue, 5<sup>th</sup> Floor, 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 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 2012, 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, 2012, the City's equity interest in the Consortium was \$2,293,151. 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, 2012*  
(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, 2012 consisted of the following:

<u>Transfer To</u>	Transfer From			<u>Total</u>
	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Sewer Fund</u>	
Governmental Funds:				
Non-Major Governmental Funds	\$ 1,051,511	\$ 670,680	\$ 25,703	\$ 1,747,894
<b>Total</b>	<b>\$ 1,051,511</b>	<b>\$ 670,680</b>	<b>\$ 25,703</b>	<b>\$ 1,747,894</b>

**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*  
(Continued)

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

Interfund balances for the year ended December 31, 2012 consisted of the following:

	Interfund Receivable	Interfund Payable
Governmental Funds:		
General Fund	\$ 45,000	\$ -
Non-Major Governmental Funds	224,782	269,782
Total Governmental Funds	\$ 269,782	\$ 269,782

Interfund balances at December 31, 2012 consisted of \$45,000 due to the General Fund from the Troy School Driveway Capital Projects Fund, a non-major governmental fund, and \$224,782 due to the Debt Service Fund from the Cove Avenue Improvement Fund. The General Fund advanced monies to the non-major governmental fund to cover project expenditures in anticipation of payments of \$5,000 per year for ten years from the Avon Lake City School District. The Debt Service Fund issued manuscript debt for Cove Avenue improvements in anticipation of the collection of special assessments. For 2012, \$9,554 in principal payments were paid back to reduce the manuscript debt.

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.

NOTE 18: **CONSTRUCTION COMMITMENTS**

As of December 31, 2012, the City had the following significant contractual commitments:

	Total Contractor Amount	Amount Paid as of 12/31/2012	Remaining on the Contract
<b><i>LORCO Collection System Construction Project:</i></b>			
Underground Utilities, Inc.	\$ 3,802,610	\$ 3,795,319	\$ 7,291
Elite Excavating Company of Ohio, Inc.	2,954,995	2,906,222	48,773
Fabrizi Trucking & Paving Company, Inc.	2,498,469	2,369,305	129,164
<b><i>Total Project</i></b>	\$ 9,256,074	\$ 9,070,846	\$ 185,228
<b>Totals</b>			

**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*  
(Continued)

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**NOTE 19: CHANGES IN ACCOUNTING PRINCIPLES**

GASB Statement Number 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011 and have been implemented by the City.

GASB Statement Number 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the FASB and AICPA pronouncements which does not conflict with or contradict GASB pronouncements. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011 and have been implemented by the City.

GASB Statement Number 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011 and have been implemented by the City.

GASB Statement Number 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2011 and have been implemented by the City.

GASB Statement Number 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012 and have been implemented by the City.

**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*  
(Continued)

NOTE 20: **FUND BALANCES**

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

Fund Balances	General	Other Governmental Funds	Total
<i>Nonspendable</i>			
Prepaid Items	\$ 40,290	\$ 8,088	\$ 48,378
Inventories	68,825	72,338	141,163
Long-term Interfund Balances	45,000	-	45,000
<i>Total Nonspendable</i>	<u>154,115</u>	<u>80,426</u>	<u>234,541</u>
<i>Restricted for</i>			
Police Pension	-	18,598	18,598
Fire Pension	-	18,598	18,598
Paramedic Services	-	170,337	170,337
Other Law Enforcement	-	99,937	99,937
Streets and Highways	-	374,771	374,771
Courts	-	312,627	312,627
Debt Service - Voted	-	120,370	120,370
Debt Service - Special Assessments	-	488,794	488,794
Capital Projects	-	997,380	997,380
Other Purposes	-	2,008	2,008
<i>Total Restricted</i>	<u>-</u>	<u>2,603,420</u>	<u>2,603,420</u>
<i>Committed to</i>			
Termination Benefits	327,748	-	327,748
Dial-A-Bus Program	20,021	-	20,021
Cable TV	16,652	-	16,652
Office on Aging	1,000	-	1,000
Income Tax Allocation	-	4,616,896	4,616,896
Street Trees	-	144,248	144,248
Recreation	-	122,556	122,556
Debt Service - Unvoted	-	17,877	17,877
Capital Improvements	-	1,733,875	1,733,875
<i>Total Committed</i>	<u>365,421</u>	<u>6,635,452</u>	<u>7,000,873</u>
<i>Assigned to</i>			
Fiscal Year 2013 Appropriations	1,773,354	-	1,773,354
Police/Court Facility	-	137,621	137,621
Other Capital Projects	-	7,924	7,924
Purchases on Order	198,278	-	198,278
<i>Total Assigned</i>	<u>1,971,632</u>	<u>145,545</u>	<u>2,117,177</u>
<i>Unassigned (Deficit)</i>	636,982	(240,094)	396,888
<b>Total Fund Balances</b>	<u><u>\$ 3,128,150</u></u>	<u><u>\$ 9,224,749</u></u>	<u><u>\$ 12,352,899</u></u>

