

Mary Taylor, CPA
Auditor of State

**CITY OF AVON LAKE
LORAIN COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the City Council and Board of Municipal Utilities:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Avon Lake, Lorain County, Ohio, (the City) as of and for the year ended December 31, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Avon Lake, Lorain County, Ohio, as of December 31, 2008, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparisons for the General Fund and the Income Tax Transfer Special Revenue Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2009, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

Mary Taylor, CPA
Auditor of State

November 13, 2009

CITY OF AVON LAKE, OHIO
LORAIN COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008
(UNAUDITED)

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, 2008. 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 2008 are as follows:

- Total net assets increased \$ 2.6 million for the year ending December 31, 2008.
- Total invested in capital assets, net of related debt, increased \$ 4.5 million.
- Total assets increased \$ 2.9 million.
- Total liabilities increased \$ 308,645.
- Cash and cash equivalents decreased by \$ 801,104 in 2008 to \$22,396,954.

Overview of Financial Statements

This annual financial report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 13 and 14) 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 16. 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 13. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. Accrual of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

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

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

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

CITY OF AVON LAKE, OHIO
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(UNAUDITED)

Fund Financial Statements

Our analysis of the City's major funds begins on page 16. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. Some funds are required to be established by State law. However, City Council establishes many other funds to help it control and manage money for particular purposes (i.e. Income Tax Transfer Fund) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (i.e. grants received from the U.S. Department of Justice). The City's three kinds of funds, governmental, proprietary and fiduciary, use different accounting approaches.

Governmental funds

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

Proprietary funds

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

Fiduciary funds

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

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.

CITY OF AVON LAKE, OHIO
LORAIN COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008
(UNAUDITED)

The City of Avon Lake as a Whole

Analysis of Net Assets

The City's total net assets changed from a year ago, increasing from \$ 102.7 million to \$ 105.3 million. Looking at the net assets and net expenses of governmental and business-type activities separately, different stories emerge. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the City's governmental and business-type activities.

Table 1
Net Assets

	Governmental Activities		Business-type Activities		Total	
	2008	2007 Restated	2008	2007 Restated	2008	2007 Restated
Assets						
Current and other assets	\$ 26,688,763	\$ 27,153,027	\$ 16,516,742	\$ 16,110,960	\$ 43,205,505	\$ 43,263,987
Capital assets, net	57,146,271	55,836,189	55,048,119	53,374,067	112,194,390	109,210,256
Total assets	<u>83,835,034</u>	<u>82,989,216</u>	<u>71,564,861</u>	<u>69,485,027</u>	<u>155,399,895</u>	<u>152,474,243</u>
Liabilities						
Current liabilities	7,219,479	7,194,875	1,086,539	798,165	8,306,018	7,993,040
Long-term liabilities	9,771,414	10,239,815	32,011,665	31,547,597	41,783,079	41,787,412
Total liabilities	<u>16,990,893</u>	<u>17,434,690</u>	<u>33,098,204</u>	<u>32,345,762</u>	<u>50,089,097</u>	<u>49,780,452</u>
Net assets						
Invested in capital assets, net of related debt	49,477,777	46,321,301	24,000,628	22,616,031	73,478,405	68,937,332
Restricted	9,609,593	5,686,481	1,316,165	1,514,933	10,925,758	7,201,414
Unrestricted	7,756,771	13,546,744	13,149,864	13,008,301	20,906,635	26,555,045
Total net assets	<u>\$ 66,844,141</u>	<u>\$ 65,554,526</u>	<u>\$ 38,466,657</u>	<u>\$ 37,139,265</u>	<u>\$ 105,310,798</u>	<u>\$ 102,693,791</u>

Net assets of the City's governmental activities increased by 1.8 percent (\$ 66.8 million compared to \$ 65.6 million). Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, decreased from \$ 13.5 million at December 31, 2007 to \$ 7.8 million at the end of 2008. Restricted net assets, those restricted mainly for debt services, special revenue funds and capital projects, increased from \$ 5.7 million at December 31, 2007 to \$ 9.6 million at the end of 2008. The invested in capital assets, net of debt category increased by \$ 3.2 million.

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The net assets of our business-type activities increased by 3.8 percent (\$ 38.5 million compared to \$ 37.1 million) in 2008 due mainly to an increase in net capital assets as of year-end.

Table 2 shows the changes in net assets for governmental activities and business-type activities for the year ended December 31, 2008.

Table 2
Change in Net Assets

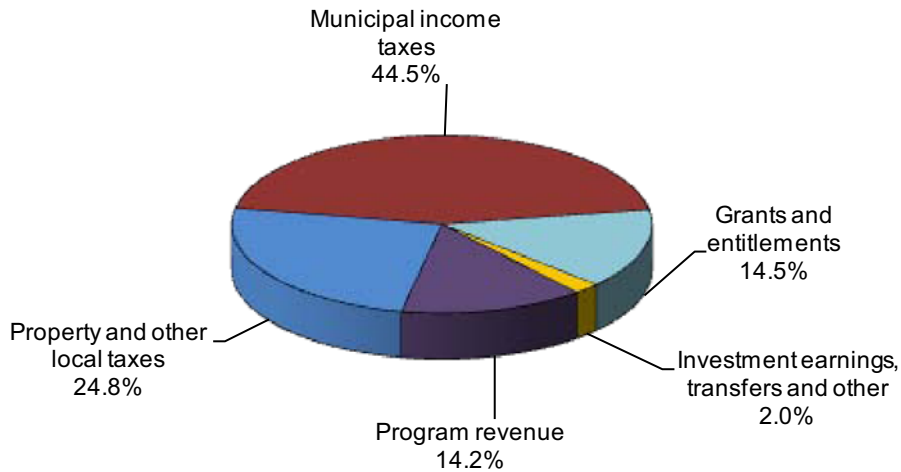
	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues						
Program revenues						
Charges for services	\$ 1,166,466	\$ 1,105,538	\$ 13,251,709	\$ 12,483,669	\$ 14,418,175	\$ 13,589,207
Operating grants and contributions	205,059	-	-	-	205,059	-
Capital grants and contributions	1,731,586	3,196,696	334,103	1,368,923	2,065,689	4,565,619
Total program revenues	<u>3,103,111</u>	<u>4,302,234</u>	<u>13,585,812</u>	<u>13,852,592</u>	<u>16,688,923</u>	<u>18,154,826</u>
General revenues						
Property and other local taxes	5,427,231	5,063,041	-	-	5,427,231	5,063,041
Municipal income taxes	9,721,195	10,013,692	-	-	9,721,195	10,013,692
Special assessments	7,336	901,641	-	26,685	7,336	928,326
Grants and entitlements	3,177,253	3,363,079	-	-	3,177,253	3,363,079
Investment earnings	740,381	1,377,075	121,309	224,866	861,690	1,601,941
Miscellaneous	222,278	288,235	-	-	222,278	288,235
Transfers, net	(545,323)	(440,669)	545,323	485,111	-	44,442
Total general revenues	<u>18,750,351</u>	<u>20,566,094</u>	<u>666,632</u>	<u>736,662</u>	<u>19,416,983</u>	<u>21,302,756</u>
Total revenues	<u>21,853,462</u>	<u>24,868,328</u>	<u>14,252,444</u>	<u>14,589,254</u>	<u>36,105,906</u>	<u>39,457,582</u>
Program expenses						
Security of persons and property	8,081,408	7,549,732	-	-	8,081,408	7,549,732
Public health and welfare	136,490	84,207	-	-	136,490	84,207
Leisure time activities	1,370,665	1,329,943	-	-	1,370,665	1,329,943
Community environment	327,723	395,427	-	-	327,723	395,427
Basic utility services	68,840	28,484	-	-	68,840	28,484
Transportation	6,866,122	6,989,020	-	-	6,866,122	6,989,020
General government	3,303,881	3,203,797	-	-	3,303,881	3,203,797
Interest	408,718	484,948	-	-	408,718	484,948
Water	-	-	7,640,691	7,854,970	7,640,691	7,854,970
Sewer	-	-	5,284,361	4,103,569	5,284,361	4,103,569
Total program expenses	<u>20,563,847</u>	<u>20,065,558</u>	<u>12,925,052</u>	<u>11,958,539</u>	<u>33,488,899</u>	<u>32,024,097</u>
Increase in net assets	1,289,615	4,802,770	1,327,392	2,630,715	2,617,007	7,433,485
Net assets, beginning of year restated	<u>65,554,526</u>	<u>60,751,756</u>	<u>37,139,265</u>	<u>34,508,550</u>	<u>102,693,791</u>	<u>95,260,306</u>
Net assets, end of year	<u>\$ 66,844,141</u>	<u>\$ 65,554,526</u>	<u>\$ 38,466,657</u>	<u>\$ 37,139,265</u>	<u>\$ 105,310,798</u>	<u>\$ 102,693,791</u>

CITY OF AVON LAKE, OHIO
LORAIN COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
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Governmental Activities

Revenues by source of governmental activities for 2008 were comprised of:

Revenues by Source, Governmental Activities



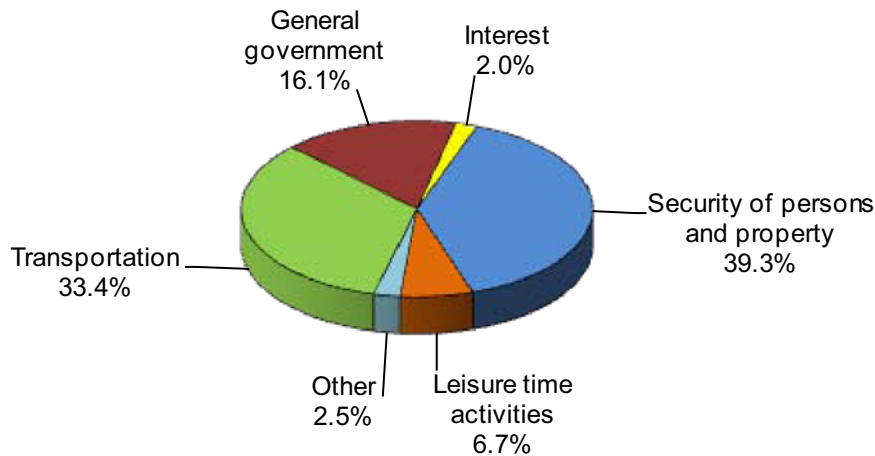
Revenues

Total revenues decreased by \$ 3,014,866 or 12.1%. The 1.5 percent municipal income tax is the largest revenue source totaling \$9,721,195 or 44.5%. The municipal income tax revenue is designated by ordinance as follows: the Capital Acquisition and Improvement Fund receives 20 percent, the Sewer System Construction Fund receives 5 percent and the remaining 75 percent is allocated to the General Fund. The next largest revenue source is property and other local taxes totaling \$ 5,427,231 or 24.8%. The property and other local taxes had an increase of \$ 364,190. This increase was offset most significantly by decreases of \$ 292,497 in municipal income tax, \$ 894,305 in special assessments, \$ 185,826 in unrestricted grants and entitlements, \$ 636,694 in the investment earnings and \$ 1,199,123 in program revenue.

