



**Auditor of State
Betty Montgomery**

**City of Eastlake, Ohio
Lake County**

**Fiscal Emergency Analysis
As of December 31, 2003 and March 31, 2004**

Local Government Services Section

City of Eastlake
Fiscal Emergency Analysis

Table of Contents

Title	Page
Declaration of Fiscal Emergency	1
Fiscal Emergency Analysis	
Determination of Fiscal Emergency	2
Condition 1 – Default on Any Debt Obligation	2
Condition 2 – Payment of All Payroll	3
Condition 3 – Increase in Minimum Levy	4
Condition 4 – Past Due Accounts Payable	4
Condition 5 – Deficit Fund Balances	6
Condition 6 – Treasury Balances	8
Summary	10



**Auditor of State
Betty Montgomery**

Declaration of Fiscal Emergency

The Auditor of State performed a fiscal emergency analysis of the City of Eastlake pursuant to Section 118.03, Revised Code. This analysis indicates and it is hereby declared that a fiscal emergency exists at the City of Eastlake as defined in Section 118.03(A)(5) and (B) of the Ohio Revised Code.

Accordingly, on behalf of the Auditor of State, this report is hereby submitted and filed with Jack Masterson, Finance Director; George Spinner, Acting Mayor of the City of Eastlake; Chuck Hillier, President of Council; Joseph T. Deters, Treasurer of State; Kenneth Blackwell, Secretary of State; Bob Taft, Governor; Thomas W. Johnson; Director of the Office of Budget and Management, and Edward Zupancic, Secretary of the Lake County Budget Commission.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

May 18, 2004

City of Eastlake, Lake County

Fiscal Emergency Analysis

Determination of Fiscal Emergency Condition

As provided by Section 118.04(A) of the Ohio Revised Code, the Auditor of State, as requested by the Mayor of the City of Eastlake (the City) on March 5, 2004, performed a fiscal emergency analysis of the City of Eastlake, Lake County.

For a fiscal emergency to be declared, any one of six conditions must exist. This report sets forth an analysis of fiscal emergency as of December 31, 2003 and March 31, 2004, the date of our determination.

The guidelines for performing such an analysis are set forth in Sections 118.03 of the Ohio Revised Code. The specific procedures performed for each of the fiscal emergency conditions identified in Section 118.03 of the Ohio Revised Code are presented below.

Condition 1 – Default on Any Debt Obligation

Section 118.03 (A)(1), Revised Code defines a fiscal emergency condition as:

The existence, at the time of the determination by the Auditor of State under Section 118.04 of the Revised Code, of a default on any debt obligation for more than thirty days.

We reviewed the outstanding indebtedness of the City as of March 31, 2004, which consisted of the following:

<u>Debt Issue</u>	<u>Interest Rate</u>	<u>Payment Date</u>	<u>Amount Due</u>	<u>Payments 30 days Past Due at March 31, 2004</u>
General Obligation Bonds				
2002 Municipal Stadium	2.00% - 5.00%	June 1, 2003	\$94,156	\$0
		December 1, 2003	94,156	0
2002 Municipal Stadium	2.55% - 6.00%	June 1, 2003	226,515	0
		December 1, 2003	226,515	0
1993 City Hall	2.25% - 5.60%	June 1, 2003	132,749	0
		December 1, 2003	1,037,749	0
Special Assessment Bonds				
Breakwall Improvement	11.43%	June 1, 2003	386	0
		December 1, 2003	6,386	0

City of Eastlake, Lake County

Fiscal Emergency Analysis

Debt Issue	Interest Rate	Payment Date	Amount Due	Payments 30 days Past Due at March 31, 2004
Ohio Public Works Commission				
Sewer Improvement	0.00%	July 1, 2003	\$10,569	\$0
		January 1, 2004	10,569	0
North Parkway Sewer	0.00%	July 1, 2003	1,250	0
		January 1, 2004	1,250	0
East 337th Street	0.00%	July 1, 2003	3,453	0
		January 1, 2004	3,453	0
Stevens Boulevard	0.00%	July 1, 2003	1,228	0
		January 1, 2004	1,228	0
Parkland Drive Sewer	0.00%	July 1, 2003	623	0
		January 1, 2004	623	0
East Overlook Storm and Sewer	0.00%	January 1, 2004	656	0
Notes Payable				
Economic Development	2.55%	January 12, 2003	1,004,990	0
Municipal Stadium	2.50%	December 3, 2003	4,100,000	0
Municipal Stadium	2.25%	December 3, 2003	5,214,750	0

