



Dave Yost • Auditor of State

**CITY OF EASTLAKE
LAKE COUNTY**

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LAKE COUNTY**

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INDEPENDENT ACCOUNTANTS' REPORT

City of Eastlake
Lake County
35150 Lakeshore Boulevard
Eastlake, Ohio 44095

To the City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Eastlake, Lake County, Ohio (the City), as of and for the years ended December 31, 2011 and 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Eastlake, Lake County, Ohio, as of December 31, 2011 and 2010 and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3 in the 2011 Notes to the Basic Financial Statements, the City of Eastlake adopted Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions and restated the December 31, 2010 fund balances due to a change in fund structure.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2012, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

Dave Yost
Auditor of State

September 17, 2012

City of Eastlake, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2011
Unaudited

The discussion and analysis of the City of Eastlake's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2011. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers are encouraged to consider the information presented here in conjunction with the additional information contained in the basic financial statements and notes to enhance their understanding of the City's financial performance.

Financial Highlights

- During 2011, the City implemented Governmental Accounting Standard Board (GASB) Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" which recognizes constraints imposed upon the use of resources in governmental funds and categorizes the constraints into five classifications.
- The City received \$9,995,000 in general obligation proceeds to refund portions of their tax exempt stadium bonds in order to take advantage of lower interest rates. As a result, the City saved \$585,729 in principal and interest payments over the life of the bonds.
- The City continues to focus on the maintenance and repair of sidewalks and streets. In 2011, the restoration of East 347th and East 348th Streets were completed. In addition, major improvements to South Lakeshore Boulevard were completed.

Using This Annual Financial Report

This discussion and analysis is intended to serve as an introduction to the City of Eastlake's basic financial statements. These statements are organized so that readers can understand the City as a financial whole or as an entire operating entity. The statements then proceed to provide an increasing detailed look at specific financial conditions.

The statement of Net Assets and Statement of Activities provide information about the activities of the whole City. They provide both an aggregate view of the City's finances in addition to a longer-term view of those assets. Major fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what dollars remain for future spending. The fund financial statements also look at the City's most significant funds with all other non-major funds presented in total in one column.

The City of Eastlake as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and asks the questions, "How did we do financially during 2011?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by the private sector. The basis for this accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

The *statement of net assets* presents information on all of the City of Eastlake's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve

City of Eastlake, Ohio
Management's Discussion and Analysis
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as a useful indicator of whether the financial position of the City of Eastlake is improving or deteriorating. However, the analysis on the City's condition must also look at the City's tax base, property tax evaluation and the condition of the City's assets.

The *statement of activities* presents information showing how the government's net assets changed during the recent year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Eastlake that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Eastlake include general government, security of persons and property (police and fire), public health services, leisure time activities, community environment, basic utility services and transportation. Business-type activities include sanitary sewer and storm water operations.

Reporting the City's Most Significant Funds

Fund Financial Statements A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Eastlake, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Eastlake can be divided into three categories: governmental, proprietary and fiduciary.

Governmental funds Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on *near-term inflows and outflows of expendable resources*, as well as on balances of expendable resources available at the end of the year.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds and governmental activities*.

The City of Eastlake maintains thirty-six individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the general fund, general bond retirement debt service fund and the road improvement capital projects fund, which are considered to be major funds. Data from the other governmental funds are combined into single, aggregated presentation.

The City of Eastlake adopts an annual appropriated budget for each of its funds to demonstrate budgetary compliance.

City of Eastlake, Ohio
Management's Discussion and Analysis
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Proprietary Funds The City of Eastlake's proprietary funds are the sanitary sewer and storm water enterprise funds. Proprietary fund statements provide the same type of information as the government-wide financial statements, only in more detail.

Fiduciary Funds The City uses agency funds to account for the portion of Council payroll donated for civic purposes, insurance proceeds held by the City to secure proper handling of fire damaged structures until adequately repaired or demolished, construction deposits, and Lake County water collections. The City assigns an agency fund to account for these receipts and disbursements.

Notes to the Basic Financial Statements The notes provide additional information that are essential for a full understanding of the data provided in the government-wide and fund financial statements.

The City as a Whole

As noted earlier, the Statement of Net Assets looks at the City as a whole. The following table provides a summary of the City's net assets for 2011 compared to 2010.