CITY OF AVON LAKE, OHIO
LORAIN COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
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Program expenses of governmental activities for 2008 were comprised of:

Program Expenses, Governmental Activities



Program expenses amounted to \$ 20,563,847 in 2008, of which \$ 3,103,111 was supported by program revenue. Security of persons and property, which includes police, fire and paramedic services, represented \$ 8,081,408 or 39.3% of total program expenses. Transportation, which includes street maintenance, snow removal, etc., represents \$ 6,866,122 or 33.4% 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 \$ 3,303,881 or 16.1%. Leisure time activities represented \$ 1,370,665 or 6.7% 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 2.5%. Program expenses increased in 2008 by \$ 498,289 or 2.5% from the 2007 program expenses.

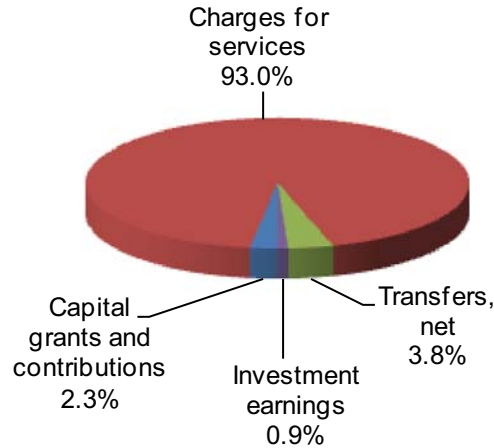
Business-Type Funds

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

CITY OF AVON LAKE, OHIO
LORAIN COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
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Revenues by source for business-type activities for 2008 were comprised of:

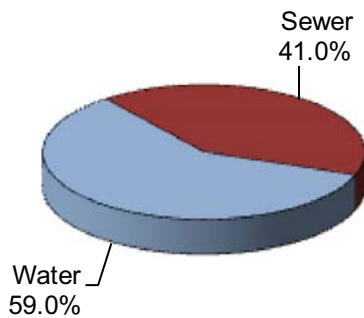
Revenue by Source, Business-type Activities



Revenues

Program revenue consisting of charges for services and capital grants and contributions represented 95.3% of total revenues for the business-type activities in 2008. Charges for services for the business-type activities amounted to \$ 13,251,709 with 76.0% provided by water services and 24.0% from sanitary sewer services.

Expenses, Business-type Activities



Expenses

Water operation expenses amounted to \$ 7,640,691 or 59.0% and sanitary sewer operation expenses amounted to \$ 5,284,361 or 41.0% of total program expenses for business-type activities in 2008.

CITY OF AVON LAKE, OHIO
LORAIN COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008
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The City's Funds

Information about the City's major governmental funds begins on page 16. These funds are reported using the modified accrual basis of accounting. All governmental funds had total revenues of \$ 20,688,395 and expenditures of \$ 20,666,439. The General Fund's fund balance increased \$ 551,785. The City closely monitors its revenues and expenditures to maintain a sound fund balance.

General Fund Budgeting Highlights

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

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

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

The General Fund variance from original estimated revenues decreased by \$ 82,276 decreasing the overall General Fund final estimated revenues to \$ 6,996,827 as indicated on page 23. This change represents 1.2% of total final estimated revenue. The General Fund variance from original appropriations to final appropriations was \$ 216,867, increasing overall General Fund appropriations to \$ 13,738,366. This change represents 1.6% of total final appropriations. These changes reflect the City's realistic estimates based on the financial conditions in our State's economy providing effective fiscal management.

The Income Tax Transfer Fund final estimated revenues remained the same as the Income Tax Transfer Fund original estimated revenues of \$ 9,200,000 as indicated on page 24. This estimate exceeded actual revenues by \$ 415,941.

CITY OF AVON LAKE, OHIO
LORAIN COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008
(UNAUDITED)

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

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

	Governmental Activities		Business type Activities		Total	
	2008	2007 Restated	2008	2007 Restated	2008	2007 Restated
Land	\$ 5,203,873	\$ 5,202,089	\$ 1,665,385	\$ 1,665,385	\$ 6,869,258	\$ 6,867,474
Construction in progress	390,592	113,976	1,174,495	54,976	1,565,087	168,952
Buildings and improvements	12,594,733	12,398,046	19,957,870	20,546,680	32,552,603	32,944,726
Machinery and equipment	1,901,165	1,831,731	2,082,251	2,130,575	3,983,416	3,962,306
Vehicles	1,414,080	1,250,217	333,380	97,215	1,747,460	1,347,432
Infrastructure	35,641,828	35,040,130	29,834,738	28,879,237	65,476,566	63,919,367
	<u>\$ 57,146,271</u>	<u>\$ 55,836,189</u>	<u>\$ 55,048,119</u>	<u>\$ 53,374,068</u>	<u>\$ 112,194,390</u>	<u>\$ 109,210,257</u>

Capital assets are major assets that benefit more than one year. The City's total capital assets, net of depreciation amounted to \$ 112,194,390 at December 31, 2008, which was \$ 2,984,133 higher than the previous year, since additions exceeded depreciation. In 2008, capital assets, net of depreciation under governmental activities increased by \$ 1,310,082. Business-type capital assets, net of depreciation increased by \$ 1,674,051.

For more information about the City's capital assets see Note 8 of the Notes to the Basic Financial Statements.

Debt

The City's debt obligations consisted of the following:

	Governmental Activities		Business type Activities		Total	
	2008	2007 Restated	2008	2007 Restated	2008	2007 Restated
General obligation bonds	\$ 4,858,877	\$ 5,175,065	\$ 8,025,710	\$ 8,725,728	\$ 12,884,587	\$ 13,900,793
Special assessment bonds	2,602,537	2,794,011	-	-	2,602,537	2,794,011
OWDA loans	183,599	236,193	12,335,034	10,520,581	12,518,633	10,756,774
Mortgage revenue bonds	-	-	11,020,000	11,825,000	11,020,000	11,825,000
Recreational fee credit	3,480	114,665	-	-	3,480	114,665
Metro Parks capital improvement	200,000	-	-	-	200,000	-
Police/fire pension liability	103,727	105,819	-	-	103,727	105,819
Landfill postclosure costs	768,499	806,456	-	-	768,499	806,456
Capital leases	23,481	30,327	150,389	-	173,870	30,327
Accrued leave benefits	1,027,214	977,279	480,532	476,288	1,507,746	1,453,567
	<u>\$ 9,771,414</u>	<u>\$ 10,239,815</u>	<u>\$ 32,011,665</u>	<u>\$ 31,547,597</u>	<u>\$ 41,783,079</u>	<u>\$ 41,787,412</u>

At December 31, 2008, the City had outstanding long-term debt obligations in the amount of \$ 9,771,414 for the governmental activities and \$ 32,011,665 for business-type activities.

Debt for Security of Persons and Property consist of \$ 3,434,101 for the Safety Center. Debt for Transportation consists of \$ 840,000 for the improvements to Pin Oak Parkway, and \$ 239,595 for Walker Road widening. Debt for Basic Utility Services consists of \$2,064,996 for the Central Avon Lake Ditch Project, \$ 183,599 for storm sewers along Walker Rd. Debt for Leisure Time Activities consists of \$ 865,000 for improvements to Weiss Field.

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FOR THE YEAR ENDED DECEMBER 31, 2008
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Debt for Water includes five improvement and expansion projects to the City of Avon Lake's water distribution totaling \$ 23,364,060. Debt for Sewer consists of \$ 390,501 for digester repairs and improvements, \$ 347,342 for sanitary sewer installation along Walker Rd., \$ 1,457,988 for sanitary sewer replacement along Fay Avenue and Vineyard Road, \$ 1,080,535 for Center Road pump station improvements, \$ 855,318 for various improvement projects, and \$ 3,885,000 for various sewer separation and storm sewer projects throughout the City of Avon Lake.

The City's last general obligation bond rating from Moody's was Aaa. Other obligations include accrued leave benefits, recreational fee credits, landfill postclosure costs, and police and fire pension liabilities. For more information about the City's debt, see Note 9 and 10 of Notes to the Basic Financial Statements.

Current Financial Related Activities

Reconstruction of the municipal pool at Blesser Park, which opened in 1962 will begin in August of 2009. A bond levy for this \$ 4.5 million project was approved by Avon Lake voters in November of 2008.

Miller Road Park will be made safer by grading and controlling the erosion of the bluff which overlooks the beach.

The Service Department constructed a new storage building in 2008. An auxiliary storage building which was destroyed in a winter storm will be replaced in 2009 utilizing insurance proceeds.

Over \$ 1 million was spent for resurfacing and repairs of various city streets throughout the city in 2008. Road projects receiving OPWC grants in 2009 include the resurfacing of Walker Road from Avon-Belden Road (SR 83) east to the Bay Village border, and adding a third lane on Walker Road from Community Drive to Waterside Drive. Applications for Stimulus Projects have been submitted for the Pin Oak Parkway Extension and Concrete Street Repairs.

The Municipal Utilities completed the replacement of sanitary sewers on Fay and Vineyard Roads. The Center Road Pump Station project which will help alleviate drainage issues along Lake Road is nearing completion. Over \$ 9 million has been approved for the design and construction of the Avon Lake Force Main & Pump Station that will service Rural Lorain County Wastewater District (LORCO) customers. This improvement will be financed with OWDA (Ohio Water Development Authority) bonds.

Three projects, the Avon Lake Force Main & Pump Station, Avon Lake WPCO Renovations, and the Jaycox Road Combined Sewer Separation, have been submitted for Ohio Recovery & Reinvestment Act stimulus money.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Director, City of Avon Lake, 150 Avon Belden Road, Avon Lake, Ohio 44012, telephone 440-933-6141 or visit our website at www.avonlake.org.