We reviewed the accounting records, bank statements and wire transfer documents to determine if there was any indication that the City was in default on any debt obligations.

Conclusion

A fiscal emergency condition does not exist under Section 118.03(A)(1) of the Ohio Revised Code. No default on any debt obligation for more than thirty days existed at March 31, 2004.

Condition 2 – Payment of All Payroll

Section 118.03 (A)(2), Revised Code defines a fiscal emergency condition as:

“The existence, at the time of the determination by the Auditor of State under Section 118.04 of the Revised Code, of a failure for lack of cash in the funds to make payment of all payroll to employees of the municipal corporation, county, or township in the amounts and at the times required by law, ordinances, resolutions, or agreements, which failure of payment has continued:

- (a) For more than thirty days after such time for payment, or
- (b) Beyond a period of extension, or beyond the expiration of ninety days from the original time for payment, whichever first occurs, if the time for payment has been extended for more than thirty days by written consent of at least two thirds of the employees affected by such failure to pay, acting individually or by their duly authorized representatives.”

City of Eastlake, Lake County

Fiscal Emergency Analysis

We reviewed the payroll records of the City as of March 31, 2004. We reviewed the Council minutes, ordinances, resolutions and other personnel records to determine the employees of the City, pay rates, frequency of payroll, and whether any extensions for the payment of payroll exist. We reviewed payroll reports and interviewed various employees to see if payroll checks were issued on the pay date. These procedures were performed to ascertain whether City employees had been paid within the time specified by Sections 118.03(A)(2)(a) and (b) of the Ohio Revised Code.

Conclusion

A fiscal emergency condition does not exist under Section 118.03(A)(2) of the Ohio Revised Code as of March 31, 2004. All employees have been paid in amounts and at the times required by City Ordinance.

Condition 3 – Increase in Minimum Levy

Section 118.03 (A)(3), Revised Code defines a fiscal emergency condition as:

“An increase, by action of the county budget commission pursuant to division (D) of Section 5705.31 of the Revised Code, in the minimum levy of the municipal corporation, county, or township for the current or next fiscal year which results in a reduction in the minimum levies for one or more other subdivisions or taxing districts.”

We confirmed with the Lake County Auditor whether there had been an increase, pursuant to division (D) of Section 5705.31 of the Ohio Revised Code, in the minimum levy of the City of Eastlake for 2003 or 2004 which resulted in a reduction in the minimum levies for one or more other subdivisions or taxing districts. The confirmation received from the Lake County Budget Commission indicated that the commission had not taken any action to increase the inside millage of the City of Eastlake for 2003 or 2004.

Conclusion

A fiscal emergency condition does not exist under Section 118.03(A)(3) of the Ohio Revised Code. The Lake County Budget Commission has not taken any action to increase millage of the City of Eastlake by reducing another subdivision's millage.

Condition 4 – Past Due Accounts Payable from the General Fund and All Funds

Section 118.03 (A)(4), Revised Code defines a fiscal emergency condition as:

“The existence of a condition in which all accounts that, at the end of its preceding fiscal year, were due and payable from the general fund and that had either been due and payable at least thirty days at the end of the fiscal year or to which a penalty has been added for failure to pay by the end of the fiscal year, including, but not limited to, final judgments, fringe benefit payments due and payable, and amounts due and payable to persons and other governmental entities and including any interest and penalties thereon, less the year-end balance in the general fund, exceeded one-sixth of the general fund budget for the year, or in which all accounts that, at the end of its preceding fiscal year, were due and payable from all funds of the municipal corporation, county, or township and that either had been due and payable for at least thirty days at the end of the fiscal year or to which a penalty has been added for failure to pay by the end of the fiscal year, less the year-end balance in the general fund and in the respective special funds lawfully available to pay such accounts,

City of Eastlake, Lake County

Fiscal Emergency Analysis

exceeded one-sixth of the available revenues during the preceding fiscal year, excluding nonrecurring receipts, of the general fund and of all special funds from which such accounts lawfully are payable.”