**City of Avon Lake, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*  
(Continued)

**NOTE 21: RESTATEMENT OF NET POSITION**

In prior periods, the City had reported assets related to unamortized debt issuance costs in the Governmental Activities entity-wide financial statements. GASB Statement Number 65, Items Previously Reported as Assets and Liabilities, has reclassified debt issuance costs as an expense in the period incurred rather than amortizing the costs over the life of the debt. The implementation of GASB Statement Number 65 requires a restatement of prior period's net position and decreased the Net Position in Governmental Activities by, Business-Type Activities, Water Fund and Sewer Fund by \$79,128, \$412,731, \$404,992 and \$7,739, respectively.

During 2012, the City changed its capital assets capitalization threshold from \$500 to \$10,000. The change in accounting policy decreased the Net Position in Governmental Activities, Business-Type Activities, Water Fund and Sewer Fund by \$1,033,468, \$710,565, \$433,563 and \$277,002, respectively.

The implementation of GASB Statement Number 65 and the increase in capitalization threshold had the following effects:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Water Fund</u>	<u>Sewer Fund</u>
Net Position, December 31, 2011	\$ 61,176,213	\$ 50,093,888	\$ 29,964,989	\$ 20,128,899
Restatement:				
Unamortized Bond Issuance Costs	(79,128)	(412,731)	(404,992)	(7,739)
Capital Leases	7,821	-	-	-
Capital Assets	(1,041,289)	(710,565)	(433,563)	(277,002)
Restated Net Position, December 31, 2011	<u>\$ 60,063,617</u>	<u>\$ 48,970,592</u>	<u>\$ 29,126,434</u>	<u>\$ 19,844,158</u>

**NOTE 22: SUBSEQUENT EVENT**

On May 20, 2013, Council authorized cooperative agreements between the City of Avon Lake and the Ohio Water Development Authority for the water filtration plant improvement project and the Belmar area sewer separation project. Utilities will apply for a loan through the Ohio Water Development Authority for approximately \$5 million for the water filtration plant improvement project and approximately \$6 million for the Belmar area sewer separation project.

On May 28, 2013, Council approved various legislations for the following notes:

- \$1,500,000 for the Belmar sewer separation project
- \$225,000 for acquiring vehicles and related equipment
- \$150,000 for construction of a salt storage barn
- \$75,000 for costs associated with enhancing the City Hall building security

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# Dave Yost • Auditor of State

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

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

To the City Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Avon Lake, Lorain County, Ohio (the City) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 30, 2013.

### ***Internal Control Over Financial Reporting***

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

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

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

### ***Compliance and Other Matters***

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

***Purpose of this Report***

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

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  
Columbus, Ohio

September 30, 2013

**CITY OF AVON LAKE  
LORAIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2012**

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>
2011-01	Material Weakness – Proper Reporting and Maintenance of Capital Assets	Yes	N/A
2011-02	Material Noncompliance - Expenditures Plus Encumbrances Exceeding Appropriations	Yes	N/A

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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  
OCTOBER 15, 2013**