CITY OF AVON LAKE, OHIO
LORAIN COUNTY

STATEMENT OF NET ASSETS

DECEMBER 31, 2008

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalent	\$ 13,025,232	\$ 9,371,722	\$ 22,396,954
Receivables			
Taxes	8,284,359	-	8,284,359
Accounts	110,151	1,178,000	1,288,151
Special assessments	3,208,365	289,044	3,497,409
Accrued interest	66,049	-	66,049
Due from other governments	1,767,886	1,466,803	3,234,689
Materials and supplies inventories	130,219	109,792	240,011
Restricted cash and cash equivalents	96,502	1,316,021	1,412,523
Unamortized bond issue and discounts	-	483,642	483,642
Investment in joint venture	-	2,301,718	2,301,718
Capital assets			
Nondepreciable capital assets	5,594,465	2,839,880	8,434,345
Depreciable capital assets, net	51,551,806	52,208,239	103,760,045
Total assets	83,835,034	71,564,861	155,399,895
 Liabilities			
Accounts and contracts payable	171,536	485,248	656,784
Retainage payable	96,502	105,444	201,946
Accrued salaries, wages and benefits	218,493	66,700	285,193
Due to other governments	537,851	280,420	818,271
Unearned revenue	5,215,357	-	5,215,357
Accrued interest payable	29,740	148,727	178,467
Note payable	950,000	-	950,000
Long term liabilities			
Due within one year	1,218,213	2,615,242	3,833,455
Due in more than one year	8,553,201	29,396,423	37,949,624
Total liabilities	16,990,893	33,098,204	50,089,097
 Net assets			
Invested in capital assets, net of related debt	49,477,777	24,000,628	73,478,405
Restricted for:			
Capital projects	3,267,949	-	3,267,949
Debt service	3,464,052	1,316,165	4,780,217
Streets and Highways	944,675	-	944,675
Public safety	1,125,120	-	1,125,120
Park and recreation	131,014	-	131,014
Other purposes	676,783	-	676,783
Unrestricted	7,756,771	13,149,864	20,906,635
Total net assets	\$ 66,844,141	\$ 38,466,657	\$ 105,310,798

See accompanying notes to the Basic Financial Statements

CITY OF AVON LAKE, OHIO
LORAIN COUNTY

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2008

Functions/Programs	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants Interest and Contributions	Capital Grants and Contributions
Governmental activities				
Security of persons and property	\$ 8,081,408	\$ 269,107	\$ 118,647	\$ 2,425
Public health and welfare	136,490	-	-	-
Leisure time activities	1,370,665	25,010	86,412	11,893
Community environment	327,723	6,276	-	-
Basic utility services	68,840	-	-	-
Transportation	6,866,122	31,692	-	1,717,268
General government	3,303,881	834,381	-	-
Interest	408,718	-	-	-
Total governmental activities	<u>20,563,847</u>	<u>1,166,466</u>	<u>205,059</u>	<u>1,731,586</u>
Business-type activities:				
Water	7,640,691	10,070,403	-	186,339
Sewer	5,284,361	3,181,306	-	147,764
Total business-type activities	<u>12,925,052</u>	<u>13,251,709</u>	<u>-</u>	<u>334,103</u>
Total	<u>\$ 33,488,899</u>	<u>\$ 14,418,175</u>	<u>\$ 205,059</u>	<u>\$ 2,065,689</u>

General revenues

Property taxes - general purpose

Income taxes

Special assessments

Grants and entitlements not restricted to specific purposes

Investment earnings

Miscellaneous

Transfers, net

Total general revenues

Change in net assets

Net assets at beginning of year, restated

Net assets at end of year

See accompanying notes to the Basic Financial Statements

Net (Expense) Revenue and Changes in Net Assets

<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
\$ (7,691,229)	\$ -	\$ (7,691,229)
(136,490)	-	(136,490)
(1,247,350)	-	(1,247,350)
(321,447)	-	(321,447)
(68,840)	-	(68,840)
(5,117,162)	-	(5,117,162)
(2,469,500)	-	(2,469,500)
(408,718)	-	(408,718)
<u>(17,460,736)</u>	<u>-</u>	<u>(17,460,736)</u>
-	2,616,051	2,616,051
-	(1,955,291)	(1,955,291)
-	660,760	660,760
<u>(17,460,736)</u>	<u>660,760</u>	<u>(16,799,976)</u>
5,427,231	-	5,427,231
9,721,195	-	9,721,195
7,336	-	7,336
3,177,253	-	3,177,253
740,381	121,309	861,690
222,278	-	222,278
(545,323)	545,323	-
<u>18,750,351</u>	<u>666,632</u>	<u>19,416,983</u>
1,289,615	1,327,392	2,617,007
65,554,526	37,139,265	102,693,791
<u>\$ 66,844,141</u>	<u>\$ 38,466,657</u>	<u>\$ 105,310,798</u>

CITY OF AVON LAKE, OHIO
LORAIN COUNTY

BALANCE SHEET – GOVERNMENTAL FUNDS

DECEMBER 31, 2008

	General	Income Tax Transfer Fund	Capital Improvement Fund	Debt Service Fund
Assets				
Cash and cash equivalent	\$ 2,353,782	\$ 4,121,779	\$ 2,320,187	\$ 307,613
Cash and investments with fiscal and escrow agents	-	-	80,502	-
Taxes receivable	3,716,474	2,957,130	-	325,269
Accounts receivable	108,294	-	-	-
Accrued interest receivable	-	-	66,049	-
Special assessments receivable	-	-	-	2,909,313
Due from other governments	916,758	-	130,000	17,683
Interfund receivable	1,088,766	-	-	252,352
Materials and supplies inventories	34,857	-	-	-
Total assets	\$ 8,218,931	\$ 7,078,909	\$ 2,596,738	\$ 3,812,230
Liabilities and fund balances				
Liabilities				
Accounts and contracts payable	\$ 99,163	\$ -	\$ 29,096	\$ -
Retainage payable	-	-	80,502	-
Accrued salaries, wages and benefits	191,235	-	-	-
Due to other governments	248,856	-	-	-
Interfund payable	-	-	1,077,475	-
Unearned revenue	4,635,930	1,629,391	183,808	3,252,265
Recreation fee credits payable	-	-	-	-
Note payable	-	-	950,000	-
Compensated absences	13,718	-	-	-
Total liabilities	5,188,902	1,629,391	2,320,881	3,252,265
Fund balances				
Reserved for inventories	34,857	-	-	-
Reserved for encumbrances	125,120	-	426,094	-
Unreserved, reported in				
General fund	2,870,052	-	-	-
Special revenue funds	-	5,449,518	-	-
Debt service funds	-	-	-	559,965
Capital projects funds	-	-	(150,237)	-
Total fund balances	3,030,029	5,449,518	275,857	559,965
Total liabilities and fund balances	\$ 8,218,931	\$ 7,078,909	\$ 2,596,738	\$ 3,812,230

See accompanying notes to the Basic Financial Statements.

Other Governmental Funds	Total Governmental Funds
\$ 3,921,871	\$ 13,025,232
16,000	96,502
1,285,486	8,284,359
1,857	110,151
-	66,049
299,052	3,208,365
703,445	1,767,886
-	1,341,118
95,362	130,219
<u>\$ 6,323,073</u>	<u>\$ 28,029,881</u>

\$ 43,277	\$ 171,536
16,000	96,502
27,258	218,493
288,995	537,851
263,643	1,341,118
2,234,343	11,935,737
3,480	3,480
-	950,000
-	13,718
<u>2,876,996</u>	<u>15,268,435</u>

95,362	130,219
103,129	654,343
-	2,870,052
1,948,718	7,398,236
-	559,965
1,298,868	1,148,631
<u>3,446,077</u>	<u>12,761,446</u>
<u>\$ 6,323,073</u>	<u>\$ 28,029,881</u>

CITY OF AVON LAKE, OHIO
LORAIN COUNTY

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES

DECEMBER 31, 2008

Total governmental funds balances		\$	12,761,446
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.			57,146,271
Other long term assets are not available to pay for current period expenditures and therefore are deferred in the funds:			
Taxes	1,741,263		
Intergovernmental	1,571,530		
Accounts receivables	15,414		
Interest	183,808		
Special assessments	3,208,365		
Total			6,720,380
In the statement of activities, interest is accrued on outstanding long-term obligations, whereas in governmental funds, an interest expenditure is reported when due.			(29,740)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:			
OPWC loans payable	(183,599)		
General obligation bonds	(4,858,877)		
Special assessment bonds	(2,602,537)		
Miscellaneous debt	(1,072,226)		
Capital leases	(23,481)		
Compensated absences	(1,013,496)		
			(9,754,216)
Net assets of governmental activities		\$	<u>66,844,141</u>

See accompanying notes to the Basic Financial Statements.

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CITY OF AVON LAKE, OHIO
LORAIN COUNTY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2008

	General	Income Tax Transfer Fund	Capital Improvement Fund	Debt Service Fund
Revenues				
Property and other local taxes	\$ 3,905,003	\$ -	\$ -	\$ -
Municipal income taxes	-	9,543,714	-	-
Intergovernmental revenue	2,088,979	-	130,190	-
Special assessments	-	-	-	345,126
Charges for services	331,172	-	-	-
Licenses and permits	417,986	-	-	-
Fines and forfeits	245,913	-	-	-
Interest	-	-	535,793	124
Miscellaneous	118,916	-	35,068	11,893
Total revenues	7,107,969	9,543,714	701,051	357,143
Expenditures				
Current				
Security of persons and property	5,699,159	-	307,198	-
Public health and welfare	85,425	-	25,596	-
Leisure time activities	615,976	-	114,415	-
Community environment	319,130	-	-	-
Basic utilities	-	-	43,757	-
Transportation	3,458,658	-	1,327,658	-
General government	2,453,817	180,463	83,442	13,614
Capital outlay	-	-	1,006,830	-
Debt service				
Bond principal	-	-	-	573,350
Interest and fiscal charges	-	-	-	376,314
Total expenditures	12,632,165	180,463	2,908,896	963,278
Excess (deficiency) of revenues over expenditures	(5,524,196)	9,363,251	(2,207,845)	(606,135)
Other financing sources (uses)				
Transfers-in	7,203,175	-	2,185,375	639,663
Transfers-out	(1,127,194)	(9,200,000)	(370,504)	-
Total other financing sources (uses)	6,075,981	(9,200,000)	1,814,871	639,663
Excess (deficiency) of revenues over expenditures and other sources (uses)	551,785	163,251	(392,974)	33,528
Fund balances, beginning of year	2,478,244	5,286,267	668,831	526,437
Fund balances, end of year	\$ 3,030,029	\$ 5,449,518	\$ 275,857	\$ 559,965

See accompanying notes to the Basic Financial Statement.