We prepared a schedule of accounts payable as of December 31, 2003, that were due and payable from the general fund, and that had been due and payable for at least thirty days or to which a penalty had been added for failure to pay as of December 31, 2003, including, but not limited to, final judgments, fringe benefit payments due and payable, and amounts due and payable to persons and other governmental entities, including any interest and penalties. From this amount we subtracted the year-end fund balance available in the general fund to determine if the accounts payable in excess of the available fund balance exceeded one-sixth of the general fund budget for that year.

Schedule I

Accounts Payable from the General Fund Over 30 Days Past Due
Ohio Revised Code Section 118.03(A)(4)
As of December 31, 2003

	Payables Over 30 Days Past Due	General Fund Balance Available	Payables In Excess of Balance Available	One-Sixth of General Fund Budget	Accounts Payable in Excess of General Fund Budget
General Fund	\$137,095	\$0	\$137,095	\$2,184,939	\$0

From the invoices provided to us, a schedule of accounts payable was prepared (as defined above) for all funds which were at least thirty days past due or to which a penalty was added as of December 31, 2003. From this amount we subtracted the year end fund balance available to pay such outstanding bills. We then determined if the accounts payable in excess of the available fund balance exceeded one-sixth of the available revenues during 2003, excluding non-recurring receipts, of the general fund and of all special funds from which such accounts are lawfully payable.

Schedule II

Accounts Payable from the General Fund Over 30 Days Past Due
Ohio Revised Code Section 118.03(A)(4)
As of December 31, 2003

	Payables Over 30 Days Past Due	Fund Balance Available	Payables In Excess of Available Balance	One-Sixth of Available Revenues	Accounts Payable in Excess of Available Revenues
General Fund	\$137,095	\$0	\$137,095	\$2,001,916	\$0
Street Construction, Maintenance and Repair	1,420	200,718	0	95,481	0
Flag Trust	20	955	0	180	0
Inspection Deposits	200	132,950	0	23,419	0
Totals	\$138,735	\$334,623	\$137,095	\$2,120,996	\$0

City of Eastlake, Lake County

Fiscal Emergency Analysis

Conclusion

Schedules I and II indicate that as of December 31, 2003, a fiscal emergency condition does not exist under Section 118.03(A)(4) of the Ohio Revised Code. Accounts payable from the general fund which were at least thirty days past-due at the end of the year did not exceed the available balance in the general fund plus one-sixth of the general fund budget, nor did all accounts payable which were at least thirty days past due exceed the available balance in the general fund and the respective special funds, plus one-sixth of the available revenues for 2003.

Condition 5 – Deficit Fund Balances

Section 118.03(A)(5), Revised Code defines a fiscal emergency condition as:

“The existence of a condition in which the aggregate of deficit amounts of all deficit funds at the end of its preceding fiscal year, less the total of any year-end balance in the general fund and in any special fund that may be transferred as provided in Section 5705.14 of the Revised Code to meet such deficit, exceeded one-sixth of the total of the general fund budget for that year and the receipts to those deficit funds during that year other than from transfers from the general fund.”

We computed the adjusted aggregate sum of all deficit funds as of December 31, 2003 by subtracting all accounts payable and encumbrances from year-end cash fund balances of each fund. We then determined if the aggregate deficit fund balance exceeded one-sixth of the general fund budget and the receipts of those deficit funds. After computing the unprovided portion of the aggregate deficit, we subtracted funds that may be transferred, as provided in Section 5705.14 of the Revised Code, to meet such deficits.