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Assets						
Current and Other Assets	\$10,632,521	\$12,383,798	\$1,684,286	\$1,427,157	\$12,316,807	\$13,810,955
Capital Assets, Net	37,273,005	38,048,049	4,787,283	3,750,663	42,060,288	41,798,712
Total Assets	47,905,526	50,431,847	6,471,569	5,177,820	54,377,095	55,609,667
Liabilities						
Current Liabilities	3,852,946	5,355,991	33,164	193,266	3,886,110	5,549,257
Long-Term Liabilities						
Due Within One Year	1,224,290	1,088,620	73,720	21,297	1,298,010	1,109,917
Due in More Than One Year	15,936,097	16,869,402	259,697	535,620	16,195,794	17,405,022
Total Liabilities	21,013,333	23,314,013	366,581	750,183	21,379,914	24,064,196
Net Assets						
Invested in Capital Assets,						
Net of Related Debt	22,144,290	22,484,203	4,505,611	3,253,163	26,649,901	25,737,366
Restricted for:						
Capital Projects	1,644,581	1,281,727	0	0	1,644,581	1,281,727
Other Purposes	1,294,738	1,208,158	0	0	1,294,738	1,208,158
Unrestricted	1,808,584	2,143,746	1,599,377	1,174,474	3,407,961	3,318,220
Total Net Assets	\$26,892,193	\$27,117,834	\$6,104,988	\$4,427,637	\$32,997,181	\$31,545,471

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Total net assets for governmental activities showed a decrease largely due to a decrease in property taxes. With the decline in the economy, property values throughout the City have declined and as a result the City is expected to receive lower property taxes. The decrease in net assets was offset by a decrease in long-term liabilities due to the City refunding a portion of their stadium debt in order to take advantage of lower interest rates. In doing so, the City was able to lower their future principal and interest payments.

Total net assets for business-type activities saw a significant increase that can be primarily attributed to the increase in sewer receipts due to the increase in the sewer rates from the previous year as well as a large decrease in expenditures by limiting the purchase of materials and supplies in the sewer department. In doing so, the City was able to continue major improvements to the Quentin Road pump station as well as adding a new sewer jet to their capital assets.

In order to further understand what makes up the changes in net assets for the current year, the following table gives readers further details regarding the results of activities for the current year.

Table 2
Change in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues						
Program Revenues						
Charges for Services	\$2,914,808	\$2,503,625	\$2,586,295	\$2,039,743	\$5,501,103	\$4,543,368
Operating Grants and Contributions	1,378,022	1,627,145	0	0	1,378,022	1,627,145
Capital Grants and Interest	483,776	658,044	2,088	0	485,864	658,044
Total Program Revenues	4,776,606	4,788,814	2,588,383	2,039,743	7,364,989	6,828,557
General Revenues						
Property Taxes	2,772,566	3,194,267	0	0	2,772,566	3,194,267
Income Taxes	6,473,579	6,640,465	0	0	6,473,579	6,640,465
Hotel Taxes	281,148	344,423	0	0	281,148	344,423
Grants and Entitlements	2,227,974	2,863,920	0	0	2,227,974	2,863,920
Franchise Taxes	266,889	251,299	0	0	266,889	251,299
Investment Earnings	5,153	4,661	0	0	5,153	4,661
Other	108,128	176,126	0	0	108,128	176,126
Total General Revenues	12,135,437	13,475,161	0	0	12,135,437	13,475,161
<i>Total Revenues</i>	\$16,912,043	\$18,263,975	\$2,588,383	\$2,039,743	\$19,500,426	\$20,303,718

City of Eastlake, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2011
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Table 2
Change in Net Assets (continued)

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Program Expenses						
General Government	\$4,077,015	\$3,649,548	\$0	\$0	(\$4,077,015)	(\$3,649,548)
Security of Persons and Property	6,587,675	7,842,017	0	0	(6,587,675)	(7,842,017)
Public Health Services	175,749	192,223	0	0	(175,749)	(192,223)
Transportation	1,719,656	1,356,476	0	0	(1,719,656)	(1,356,476)
Community Environment	309,974	331,445	0	0	(309,974)	(331,445)
Basic Utility Services	2,152,737	2,033,754	0	0	(2,152,737)	(2,033,754)
Leisure Time Activities	1,185,163	1,804,814	0	0	(1,185,163)	(1,804,814)
Interest	929,715	740,021	0	0	(929,715)	(740,021)
Sanitary Sewer	0	0	911,032	1,925,648	(911,032)	(1,925,648)
Storm Water	0	0	0	110,000	0	(110,000)
Total Program Expenses	17,137,684	17,950,298	911,032	2,035,648	(18,048,716)	(19,985,946)
Increase (Decrease) in Net Assets	(225,641)	313,667	1,677,351	4,095	1,451,710	317,762
Net Assets Beginning of Year	27,117,834	26,804,167	4,427,637	4,423,542	31,545,471	31,227,709
Net Assets End of Year	\$26,892,193	\$27,117,834	\$6,104,988	\$4,427,637	\$32,997,181	\$31,545,471