Other Governmental Funds	Total Governmental Funds
\$ 1,263,411	\$ 5,168,414
-	9,543,714
1,444,392	3,663,561
77,379	422,505
73,402	404,574
62,978	480,964
34,983	280,896
20,656	556,573
1,317	167,194
<u>2,978,518</u>	<u>20,688,395</u>
1,965,768	7,972,125
25,469	136,490
267,627	998,018
6,275	325,405
-	43,757
1,651,732	6,438,048
60,731	2,792,067
4,035	1,010,865
-	573,350
-	376,314
<u>3,981,637</u>	<u>20,666,439</u>
<u>(1,003,119)</u>	<u>21,956</u>
541,140	10,569,353
<u>(366,844)</u>	<u>(11,064,542)</u>
<u>174,296</u>	<u>(495,189)</u>
(828,823)	(473,233)
<u>4,274,900</u>	<u>13,234,679</u>
<u>\$ 3,446,077</u>	<u>\$ 12,761,446</u>

CITY OF AVON LAKE, OHIO
LORAIN COUNTY

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, 2008

Net change in fund balances - total governmental funds		\$ (473,233)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded net capital outlay in the current period.</p>		
	Capital outlay, net	4,673,477
	Depreciation expense	<u>(3,363,395)</u>
		1,310,082
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds</p>		
	Taxes	507,103
	Other	15,414
	Special assessments	(415,169)
	Investment earnings	183,808
	Intergovernmental revenue	<u>(200,288)</u>
		90,868
<p>Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p>		
	Miscellaneous debt obligations	(124,511)
	OPWC loan principal paid	52,594
	Bond principal paid	510,326
	Capital lease principal paid	<u>6,846</u>
		445,255
<p>In the statement of activities, interest is accrued on outstanding debt, whereas in governmental funds, an interest expenditure is reported when due.</p>		
		(32,404)
<p>Some expenses reported in the statement of activities, such as accrued leave benefits and intergovernmental payable which represents contractually required pension contributions, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>		
	Accrued leave benefits	<u>(50,953)</u>
Change in net assets of governmental activities		<u>\$ 1,289,615</u>

See accompanying notes to the Basic Financial Statement.

CITY OF AVON LAKE, OHIO
LORAIN COUNTY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET (NON-GAAP BASIS) AND ACTUAL – GENERAL FUND

FOR THE YEAR ENDED DECEMBER 31, 2008

	Budget Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		(Negative)
Revenues				
Property and other local taxes	\$ 4,467,933	\$ 4,385,657	\$ 3,905,003	(480,654)
Intergovernmental revenue	1,545,600	1,545,600	2,139,395	593,795
Charges for services	287,710	287,710	331,172	43,462
Licenses and permits	437,860	437,860	417,986	(19,874)
Fines and forfeits	201,500	201,500	245,913	44,413
Miscellaneous	138,500	138,500	111,186	(27,314)
Total revenues	7,079,103	6,996,827	7,150,655	153,828
Expenditures				
Current				
Security of persons and property	6,044,568	6,080,203	5,896,060	184,143
Public health and welfare	67,000	97,708	97,708	-
Leisure time activities	737,481	746,099	631,903	114,196
Community environment	344,439	345,313	320,528	24,785
Transportation	3,456,719	3,671,783	3,542,244	129,539
General government	2,871,292	2,797,260	2,578,457	218,803
Total expenditures	13,521,499	13,738,366	13,066,900	671,466
Excess (deficiency) of revenues over expenditures	(6,442,396)	(6,741,539)	(5,916,245)	825,294
Other financing sources (uses)				
Transfers-in	7,256,736	7,203,175	7,203,175	-
Advances-in	229,773	234,825	222,883	(11,942)
Transfers-out	(796,516)	(1,127,847)	(1,127,194)	653
Advances-out	(229,773)	(1,125,963)	(1,125,312)	651
Total other financing sources (uses)	6,460,220	5,184,190	5,173,552	(10,638)
Excess (deficiency) of revenues over expenditures and other sources (uses)	17,824	(1,557,349)	(742,693)	814,656
Prior year encumbrances	168,301	168,301	168,301	-
Fund balances, beginning of year	2,775,434	2,775,434	2,775,434	-
Fund balances, end of year	\$ 2,961,559	\$ 1,386,386	\$ 2,201,042	\$ 814,656

See accompanying notes to the Basic Financial Statement.

CITY OF AVON LAKE, OHIO
LORAIN COUNTY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET BASIS (NON-GAAP) AND ACTUAL – INCOME TAX TRANSFER FUND

FOR THE YEAR ENDED DECEMBER 31, 2008

	Budget Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Municipal income taxes	\$ 9,200,000	\$ 9,200,000	\$ 8,784,059	\$ (415,941)
Total revenues	9,200,000	9,200,000	8,784,059	(415,941)
Expenditures				
Current				
General government	150,000	180,463	180,463	-
Total expenditures	150,000	180,463	180,463	-
Excess (deficiency) of revenues over expenditures	9,050,000	9,019,537	8,603,596	(415,941)
Other financing sources (uses)				
Transfers-out	(9,200,000)	(9,200,000)	(9,200,000)	-
Total other financing sources (uses)	(9,200,000)	(9,200,000)	(9,200,000)	-
Excess (deficiency) of revenues over expenditures and other sources (uses)	(150,000)	(180,463)	(596,404)	(415,941)
Fund balances, beginning of year	4,718,183	4,718,183	4,718,183	-
Fund balances, end of year	\$ 4,568,183	\$ 4,537,720	\$ 4,121,779	\$ (415,941)

See accompanying notes to the Basic Financial Statement.

CITY OF AVON LAKE, OHIO
LORAIN COUNTY

STATEMENT OF FUND NET ASSETS -
PROPRIETARY FUNDS

DECEMBER 31, 2008

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
Assets			
Cash and cash equivalents	\$ 6,672,812	\$ 2,698,910	\$ 9,371,722
Receivables			
Accounts	679,781	498,219	1,178,000
Special assessments	-	289,044	289,044
Due from other governments	1,466,803	-	1,466,803
Materials and supplies inventories	94,116	15,676	109,792
Restricted cash and cash equivalents	1,316,021	-	1,316,021
Unamortized bond issue costs and discounts	472,036	11,606	483,642
Investment in joint venture	2,301,718	-	2,301,718
Nondepreciable capital assets	671,708	2,168,172	2,839,880
Depreciable capital assets, net	36,433,348	15,774,891	52,208,239
Total assets	50,108,343	21,456,518	71,564,861
Liabilities			
Current			
Accounts and contracts payable	73,871	411,377	485,248
Retainage payable	11,484	93,960	105,444
Accrued salaries, wages and benefits	33,219	33,481	66,700
Due to other governments	161,124	119,296	280,420
Accrued interest payable	131,561	17,166	148,727
Capital lease payable	-	47,818	47,818
General obligation bonds payable	511,558	263,438	774,996
OWDA loans payable	635,321	194,108	829,429
Revenue bonds	825,000	-	825,000
Compensated absences	65,599	72,400	137,999
Total current liabilities	2,448,737	1,253,044	3,701,781
Long-term liabilities			
Capital lease payable	-	102,571	102,571
General obligation bonds payable	2,773,834	4,476,880	7,250,714
OWDA loans payable	8,423,347	3,082,258	11,505,605
Revenue bonds	10,195,000	-	10,195,000
Compensated absences	196,264	146,269	342,533
Total long-term liabilities	21,588,445	7,807,978	29,396,423
Total liabilities	24,037,182	9,061,022	33,098,204
Net assets			
Investment in capital assets, net of related debt	14,213,032	9,787,596	24,000,628
Restricted for debt services	1,316,165	-	1,316,165
Unrestricted	10,541,964	2,607,900	13,149,864
Total net assets	\$ 26,071,161	\$ 12,395,496	\$ 38,466,657

See accompanying notes to the Basic Financial Statement.

CITY OF AVON LAKE, OHIO
LORAIN COUNTY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2008

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating revenues			
Charges for services	\$ 9,000,432	\$ 3,181,306	\$ 12,181,738
Other	131,491	-	131,491
Total operating revenues	<u>9,131,923</u>	<u>3,181,306</u>	<u>12,313,229</u>
Operating expenses			
Personal services	1,635,492	1,631,279	3,266,771
Contractual services	363,390	1,637,380	2,000,770
Supplies and materials	3,271,905	1,019,100	4,291,005
Depreciation	1,082,470	658,237	1,740,707
Total operating expenses	<u>6,353,257</u>	<u>4,945,996</u>	<u>11,299,253</u>
Operating income (loss)	<u>2,778,666</u>	<u>(1,764,690)</u>	<u>1,013,976</u>
Nonoperating revenues (expenses)			
Interest income	51,666	69,643	121,309
Intergovernmental revenue	938,481	-	938,481
Loss on disposal of capital assets	(3,262)	(62,034)	(65,296)
Interest and fiscal charges	(1,284,176)	(265,898)	(1,550,074)
Net nonoperating revenues (expenses)	<u>(297,291)</u>	<u>(258,289)</u>	<u>(555,580)</u>
Income (loss) before contributions and transfers	<u>2,481,375</u>	<u>(2,022,979)</u>	<u>458,396</u>
Capital contributions	186,339	147,764	334,103
Transfer in	99,649	1,129,878	1,229,527
Transfer out	(669,821)	(24,813)	(694,634)
	<u>(383,833)</u>	<u>1,252,829</u>	<u>868,996</u>
Change in net assets	2,097,542	(770,150)	1,327,392
Net assets, beginning of year, restated	<u>23,973,619</u>	<u>13,165,646</u>	<u>37,139,265</u>
Net assets, end of year	<u>\$ 26,071,161</u>	<u>\$ 12,395,496</u>	<u>\$ 38,466,657</u>

See accompanying notes to the Basic Financial Statement.

CITY OF AVON LAKE, OHIO
LORAIN COUNTY

STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2008

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
Cash flows from operating activities:			
Receipts from customers and users	\$ 9,107,349	\$ 3,177,117	\$ 12,284,466
Cash paid to suppliers	(3,643,516)	(2,282,363)	(5,925,879)
Cash paid for employees	(1,697,668)	(1,669,335)	(3,367,003)
Net cash provided by (used in) operating activities	<u>3,766,165</u>	<u>(774,581)</u>	<u>2,991,584</u>
Cash flows from noncapital financing activities:			
Intergovernmental revenue	254,678	-	254,678
Transfers	(570,172)	1,115,495	545,323
Net cash provided by (used in) noncapital financing activities	<u>(315,494)</u>	<u>1,115,495</u>	<u>800,001</u>
Cash flows from capital and related financing activities:			
Proceeds from OWDA loans payable	-	2,538,523	2,538,523
Payment on capital lease	-	(45,645)	(45,645)
Mortgage revenue bond payments	(805,000)	-	(805,000)
OWDA loans payments	(594,263)	(129,807)	(724,070)
Bond principal payments	(489,154)	(252,594)	(741,748)
Interest payments	(1,234,931)	(256,998)	(1,491,929)
Acquisition of fixed assets	(254,720)	(2,705,627)	(2,960,347)
Net cash (used in) capital and related financing activities	<u>(3,378,068)</u>	<u>(852,148)</u>	<u>(4,230,216)</u>
Cash flows from investing activities:			
Interest income	51,666	69,643	121,309
Net cash provided by investing activities	<u>51,666</u>	<u>69,643</u>	<u>121,309</u>
Net increase (decrease) in cash and cash equivalents	124,269	(441,591)	(317,322)
Equity in pooled cash and cash equivalents, beginning of year	<u>7,864,564</u>	<u>3,140,501</u>	<u>11,005,065</u>
Equity in pooled cash and cash equivalents, end of year	<u>\$ 7,988,833</u>	<u>\$ 2,698,910</u>	<u>\$ 10,687,743</u>

(Continued)

See accompanying notes to the Basic Financial Statement.