Schedule III

Deficit Fund Balances
Ohio Revised Code Section 118.03(A)(5)
As of December 31, 2003

	Cash Fund Balance	Less Accounts Payable and Encumbrances	Adjusted Aggregate Deficit Balance	Less One-Sixth of General Fund Budget	Unprovided Portion of Aggregate Deficit
General Fund	(\$3,192,421)	\$187,760	(\$3,380,181)	\$2,184,939	(\$1,195,242)
Funds Available for Transfer					
Police Pension					653
Fire Pension					656
Total Unprovided Portion of Aggregate Deficit					(\$1,193,933)

Section 118.03(B), Revised Code, provides in part:

“Any year-end condition described in division (A)(5) of this section shall not constitute a fiscal emergency condition if the municipal corporation, county, or township clearly demonstrates to the satisfaction of the Auditor of State prior to the time of the Auditor of State’s determination that such condition no longer exists at the time of the determination pursuant to Section 118.04 of the Revised

City of Eastlake, Lake County

Fiscal Emergency Analysis

Code. For the purpose of such demonstration, there shall be taken into account all deficit amounts of deficit funds as at the time of such demonstration, rather than at the end of the fiscal year.”

We computed the adjusted aggregate sum of all deficit funds as of March 31, 2004, by subtracting all accounts payable and encumbrances from year-end cash fund balances of each fund. We then determined if the aggregate deficit fund balance exceeded one-sixth of the general fund budget and the receipts of those deficit funds. After computing the unprovided portion of the aggregate deficit, we subtracted funds that may be transferred, as provided in Section 5705.14 of the Revised Code, to meet such deficits.

Schedule IV

Deficit Fund Balances
Ohio Revised Code Section 118.03(B)
As of March 31, 2004

	Cash Fund Balances	Less Accounts Payable and Encumbrances	Adjusted Aggregate Funds With Deficit Balances	Less One-Sixth of General Fund Budget/ Receipts	Unprovided Portion of Aggregate Deficit
General Fund	(\$2,837,358)	\$847,196	(\$3,684,554)	\$2,588,333	(\$1,096,221)
Federal Grants	(1,231)	1,986	(3,217)	13,400	0
Police Pension	(69,278)	65,915	(135,193)	28,510	(106,683)
Fire Pension	(27,447)	52,591	(80,038)	28,337	(51,701)
Stadium Reconstruction and Improvements	(223)	0	(223)	12,500	0
Eastlake Economic Development	536,043	580,425	(44,382)	1,667	(42,715)
Sanitary Sewer	70,696	605,000	(534,304)	223,445	(310,859)
Law Enforcement Trust	(11,066)	19,539	(30,605)	8,967	(21,638)
Totals	<u>(2,339,864)</u>	<u>2,172,652</u>	<u>(4,512,516)</u>	<u>2,905,159</u>	<u>(1,629,817)</u>
Funds Available for Transfer					<u>0</u>
Total Unprovided Portion of Aggregate Deficit Funds					<u><u>(\$1,629,817)</u></u>

Conclusion

Schedules III and IV indicate that a fiscal emergency condition does exist under Section 118.03(A)(5) of the Ohio Revised Code as of December 31, 2003 and March 31, 2004. The total unprovided portion of aggregate deficit funds as of December 31, 2003 and March 31, 2004, is \$1,193,933 and \$1,629,817, respectively.

City of Eastlake, Lake County

Fiscal Emergency Analysis

Condition 6 – Treasury Balances

Section 118.03 (A)(5), Revised Code defines a fiscal emergency condition as:

“The existence of a condition in which, at the end of the preceding fiscal year, moneys and marketable investments in or held for the unsegregated treasury of the municipal corporation, county, or township, minus outstanding checks and warrants, were less in amount than the aggregate of the positive balances of the general fund and those special funds the purposes of which the unsegregated treasury is held to meet, and such deficiency exceeded one-sixth of the total amount received into the unsegregated treasury during the preceding fiscal year.”