Governmental Activities

Several revenue sources fund governmental activities with City municipal income tax being the largest contributor. The City has a current municipal income tax rate of 2 percent and grants a 2 percent credit to residents who pay municipal income tax to another city. Property tax collections are the next largest source of general revenue for governmental activities. The City collects 3 mills of inside millage and has approved 5.3 mills of outside millage. The outside millage is generated from a 1.8 mill general fund operating levy, 3 mill road levy, and a .5 mill fire levy. The .5 mill fire levy was renewed by the voters in the November 2010 election. The City is constantly reviewing its fee structure to insure that all fees constitute a fair charge for the cost of providing government services. During 2011, property taxes were lower than 2010 due to a decrease in property tax values as a result of the Lake County triennial update. Municipal income taxes also saw a decrease from 2010 as a direct result of a sluggish economy, Grants and entitlements decreased as a result of less local government revenue received from the State. As a result of the economy and lower interest rates, interest revenue saw a decrease from 2010 levels. Franchise taxes remained fairly consistent with 2010 levels.

Table 3 indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted intergovernmental revenues.

City of Eastlake, Ohio
Management's Discussion and Analysis
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Table 3
 Total and Net Cost of Program Services
 Governmental Activities

	2011		2010	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
General Government	\$4,077,015	(\$3,288,959)	\$3,649,548	(\$3,007,796)
Security of Persons and Property	6,587,675	(5,081,814)	7,842,017	(6,408,031)
Public Health Services	175,749	(141,364)	192,223	(160,971)
Transportation	1,719,656	(272,735)	1,356,476	154,740
Community Environment	309,974	(181,753)	331,445	(276,344)
Basic Utility Services	2,152,737	(1,606,410)	2,033,754	(1,518,384)
Leisure Time Activities	1,185,163	(858,328)	1,804,814	(1,204,677)
Interest and Fiscal Charges	929,715	(929,715)	740,021	(740,021)
Total	\$17,137,684	(\$12,361,078)	\$17,950,298	(\$13,161,484)

A review of the above table shows that program expenses decreased from 2010 levels. This is largely due to the City limiting the overtime worked in the police and fire departments. Also, a number of employees retired at the beginning of the year and were not replaced. In order to continue to keep costs down, the City is closely monitoring its expenses and keeping a tight budget.

Expenses decreased by \$812,614 compared to 2010. Security of persons and property, community environment and leisure time activities decreased mainly due to cost-cutting measures implemented by the City. Security of persons and property, including police and fire departments, is the largest area of expenses and accounts for program expenses of \$6,587,675, which is 38 percent of total expenses. The City continues to strive to provide better police and fire service at a low cost per man-hour.

Business-Type Activities

The City's business-type activities are comprised of two enterprise funds, which are the City's sanitary sewer system and storm water collection. In 2011, charges for services continued to be the major revenue source for business-type activities. An increase in total revenues resulted from the sewer rate increase, which was approved in August 2010.

Governmental Funds Financial Analysis

A review of the City's governmental funds provides information on near-term flows and balances of expendable resources and serves as a useful measure of a government's net resources. Governmental fund information can be found on page 16 and is accounted for using the modified accrual basis of accounting.

The City's major governmental funds are the general fund, general bond retirement debt service fund and the road improvement capital projects fund. The general fund expenditures exceeded revenues for the year after transfers out are included, with revenues decreasing very slightly from the previous year, and expenditures decreasing from the previous year. The decrease in expenditures is due to continued cost-cutting measures implemented by the City. There were also a number of employees that retired at the end of 2010 and were not replaced in 2011. The general bond retirement saw a small increase in fund balance as a result of the City refunding a portion of their tax exempt stadium bonds in order to take advantage of lower interest rates. The road improvement capital projects fund had an increase in fund balance as a result of decreased contracts for continued road improvement projects.

City of Eastlake, Ohio
Management's Discussion and Analysis
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General Fund Budgeting Highlights

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the general fund. During the course of 2011, the City amended its general fund accordingly to avoid waiting until the end of the year to adjust appropriations. All recommendations for budget changes are presented to the Finance Committee of Council before going to City Council for legislative action to approve the change. Budgetary changes normally consist of requests for additional funds to cover overtime and union wage adjustments. The control level of the general fund is by object within each department. This allows the City to make small interdepartmental budget modifications within departments. The general fund is monitored closely with regard to revenues and related expenditures. There was a decrease in revenues from the final budget to actual due to lower property and municipal income taxes received than expected. There was also a decrease in actual expenditures made compared to the final budget. This was due to restricting spending as much as possible in the City's efforts to continue its financial recovery.

Capital Assets and Debt Administration

Capital Assets

Table 4 shows 2011 balances of capital assets as compared to 2010.