CITY OF AVON LAKE, OHIO
LORAIN COUNTY

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2008

(Concluded)

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
Reconciliation of operating income to net cash provided by (used in) operating activities:			
Operating income (loss)	\$ 2,778,666	\$ (1,764,690)	\$ 1,013,976
Adjustments:			
Depreciation	1,082,470	658,237	1,740,707
Changes in net assets (increase) decrease and liabilities increase (decrease)			
Accounts receivable and other	(24,574)	(4,192)	(28,766)
Material and supplies inventories	(10,865)	(5,391)	(16,256)
Investment in joint venture	(19,662)	-	(19,662)
Accounts and contracts payable	17,804	326,729	344,533
Retainage payable	11,484	53,347	64,831
Accrued salaries, wages and benefits	(36,714)	(29,504)	(66,218)
Due to other governments	(38,897)	(6,908)	(45,805)
Compensated absences	6,453	(2,209)	4,244
Net cash provided by operating activities	<u>\$ 3,766,165</u>	<u>\$ (774,581)</u>	<u>\$ 2,991,584</u>
Non-cash capital and related financing transactions:			
Contributions of capital assets from contractors, consisting of infrastructure	<u>\$ 186,339</u>	<u>\$ 147,764</u>	<u>\$ 334,103</u>
Capital asset acquired through capital lease	<u>\$ -</u>	<u>\$ 196,034</u>	<u>\$ 196,034</u>

See accompanying notes to the Basic Financial Statement.

CITY OF AVON LAKE, OHIO
LORAIN COUNTY

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

DECEMBER 31, 2008

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ 1,050,358
Total assets	<u>\$ 1,050,358</u>
Liabilities	
Accounts payable	\$ 643
Due to others	877,513
Due to other governments	172,202
Total liabilities	<u>\$ 1,050,358</u>

See accompanying notes to the Basic Financial Statement.

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CITY OF AVON LAKE, OHIO
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

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 as a jointly governed organization. The City is also a member of the Medina-Lorain Water Consortium, a joint venture (See Note 16.)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. BASIS OF PRESENTATION

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

CITY OF AVON LAKE, OHIO
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. BASIS OF PRESENTATION (continued)

Government-wide Financial Statements

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

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

Fund Financial Statements

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

B. FUND ACCOUNTING

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

Governmental Funds

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

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

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

CITY OF AVON LAKE, OHIO
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. FUND ACCOUNTING (continued)

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

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

Proprietary Funds

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

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

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

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

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds account for fees and deposits collected on behalf of others, municipal court collections that are distributed to various local governments and performance bonds pledged by contractors.

C. MEASUREMENT FOCUS

Government-wide Financial Statements

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

CITY OF AVON LAKE, OHIO
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. MEASUREMENT FOCUS (continued)

Fund Financial Statements

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

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

D. BASIS OF ACCOUNTING

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

Revenues - Exchange and Non-exchange Transactions

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

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 7). 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.

CITY OF AVON LAKE, OHIO
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. BASIS OF ACCOUNTING (continued)

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of December 31, 2008, but which were levied to finance fiscal year 2009 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenses/Expenditures

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

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

E. BUDGETARY PROCESS

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

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

Tax Budget

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

CITY OF AVON LAKE, OHIO
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. BUDGETARY PROCESS (continued)

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 2008.

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 reserve that portion of the applicable appropriation and to determine and maintain legal compliance. The Ohio Revised Code prohibits expenditures plus encumbrances from exceeding appropriations. On the GAAP basis, encumbrances outstanding at year-end are reported as reservations of fund balances for subsequent-year expenditures of governmental funds.

CITY OF AVON LAKE, OHIO
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. CASH AND CASH EQUIVALENTS

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

Investments are reported at fair value which is based on quoted market prices, with the exception of nonparticipating repurchase agreements, which are reported at cost. For investments in open-end mutual funds, fair value is determined by the fund's share price. During the year, investments were limited to money market mutual fund accounts, manuscript debt, repurchase agreements, investments in U.S. agencies and instrumentalities and the City invested in STAROhio, an investment pool managed by the State Treasurer's Office. STAROhio allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on December 31, 2008.

Following Ohio statutes, the City has, by ordinance, specified the Capital Improvement Fund to receive an allocation of interest earnings. Interest receipts credited to the Capital Improvement Fund during 2008 amounted to \$ 535,793 which includes \$ 520,440 assigned from other City funds.

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

The City presents "Restricted Cash and Cash Equivalents" on its Statement of Net Assets. In governmental activities, the restricted cash of \$96,502 represents cash restricted for contractor retainage. During 2008, this restricted cash was invested in money market interest bearing accounts.

In business-type activities, the restricted cash of \$1,316,021 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 2008, this restricted cash was invested in U.S. Treasury obligations. See Note 9 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 assets/balance sheet, investments with an original maturity of three months or less and investments of the cash management pool are considered to be cash equivalents.

G. INVENTORIES

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

CITY OF AVON LAKE, OHIO
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. CAPITAL ASSETS

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

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

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

Description	Governmental Activities	Business-Type Activities
	Estimated Lives	Estimated 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

I. INTERFUND BALANCES

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

J. 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 2008, proprietary funds incurred no interest costs on construction projects.

K. BOND DISCOUNTS AND ISSUANCES COSTS

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

CITY OF AVON LAKE, OHIO
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

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

N. FUND BALANCE RESERVES

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

O. NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes represents cash restricted for contractor retainage. None of this amount was restricted by enabling legislation.

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

CITY OF AVON LAKE, OHIO
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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. Actual results may differ from those estimates.

NOTE 3 - BUDGETARY BASIS OF ACCOUNTING

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

Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).

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

CITY OF AVON LAKE, OHIO
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

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 and income tax transfer funds.

	Net Change in Fund Balance	
	General Fund	Income Tax Transfer Fund
Budget basis	\$ (742,693)	\$ (596,404)
Adjustments, increase (decrease)		
Revenue accruals	(265,569)	759,655
Expenditure accruals	1,560,047	-
GAAP basis, as reported	\$ 551,785	\$ 163,251

NOTE 4 – CHANGES IN ACCOUNTING PRINCIPLE AND PRIOR PERIOD ADJUSTMENT

A. CHANGE IN ACCOUNTING PRINCIPLE

For 2008, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 45, “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions”, GASB Statement No. 48, “Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues”, GASB Statement No. 49, “Accounting and Financial Reporting for Pollution Remediation Obligations”, and GASB Statement No. 50, “Pension Disclosures”.

GASB Statement No. 45 improves the relevance and usefulness of financial reporting by requiring systematic, accrual-basis measurement and recognition of OPEB costs over a period that approximates employees’ years of service and providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding a plan. The implementation of this statement did not result in any change in the City’s financial statements.

GASB Statement No. 48 addresses how to account for the exchange of an interest in expected cash flows from collecting specific receivables or specific future revenues for immediate cash payments. The statement established criteria used to determine whether the transaction should be recorded as revenue or as a liability (a sale or a collateralized borrowing). The implementation of this statement did not result in any change in the City’s financial statements.

GASB Statement No. 49 enhances the usefulness and comparability of pollution remediation obligation information reported by state and local governments by setting uniform standards requiring more timely and complete reporting of those obligations and by requiring all governments to account for pollution remediation obligations in the same manner. The implementation of this statement did not result in any change in the City’s financial statements.

GASB Statement No. 50 requires employers contributing to defined benefit pension plans to include the legal or contractual maximum contribution rates in the notes to the financial statements. The implementation of this statement did not result in any change in the City’s financial statements.

CITY OF AVON LAKE, OHIO
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE 4 – CHANGES IN ACCOUNTING PRINCIPLE AND PRIOR PERIOD ADJUSTMENT (continued)

B. PRIOR PERIOD ADJUSTMENT

In the financial statements for a prior period, an error was made in accounting for construction in process and contributed capital as they related to the Sewer Fund. This error has been corrected and has had the following effect on the beginning net assets:

	Sewer Fund
Net assets beginning, as previously reported	\$ 12,797,397
Land and construction in process	54,976
Contributed capital revenue	313,273
Net assets beginning, as restated	\$ 13,165,646

In the financial statements for a prior period, an error was made in accounting for construction in process, capital lease asset and liability, contributed capital, taxes receivable and revenue, and intergovernmental receivable and revenue as they related to governmental activities and business-type activities. This error has been corrected and has had the following effect on the beginning net assets:

	Governmental Activities	Business Type Activities	Total
Net assets beginning, as previously reported	\$ 66,051,270	\$36,771,016	\$ 102,822,286
Construction in process	-	54,976	54,976
Depreciable assets, net	36,634	-	36,634
Long-term debt	(30,327)	-	(30,327)
Contributed capital	-	313,273	313,273
Taxes revenue	(2,057,119)	-	(2,057,119)
Intergovernmental revenue	1,554,068	-	1,554,068
Net assets beginning, as restated	\$ 65,554,526	\$37,139,265	\$ 102,693,791

NOTE 5 – ACCOUNTABILITY AND COMPLIANCE

At December 31, 2008, the COPS Fast, Police Pension, Fire Pension and Cove Avenue Improvement funds had deficit fund balances of \$ 5,503, \$ 86,075, \$ 77,030 and \$ 252,352, 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 provides transfers when cash is needed, not when accruals occur.

NOTE 6 - 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.

CITY OF AVON LAKE, OHIO
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

A. LEGAL REQUIREMENTS (continued)

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

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

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

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

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

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.

CITY OF AVON LAKE, OHIO
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

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 \$ 212,051 including \$ 1,595 of petty cash and the bank balance was \$ 387,166. Of the bank balance, \$ 186,111 was covered by federal depository insurance, and \$ 201,055 was uncollateralized and uninsured. Although the securities serving as collateral were held by the pledging financial institutions trust department or agent in the City's name and all state statutory requirements for the investment of money had been followed, noncompliance with federal requirements would potentially subject the City to a successful claim by the FDIC.