We verified the City's reconciled bank balances to its fund cash balances as of December 31, 2003. From the treasury balance we subtracted the aggregate sum of all positive fund balances, the purpose of which the unsegregated treasury is held to meet, to determine the treasury deficit. We then subtracted from the treasury deficit one-sixth of the amount received into the treasury during 2003, to determine if a treasury deficiency exists.

	Schedule V
Treasury Balances	
Ohio Revised Code Section 118.03(A)(6)	
As of December 31, 2003	
	<u>Amounts at</u> <u>December 31, 2003</u>
Bank Cash Balances	
General Accounts	\$1,041,781
Payroll Account	157,891
Tax Account	172,721
Money Market	78,460
STAROhio	1,396,838
Manuscript Investment	5,000
Petty Cash	1,825
<i>Total Bank Cash</i>	<u>2,854,516</u>
<i>Less: Adjustments</i>	
Deposits in Transit	100,095
Outstanding Checks	(365,981)
Miscellaneous Adjustments	(383)
<i>Total Adjustments</i>	<u>(266,269)</u>
<i>Total Treasury Balance</i>	<u>2,588,247</u>
Less: Positive Fund Balances	
Local Government Retention	74
State Highway	32,128
Street Construction, Maintenance and Repair	205,828
Municipal Motor Vehicle	94,378
State Grants	20,545
Federal Grants	9,203
Police Pension	653

City of Eastlake, Lake County

Fiscal Emergency Analysis

Schedule V

Treasury Balances
Ohio Revised Code Section 118.03(A)(6)
As of December 31, 2003

Amounts at
December 31, 2003

	<u>December 31, 2003</u>
Less: Positive Fund Balances	
Fire Pension	656
General Bond Retirement	59,874
Ohio Water Development Authority	\$788
Special Assessment Bond Retirement	\$8,353
Road Capital Improvement	1,273,116
Fire Levy	275,508
Capital Projects	126,460
Eastlake Economic Development	1,137,590
Stadium/Vine Project	1,326,258
Sewer Rehabilitation	65,060
City Hall Project	298
Police Station Improvement	472
Reeves Road Improvement	10,429
Community Capital Improvement	15,000
Pedestrian Bridge Improvement	3,015
Sanitary Sewer	54
Employee Trust	515
Auxiliary Police Trust	7,891
Council Trust	6,920
Senior Citizens Trust	284,807
Flag Trust	955
Alarm Monitoring	3,918
Law Enforcement Trust	15,333
Fire Ambulance Trust	200,236
Unclaimed Funds	4,454
Recreation and Land Acquisition	380,221
Contractors Performance	7,075
Subdivision Inspection	4,341
Street Opening Deposits	13,950
Building Deposits	12,875
Inspection Deposits	132,950
Grade Deposits	38,448
Plan Review Deposits	37
	<hr/>
Total Positive Fund Balances	5,780,666
	<hr/>
Treasury Balances Less Positive Fund Balances	(3,192,419)
1/6th Treasury Receipts	6,146,563
	<hr/>
Treasury Surplus	\$2,954,144
	<hr/> <hr/>

City of Eastlake, Lake County

Fiscal Emergency Analysis

Conclusion

Schedule V indicates indicate that a fiscal emergency condition does not exist under Section 118.03(A)(6) of the Ohio Revised Code as of December 31, 2003. The treasury balance less the positive fund balances did not exceed one-sixth of the treasury receipts.

Summary

A fiscal emergency is the existence of at least one of the above defined conditions. This analysis indicates that a fiscal emergency does exist at the City of Eastlake as defined in Sections 118.03(A)(5) and (B) of the Ohio Revised Code and presented under Condition 5.

Because the above procedures were not sufficient to constitute an audit made in accordance with generally accepted auditing standards, we do not express and opinion on any of the specific accounts and fund balances referred to above. Had we performed additional procedures or had we made an audit of the financial statements in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported to you.



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

CITY OF EASTLAKE

LAKE 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
MAY 18, 2004**