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

C. INVESTMENTS

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Federal National Mortgage Association Bonds, Federal Home Loan Bank Bonds and the Federal Home Loan Mortgage Corporation Bonds and Notes 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, 2008, the City had the following investments:

	<u>Fair Value</u>	<u>Maturities</u>
United States Treasury Notes	\$ 1,518,974	2/15/2009 - 11/15/2011
United States Treasury Bills	1,495,935	10/22/2009
Federal Home Loan Bank	1,191,890	3/16/2009 - 12/17/2010
Federal Home Loan Discount Notes	997,350	4/22/2009 - 10/14/2009
Fannie Mae	3,275,357	1/15/2009 - 2/25/2011
Freddie Mac	1,121,219	5/21/2009 - 6/11/2009
FNMA Discount Notes	499,900	3/27/2009
FRE Discount Notes	999,000	5/26/2009
Money Market Mutual Funds	3,725,846	n/a
Repurchase Agreement	515,000	n/a
STAR Ohio	9,307,313	n/a
	<u>\$ 24,647,784</u>	

CITY OF AVON LAKE, OHIO
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

D. INTEREST RATE RISK

As a means of limiting its exposure to fair value losses caused by rising interest rates, the City's investment policy requires that operating funds be invested primarily in short-term investments maturing within five years from the date of purchase and that the City's investment portfolio be structured so that the securities mature to meet cash requirements for ongoing operations and/or 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 three years.

E. CREDIT RISK

The Federal Home Loan Bank Bonds, Federal Home Loan Mortgage Corp. Bonds and Federal National Mortgage Association Bonds carry a rating of AAA by Standard & Poor's. STAR Ohio carries a rating of AAA 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, 2008:

	<u>Fair Value</u>	<u>Percentage of Investment</u>
United States Treasury Notes	\$ 1,518,974	6.16%
United States Treasury Bills	1,495,935	6.07%
Federal Home Loan Bank	1,191,890	4.84%
Federal Home Loan Discount Notes	997,350	4.05%
Fannie Mae	3,275,357	13.29%
Freddie Mac	1,121,219	4.55%
FNMA Discount Notes	499,900	2.03%
FRE Discount Notes	999,000	4.05%
Money Market Mutual Funds	3,725,846	15.12%
Repurchase Agreement	515,000	2.09%
STAR Ohio	9,307,313	37.75%
	<u>\$ 24,647,784</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 of Avon Lake investment policy as follows:

	<u>Percentage of Investments</u>
United States Treasury Obligations	100.00%
Authorized US Federal Agency Securities	50.00%
Certificate of Deposits	50.00%
STAR Ohio	90.00%
Repurchase Agreements	40.00%

CITY OF AVON LAKE, OHIO
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE 7 - RECEIVABLES

Receivables at December 31, 2008, 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.

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

A. 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 2006. Real property taxes are levied on assessed valuations as of December 31, which is the lien date. Real property taxes, billed one year in arrears, are payable annually or semiannually. The first payment is due January 20, and the remainder is payable by June 20.

Taxpayers (other than public utilities) become liable for tangible personal property taxes on January 1 of the current calendar year based on tax rates determined in the preceding year and assessed values determined at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of that calendar year. In prior years, tangible personal property assessments were twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Tangible personal property tax is being phased out - the assessment percentage for property, including inventory, is 6.25% for 2008, and zero for 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30 with the remainder payable by September 20. Under Ohio law, personal property taxes do not attach as a lien on the personal property.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property currently is assessed at 88 percent of its true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

The full tax rate for all City operations for the year ended December 31, 2008 was \$7.36 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2007 property tax receipts were based are as follows:

Real property - 2008	
Residential/agricultural	\$ 696,704,860
Other real estate	87,612,390
Tangible personal property - 2008	
General	357,129
Public utilities	78,262,550
Total valuation	\$ 862,936,929

CITY OF AVON LAKE, OHIO
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE 7 – RECEIVABLES (continued)

B. INCOME TAXES

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

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

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

C. INTERGOVERNMENTAL RECEIVABLES

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental activities	
Homestead and rollback	\$ 289,597
Gasoline Tax	386,800
Commercial activities tax	231,133
Local government	314,650
Motor vehicle	78,400
Auto registration	53,200
Estate tax	217,750
Miscellaneous	196,356
Total governmental activities	1,767,886
Business-type activities	
Water fund	1,466,803
Total business-type activities	1,466,803
Total	\$ 3,234,689

CITY OF AVON LAKE, OHIO
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2008, was as follows:

	Restated Balance 12/31/07	Addition	Disposals	Balance 12/31/08
<u>Governmental Activities</u>				
Capital assets, not being depreciated				
Land	\$ 5,202,089	\$ 1,784	\$ -	\$ 5,203,873
Construction in process	113,976	276,616	-	390,592
Total capital assets, not being depreciated	<u>5,316,065</u>	<u>278,400</u>	<u>-</u>	<u>5,594,465</u>
Capital assets, being depreciated				
Buildings and improvements	15,473,746	576,453	150	16,050,049
Machinery and equipment	5,323,864	435,567	36,417	5,723,014
Vehicles	3,375,547	418,309	13,562	3,780,294
Infrastructure	59,636,862	3,093,412	1,300,485	61,429,789
Total capital assets being depreciated	<u>83,810,019</u>	<u>4,523,741</u>	<u>1,350,614</u>	<u>86,983,146</u>
Less accumulated depreciation				
Buildings and improvements	3,075,700	379,742	126	3,455,316
Machinery and equipment	3,492,133	358,116	28,400	3,821,849
Vehicles	2,125,330	254,446	13,562	2,366,214
Infrastructure	24,596,732	2,371,091	1,179,862	25,787,961
Total accumulated depreciation	<u>33,289,895</u>	<u>3,363,395</u>	<u>1,221,950</u>	<u>35,431,340</u>
Total capital assets, being depreciated, net	<u>50,520,124</u>	<u>1,160,346</u>	<u>128,664</u>	<u>51,551,806</u>
Total governmental capital assets, net	<u>\$ 55,836,189</u>	<u>\$ 1,438,746</u>	<u>\$ 128,664</u>	<u>\$ 57,146,271</u>
<u>Business-type activities</u>				
Capital assets, not being depreciated				
Land	\$ 1,665,385	\$ -	\$ -	\$ 1,665,385
Construction in process	54,976	1,174,495	54,976	1,174,495
Total capital assets, not being depreciated	<u>1,720,361</u>	<u>1,174,495</u>	<u>54,976</u>	<u>2,839,880</u>
Capital assets, being depreciated				
Buildings and improvements	36,148,526	10,748	-	36,159,274
Machinery and equipment	3,668,677	113,382	649	3,781,410
Vehicles	446,227	266,402	26,166	686,463
Infrastructure	41,566,223	1,970,003	133,224	43,403,002
Total capital assets being depreciated	<u>81,829,653</u>	<u>2,360,535</u>	<u>160,039</u>	<u>84,030,149</u>
Less accumulated depreciation				
Buildings and improvements	15,601,846	599,558	-	16,201,404
Machinery and equipment	1,538,102	161,706	649	1,699,159
Vehicles	349,012	30,237	26,166	353,083
Infrastructure	12,686,986	949,206	67,928	13,568,264
Total accumulated depreciation	<u>30,175,946</u>	<u>1,740,707</u>	<u>94,743</u>	<u>31,821,910</u>
Total capital assets, being depreciated, net	<u>51,653,707</u>	<u>619,828</u>	<u>65,296</u>	<u>52,208,239</u>
Total business-type capital assets, net	<u>\$ 53,374,068</u>	<u>\$ 1,794,323</u>	<u>\$ 120,272</u>	<u>\$ 55,048,119</u>

CITY OF AVON LAKE, OHIO
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE 8 - CAPITAL ASSETS (continued)

Depreciation expense was charged to governmental functions as follows:

Security of persons and property	\$ 297,623
Leisure time activities	207,299
Community environment	2,318
Basic utility services	25,083
Transportation	2,323,871
General government	507,201
Total depreciation expense	<u>\$ 3,363,395</u>

NOTE 9 - 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>
Governmental activities:				
General obligation bonds				
Refunding	2001	2020	3.3% - 5.5%	\$ 525,160
Safety center	2001	2020	3.3% - 5.5%	4,994,101
Recreational facility	2003	2028	3.0% - 5.0%	1,000,000
Pin Oak parkway	2001	2020	2.75% - 4.75%	498,659
Special assessment bonds				
CALDP	2001	2020	3.3% - 5.5%	2,999,996
Pin Oak parkway	2001	2020	2.75% - 4.75%	886,341
Ohio Water Development Authority loan				
Walker Road	1990	2012	7.76%	700,698
Business-type activities				
General obligation bonds				
Refunding	2001	2020	3.3% - 5.5%	6,499,726
Refunding	2001	2020	3.3% - 5.5%	1,727,775
Wastewater collection system	2003	2028	3.0% - 5.0%	4,500,000
Mortgage revenue bonds				
Water system refunding	2005	2026	3.0% - 5.0%	14,075,000
Ohio Water Development Authority Loans				
Walker Road	1990	2012	7.76%	1,325,609
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%	1,457,988
Center Road pump station	2008	2029	4.28%	1,080,535

CITY OF AVON LAKE, OHIO
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE 9 - LONG-TERM OBLIGATIONS (continued)

Changes in the City's long-term obligations during 2008 were as follows:

	Restated Outstanding 12/31/07	Additions	Reductions	Outstanding 12/31/08	Amount Due In One Year
<u>Governmental activities</u>					
General obligations bonds					
Refunding bonds (2001)					
various % through 2020	\$ 248,042	\$ -	\$ 38,252	\$ 209,790	\$ 40,004
Capital appreciation bonds (2001)	29,805	-	-	29,805	-
CAB accretion	15,058	2,664	-	17,722	-
Safety center (2001)					
various % through 2020	3,654,101	-	220,000	3,434,101	230,000
Pin oak parkway (2001)					
various % through 2020	333,059	-	30,600	302,459	32,400
Recreational facility (2003)					
various % through 2028	895,000	-	30,000	865,000	30,000
Total general obligation bonds	<u>5,175,065</u>	<u>2,664</u>	<u>318,852</u>	<u>4,858,877</u>	<u>332,404</u>
Special assessment bonds:					
Pin oak parkway (2001)					
various % through 2020	591,941	-	54,400	537,541	54,400
CALDP (2001)					
various % through 2020	2,199,996	-	135,000	2,064,996	140,000
Redwood curbs (1993) 6.0%	2,074	-	2,074	-	-
Total special assessment bonds	<u>2,794,011</u>	<u>-</u>	<u>191,474</u>	<u>2,602,537</u>	<u>194,400</u>
OWDA Loan - Walker Road (1990)					
7.0% through 2012	236,193	-	52,594	183,599	56,680
Capital lease obligation	30,327	-	6,846	23,481	7,315
Recreational fee credit	114,665	-	111,185	3,480	3,480
Landfill postclosure costs	806,456	15,807	53,764	768,499	54,893
Police and fire pension	105,819	-	2,092	103,727	2,182
Metro Parks capital improvements	-	350,000	150,000	200,000	100,000
Compensated absences	977,279	75,797	25,862	1,027,214	466,859
Total governmental activities	<u>\$ 10,239,815</u>	<u>\$ 444,268</u>	<u>\$ 912,669</u>	<u>\$ 9,771,414</u>	<u>\$ 1,218,213</u>

CITY OF AVON LAKE, OHIO
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE 9 - LONG-TERM OBLIGATIONS (continued)

	Outstanding 12/31/07	Additions	Reductions	Outstanding 12/31/08	Amount Due In One Year
Business-type activities					
General obligations bonds					
Refunding bonds (2001)					
various % through 2020	\$ 4,012,860	\$ -	\$ 616,748	\$ 3,396,112	\$ 644,996
Capital appreciation bonds (2001)	466,953	-	-	466,953	-
CAB accretion	235,915	41,730	-	277,645	-
Wastewater collection system (2003)					
various % through 2028	4,010,000	-	125,000	3,885,000	130,000
Total general obligation bonds	<u>8,725,728</u>	<u>41,730</u>	<u>741,748</u>	<u>8,025,710</u>	<u>774,996</u>
Mortgage revenue bonds					
Water system refunding (2005)					
various % through 2026	11,825,000	-	805,000	11,020,000	825,000
OWDA					
Walker Road (1990)					
7.76% through 2012	446,840	-	99,498	347,342	107,230
Water plant expansion (1991)					
7.84% through 2017	5,278,562	-	425,549	4,853,013	458,912
Wastewater improvements (1998)					
5.76% through 2018	420,810	-	30,309	390,501	32,055
Water system improvements(2003)					
4.51% through 2025	4,374,369	-	168,714	4,205,655	176,409
Fay/Vineyard sanitary sewer (2008)					
4.15% through 2029	-	1,457,988	-	1,457,988	28,385
Center Road pump station (2008)					
4.28% through 2029	-	1,080,535	-	1,080,535	26,438
Total OWDA	<u>10,520,581</u>	<u>2,538,523</u>	<u>724,070</u>	<u>12,335,034</u>	<u>829,429</u>
Capital lease obligation	-	196,034	45,645	150,389	47,818
Compensated absences	476,288	121,380	117,136	480,532	137,999
Total business-type activities	<u>\$ 31,547,597</u>	<u>\$ 2,897,667</u>	<u>\$ 2,433,599</u>	<u>\$ 32,011,665</u>	<u>\$ 2,615,242</u>

General obligation bonds, other than the enterprise general obligation and mortgage revenue bonds, will be paid from the general bond retirement debt service fund from income taxes. Ohio Water Development Authority loans other than those paid from the enterprise funds will be paid from the general bond retirement debt service fund from special assessments. Special assessment bonds will be paid from the proceeds of special assessments levied against benefited property owners. In the event that a property owner would fail to pay the assessment, payment would be made by the City. The police and fire pension liability will be paid from taxes receipted in the police and fire pension special revenue funds. Landfill postclosure costs are based on estimates as of December 31, 2008. 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.

CITY OF AVON LAKE, OHIO
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE 9 - LONG-TERM OBLIGATIONS (continued)

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

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

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

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

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

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

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

CITY OF AVON LAKE, OHIO
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE 9 - LONG-TERM OBLIGATIONS (continued)

On September 12, 2001, the City issued \$1,385,000 in new bonds to cover the cost of retiring \$1,000,000 in 2001 Notes, maturing on October 4, 2001. In anticipation of Bonds, \$2,000,000 in notes were originally issued in 1999 to pay for property owners' portion of the construction cost to extend Pin Oak Parkway approximately 5,000 feet easterly paving, storm and sanitary sewers along with waterlines. The City anticipates debt service of \$886,341 to be paid through special assessments levied to the property owners. The Bonds are not subject to redemption prior to their stated maturities.

On October 7, 2003, the City issued \$5,500,000 in Various Purpose Improvement Bonds, Series 2003. These bonds are unvoted General Obligations of the City, issued to finance the permanent improvements described in the Bonds. \$4,500,000 of the proceeds will be used to pay for improvements to the wastewater collection system. \$1,000,000 of the proceeds will be used to pay for constructing outdoor recreational facilities.

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

On 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% interest over a twenty-five year period beginning 7/1/1992 through 1/1/2017.

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

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

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

On December 11, 2003, an OWDA loan agreement for \$4,585,637 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 of Avon Lake and surrounding communities well into the future. This debt has a fixed rate of 4.51% interest over a twenty-year period beginning 1/1/2006 through 7/1/2025.

CITY OF AVON LAKE, OHIO
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE 9 - LONG-TERM OBLIGATIONS (continued)

During 2008, the City of Avon Lake entered into a loan agreement with OWDA for the Center Road pump station improvement project. This debt has a fixed rate of 4.28% interest over a twenty-year period beginning 7/1/2009 through 1/1/2029. The amount of the loan for the portion completed as of December 31, 2008 was \$1,080,535.

During 2008, the City of Avon Lake entered into a loan agreement with OWDA for the Fay Avenue and Vineyard Road sanitary sewer replacement project. This debt has a fixed rate of 4.15% interest over a twenty-year period beginning 7/1/2009 through 1/1/2029. The amount of the loan for the portion completed as of December 31, 2008 was \$1,457,000.

On April 22, 2005, the City of Avon Lake 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% of the principal amount redeemed plus accrued interest to the redemption date.

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

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

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, 2008:

Revenue bond future debt service	<u>\$ 1,316,021</u>
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On September 1, 1993, the City of Avon Lake issued \$31,110 of Manuscript Debt. This was for a 142-foot improvement along Redwood Boulevard, westerly from Curtis Drive to Mooreland Drive, consisting of concrete curbs and gutters along with replacement of driveway approaches. This debt has a fixed rate of 6.00% interest over a fifteen-year period beginning 12/1/1994 through 12/1/2008.

CITY OF AVON LAKE, OHIO
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE 9 - LONG-TERM OBLIGATIONS (continued)

Principal and interest requirements to retire long-term obligations, except landfill post-closure costs, recreation fee credits, Metro Parks capital improvements, compensated absences, police and fire pension, and capital leases at December 31, 2008 are as follows:

Year Ended	Governmental Activities			
	General Obligation Bonds		Special Assessments Bonds	
	Principal	Interest	Principal	Interest
2009	\$ 332,404	\$ 231,334	\$ 197,600	\$ 125,230
2010	193,944	365,575	128,996	192,114
2011	352,464	215,480	209,000	114,491
2012	364,800	197,879	219,000	104,191
2013	389,228	178,817	227,200	92,914
2014-2018	1,938,315	594,453	1,170,741	281,842
2019-2023	992,722	160,992	450,000	34,000
2024-2029	295,000	45,016	-	-
	\$ 4,858,877	\$ 1,989,546	\$ 2,602,537	\$ 944,782

Year Ended	Governmental Activities			
	OWDA loans		Total	Total
	Principal	Interest	Principal	Interest
2009	\$ 56,680	\$ 12,852	\$ 586,684	\$ 369,416
2010	61,084	8,884	384,024	566,573
2011	65,835	4,603	627,299	334,574
2012	-	-	583,800	302,070
2013	-	-	616,428	271,731
2014-2018	-	-	3,109,056	876,295
2019-2023	-	-	1,442,722	194,992
2024-2029	-	-	295,000	45,016
	\$ 183,599	\$ 26,339	\$ 7,645,013	\$ 2,960,667

CITY OF AVON LAKE, OHIO
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE 9 - LONG-TERM OBLIGATIONS (continued)

Year Ended	Business-Type Activities			
	General Obligation Bonds		Mortgage Revenue Bonds	
	Principal	Interest	Principal	Interest
2009	\$ 774,996	\$ 353,973	\$ 825,000	\$ 477,027
2010	438,817	673,898	855,000	450,215
2011	808,536	318,917	880,000	420,290
2012	851,200	278,920	915,000	389,490
2013	898,572	234,859	950,000	352,890
2014-2018	1,640,944	701,684	2,075,000	1,409,920
2019-2023	1,035,000	463,600	2,615,000	864,625
2024-2029	1,577,645	197,781	1,905,000	183,525
	<u>\$ 8,025,710</u>	<u>\$ 3,223,632</u>	<u>\$ 11,020,000</u>	<u>\$ 4,547,982</u>

Year Ended	Business-Type Activities			
	OWDA loans		Total	Total
	Principal	Interest	Principal	Interest
2009	\$ 797,374	\$ 623,125	\$ 2,397,370	\$ 1,454,125
2010	908,041	643,350	2,201,858	1,767,463
2011	969,060	587,383	2,657,596	1,326,590
2012	900,167	527,494	2,666,367	1,195,904
2013	959,724	472,777	2,808,296	1,060,526
2014-2018	4,104,684	1,458,820	7,820,628	3,570,424
2019-2023	2,405,739	677,015	6,055,739	2,005,240
2024-2029	1,290,245	88,173	4,772,890	469,479
	<u>\$ 12,335,034</u>	<u>\$ 5,078,137</u>	<u>\$ 31,380,744</u>	<u>\$ 12,849,751</u>

CITY OF AVON LAKE, OHIO
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE 10 – CAPITAL LEASES

The City is obligated under certain leases accounted for as capital leases. The leased assets are included in capital assets and the related obligation is included under long-term debt. At December 31, 2008, assets under capital lease total \$ 39,250 in governmental activities and \$ 251,010 in business-type activities. The leases are in effect until 2011. 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, 2008.

Year Ending December 31,	Governmental Activities	Business-Type Activities
2009	\$ 8,923	\$ 54,976
2010	8,923	54,976
2011	8,923	54,976
Total minimum lease payments	26,769	164,928
Less amount representing interest	3,288	14,539
Net present value of minimum lease payments	<u>\$ 23,481</u>	<u>\$ 150,389</u>

NOTE 11 – OPERATING LEASES

The City is obligated under leases accounted for as operating leases. Total lease expense for the year ended December 31, 2008 was \$ 24,394. 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, 2008.

Year ending December 31,	Amount
2009	\$ 24,394
2010	18,493
2011	9,893
2012	1,759
Total minimum payments	<u>\$ 54,539</u>

NOTE 12 – NOTE PAYABLE

Note payable during the year consisted of the following bond anticipation note:

	Outstanding 12/31/07	Additions	Reductions	Outstanding 12/31/08
Bond anticipation note, series 2008 maturity 12-30-09, 2.82%	\$ -	\$ 950,000	\$ -	\$ 950,000

This note is issued in anticipation of the issuance of bonds to pay a portion of the costs of constructing a storage facility for use by the City service department and improving Moore Road by constructing storm sewers and storm water drainage facilities.

CITY OF AVON LAKE, OHIO
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE 13 – DEFINED BENEFIT PENSION PLANS

A. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM

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

OPERS provides retirement, disability, and survivor benefits as well as post-employment health care coverage to qualifying members of both 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. Interest parties may obtain a copy by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2008, member and employer contribution rates were consistent across all three plans. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the traditional pension plan. In 2008, member contribution rates were 10.0% for members in state and local classifications. Public safety and law enforcement members contributed 10.1%. The 2008 employer contribution rate for state and local employers was 14.00% of covered payroll. For both public safety and law enforcement divisions, the employer contribution rate was 17.40% for 2008.

The City's required contributions for pension obligations for all plans for the years ended December 31, 2008, 2007, and 2006, were \$ 775,841, \$ 652,090, and \$ 502,223, respectively; 88 percent has been contributed for 2008 and 100 percent for 2007 and 2006.

CITY OF AVON LAKE, OHIO
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE 13 – DEFINED BENEFIT PENSION PLANS (continued)

B. OHIO POLICE AND FIRE PENSION FUND

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

Plan members are required to contribute 10 percent of their annual covered salary while employers are required to contribute 19.5 percent for police officers and 24 percent for firefighters. The City's pension contributions to OP&F for police and firefighters were \$ 495,571 and \$ 540,203 for the year ended December 31, 2008, \$ 415,050 and \$ 511,330 for the year ended December 31, 2007, and \$ 228,421 and \$ 315,661 for the year ended December 31, 2006. The full amount has been contributed for 2007 and 2006. 80 percent has been contributed for police officers and 78 percent has been contributed for firefighters for 2008.

NOTE 14 – POSTEMPLOYMENT BENEFITS

A. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM

The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans: the traditional pension plan - a cost-sharing, multiple-employer defined benefit pension plan; the member-directed plan - a defined contribution plan; and the combined plan - a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan.

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

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage of disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

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

The ORC provides the statutory authority requiring public employers to fund post retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care benefits.

CITY OF AVON LAKE, OHIO
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE 14 – POSTEMPLOYMENT BENEFITS (continued)

A. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (continued)

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2008, state and local employers contributed at a rate of 14.0% of covered payroll and public safety and law enforcement employers contributed at 17.4%. The ORC currently limits the employer contribution to a rate not to exceed 14.0% of covered payroll for state and local employers units and 18.1% of covered payroll for law and public safety employer units. Active members do not make contributions to the OPEB Plan.

OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. For 2008, the employer contribution allocated to the health care plan was 7.0% of covered payroll. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions to OPERS allocated to fund post-employment benefits for the years ending December 31, 2008, 2007, and 2006 were \$ 387,921, \$ 282,485, and \$ 217,563, respectively; 88% as been contributed for 2008 and 100 percent for 2007 and 2006.

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

B. OHIO POLICE AND FIRE PENSION FUND

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-retirement health care coverage to any person who receives or is eligible to receive a monthly service, disability or survivor benefit check or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 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 are codified in Chapter 742 of the Ohio Revised Code.

CITY OF AVON LAKE, OHIO
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE 14 – POSTEMPLOYMENT BENEFITS (continued)

B. OHIO POLICE AND FIRE PENSION FUND (continued)

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

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, 19.5% and 24.0% of covered payroll for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.5% of covered payroll for police employer units and 24.0% of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2008, the employer contribution allocated to the health care plan was 6.75% 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 Section 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 allocated to fund postemployment health care benefits for police and firefighters was \$ 171,468 and \$ 151,797 for the year ended December 31, 2008, \$ 143,607 and \$ 143,684 for the year ended December 31, 2007, and \$ 90,683 and \$ 101,959 for the year ended December 31, 2006. 80% was contributed for 2008 and 100 percent for 2007 and 2006.

NOTE 15 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. 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.

CITY OF AVON LAKE, OHIO
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE 16 – JOINTLY GOVERNED ORGANIZATIONS/JOINT VENTURES

A. LORAIN COUNTY COMMUNITY ALLIANCE COUNCIL OF GOVERNMENTS

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

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

The Alliance currently has 36 other citizen, business, and agency members.

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

Member cities, villages, and townships are eligible to cast votes equivalent to the total population of the member jurisdictions which they represent and Lorain County members are eligible to cast votes equivalent to twenty-five percent of the total population of Lorain County. The City of Avon Lake contributed \$125 to the Alliance during 2008. Financial information can be obtained by contacting Bill Holtzman, Elyria Township Trustee, at 41416 Griswold Road, Elyria, Ohio 44035, who serves as fiscal agent.

CITY OF AVON LAKE, OHIO
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE 16 – JOINTLY GOVERNED ORGANIZATIONS/JOINT VENTURES (continued)

B. MEDINA-LORAIN WATER CONSORTIUM

The City is a member of the Medina-Lorain Water Consortium (the Consortium), which is a joint venture between the City of Avon Lake, the Rural Lorain County Water Authority, Medina County, and the City of Medina. The Consortium was created in 1999 for the purpose of construction, operation and maintenance of a water transmission line to serve the members of the Consortium, and for the purpose of bulk water delivery from the City of Avon Lake. There is an ongoing financial responsibility for all parties for the maintenance and repair of the project. The Consortium is governed by representatives of the member parties. The City of Avon Lake serves as the fiscal agent for the Consortium. As of December 31, 2008, the City's equity interest in the Consortium was \$ 2,301,718. Financial information can be obtained from the City of Avon Lake Finance Director, 150 Avon Belden Road, Avon Lake, Ohio 44012.

NOTE 17 – CONTINGENT LIABILITIES

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 18 – INTERFUND BALANCES AND TRANSFERS

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

Interfund balances at December 31, 2008 consisted of \$ 1,088,766 due to the General Fund with \$ 1,077,475 from the Capital Improvement Fund and \$ 11,291 from the COPS Fund and \$252,352 due to the Debt Service Fund from the Cove Avenue Improvement Fund. The General Fund advances monies to the Capital Improvement Fund to cover project expenditures and to the COPS Fund until repaid by grant proceeds. The Debt Service Fund issued manuscript debt for Cove Avenue improvements in anticipation of the collection of special assessments.

Interfund transfers for the year ended December 31, 2008 consisted of the following:

Transfers to:	Transfers from:							Total
	General Fund	Income Tax Transfer Fund	Capital Improvement	Non-major Funds	Water Fund	Sewer Fund	Agency Funds	
General fund	\$ -	\$ 6,900,000	\$ -	\$ 303,175	\$ -	\$ -	\$ -	\$ 7,203,175
Capital Improvement	345,375	1,840,000	-	-	-	-	-	2,185,375
Debt Retirement	551,183	-	-	63,668	-	24,812	-	639,663
Non-major funds	170,636	-	370,504	-	-	-	-	541,140
Water Fund	60,000	-	-	-	-	-	39,647	99,647
Sewer Fund	-	460,000	-	-	669,821	-	57	1,129,878
	<u>\$ 1,127,194</u>	<u>\$ 9,200,000</u>	<u>\$ 370,504</u>	<u>\$ 366,843</u>	<u>\$ 669,821</u>	<u>\$ 24,812</u>	<u>\$ 39,704</u>	<u>\$ 11,798,878</u>

CITY OF AVON LAKE, OHIO
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE 19 – LANDFILL POSTCLOSURE COSTS

State and federal laws and regulations required the City to place a final cover on the municipal landfill when it stopped accepting waste and perform certain maintenance and monitoring functions at the site for 30 years after closure. The City closed the landfill on December 31, 1990. The Landfill Postclosure Costs liability reflects an estimate of the remaining costs to perform the required maintenance and monitoring functions for approximately 15 years. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

NOTE 20 – CONSTRUCTION COMMITMENTS

As of December 31, 2008, the City had contractual commitments as follows:

<u>Project</u>	<u>Project Authorization</u>	<u>Expended to Date</u>	<u>Outstanding Commitments</u>
Curtis/Electric Sanitary Sewer Separation Project	\$ 113,161	\$ -	\$ 113,161
Center Rd Pump Station Improvement Project	1,283,950	1,174,495	109,455
Miller Park Erosion Control	216,200	-	216,200
	<u>\$ 1,613,311</u>	<u>\$ 1,174,495</u>	<u>\$ 438,816</u>

NOTE 21 – SUBSEQUENT EVENT

During 2009, the City received a loan from the Ohio Public Works Commission in the amount of \$ 100,000 at zero percent for 15 years for the paving of Walker Road and bike lane.

In July 2009, the City issued General Obligation Bonds in the amount of \$ 4,500,000 for the recreational facilities improvements.



Mary Taylor, CPA

Auditor of State

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

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

To the City Council and Board of Municipal Utilities:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Avon Lake, Lorain County, Ohio, (the City) as of and for the year ended December 31, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 13, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the City's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the City's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the City's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the City's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

We noted certain matters that we reported to the City's management in a separate letter dated November 13, 2009.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters that we must report under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2008-001.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated November 13, 2009.

We intend this report solely for the information and use of the finance and audit committee, management, City Council and the Board of Municipal Utilities. We intend it for no one other than these specified parties.

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

Mary Taylor, CPA
Auditor of State

November 13, 2009

CITY OF AVON LAKE
LORAIN COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2008

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

FINDING NUMBER 2008-001

Material Noncompliance

Appropriations in Excess of Available Resources

Ohio Rev. Code Section 5705.36(A)(2) allows all subdivisions to request increased amended certificates of estimated resources and reduced certificates upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources. Ohio Rev. Code Section 5705.36(A)(4) requires obtaining a reduced amended certificate if the amount of the deficiency will reduce available resources below the current level of appropriations.

At December 31, 2008, we noted appropriations exceeded actual available resources in the following funds:

Fund Number – Name	Unencumbered Balance	Actual Revenues	Appropriations	Variance
225 – Avon Lake/Bay Park	\$115,648	\$5	\$130,000	(\$14,347)
703 – Water MOR Sub.	269,722	1,580,503	2,279,530	(429,305)
704 – Waterworks Construction	455,495	9,921	945,000	(479,584)
724 – Sewer System Construction	486,161	3,042,875	21,991,750	(18,462,714)
729 – LORCO Force Main Pump	0	0	8,000,000	(8,000,000)
801 – Revolving Transfers	60	2,947	4,060	(1,053)

While no funds had fund balance deficits, this condition could cause appropriations to exceed estimated resources or result in deficit fund balances if the expenditures equaled the appropriations for the fund.

The City should compare actual available revenues at the end of the fiscal year with the final appropriations measure to ensure compliance with this requirement. If variances as noted are found, the City should report the deficiencies to the County Budget Commission in order to obtain an amended official certificate and reduce the appropriations, if necessary.

Official's Response:

We did not receive an Official's Response for this finding.



Mary Taylor, CPA
Auditor of State

CITY OF AVON LAKE

LORAIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 22, 2009**