Table 4
 Capital Assets at December 31
 (Net of Accumulated Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$7,044,735	\$7,044,735	\$75,556	\$75,556	\$7,120,291	\$7,120,291
Construction in Progress	0	1,709,031	828,085	300,751	828,085	2,009,782
Land Improvements	14,281,246	14,611,817	0	0	14,281,246	14,611,817
Buildings and Improvements	3,985,353	3,919,959	1,322,605	1,360,282	5,307,958	5,280,241
Machinery and Equipment	1,051,473	832,885	524,897	190,018	1,576,370	1,022,903
Vehicles	2,055,967	2,118,408	121,156	67,927	2,177,123	2,186,335
Infrastructure	8,854,231	7,811,214	1,914,984	1,756,129	10,769,215	9,567,343
Total Capital Assets	\$37,273,005	\$38,048,049	\$4,787,283	\$3,750,663	\$42,060,288	\$41,798,712

For 2011, the primary additions for governmental activities included the completion of rehabilitation improvements to East 347th and East 348th Streets as well as the completion of major improvements to the South Lakeshore Boulevard. The City also purchased two police vehicles, a dump truck for snow and ice removal and a new radio system for the fire department. There were no disposals in 2011 for governmental activities.

The primary additions for the business-type activities included continued improvements to sewer lines and the Quentin Road pump station. The City also obtained a new sewer jet through a capital lease. There were no disposals for business-type activities in 2011. Additional information concerning the City's capital assets can be found in Note 10 to the basic financial statements.

City of Eastlake, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2011
Unaudited

Debt

Table 5 summarizes the City's long-term obligations outstanding at December 31, 2011.

Table 5
 Outstanding Long-Term Obligations at Year End

	Governmental Activities		Business-Type Activity		Total	
	2011	2010	2011	2010	2011	2010
General Obligation Bonds	\$15,189,167	\$15,625,000	\$0	\$0	\$15,189,167	\$15,625,000
OPWC Loans	315,517	246,259	45,000	47,500	360,517	293,759
Notes Payable	0	0	0	450,000	0	450,000
ODOT Payable	131,805	164,756	0	0	131,805	164,756
Capital Leases	29,840	42,128	236,672	0	266,512	42,128
Compensated Absences	1,456,330	1,879,879	51,745	59,417	1,508,075	1,939,296
Workers' Compensation Liability	37,728	0	0	0	37,728	0
Total	\$17,160,387	\$17,958,022	\$333,417	\$556,917	\$17,493,804	\$18,514,939

At December 31, 2011, the general obligation bonds outstanding consist of the 2002 Tax Exempt Capital Facilities Bonds, 2004 Capital Facilities, 2004 Various Purpose Bonds, the 2005 City Hall Refunding Bonds and 2011 Various Purpose Refunding Bonds. During 2011, the City was able to refund portions of their 2002 Tax Exempt Capital Facilities Bonds and 2004 Various Purpose Bonds in order to take advantage of lower interest rates. The OPWC loans outstanding are for infrastructure improvement projects, which are being repaid using road improvement capital projects revenues. The other long-term loans consist of money owed to the Ohio Department of Transportation for work done on the access modification to the baseball stadium and parking lot. The payable is being repaid from the road improvement capital projects fund.

In addition to the debt discussed above, the City's long-term obligations also include capital leases, compensated absences and workers' compensation liability. Additional information concerning debt issuances can be found in Note 15 to the basic financial statements.

Current Related Financial Activities

The City maintains a careful watch over its financial operations. This, coupled with an improving economy, should help the City continue to remain financially strong. In addition, the City of Eastlake has a strong internal control system, and has implemented even more stringent budgeting and procurement standards to help the City meet the challenges of the future. The City remains open to providing the Citizens of Eastlake with full disclosure of the financial position of the City.

Contacting the City of Eastlake's Financial Management

This financial report is designed to provide the citizens, taxpayers, creditors, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, contact the Finance Director, City of Eastlake, 35150 Lakeshore Boulevard, Eastlake, Ohio 44095.

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Basic Financial Statements

City of Eastlake, Ohio

Statement of Net Assets

December 31, 2011

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$2,342,790	\$597,565	\$2,940,355
Accounts Receivable	822,038	855,852	1,677,890
Accrued Interest Receivable	0	2,088	2,088
Intergovernmental Receivable	1,587,170	0	1,587,170
Municipal Income Taxes Receivable	1,877,425	0	1,877,425
Hotel Taxes Receivable	13,862	0	13,862
Permissive Motor Vehicle Taxes Receivable	10,864	0	10,864
Prepaid Items	76,470	0	76,470
Materials and Supplies Inventory	123,730	9,569	133,299
Property Taxes Receivable	3,123,588	0	3,123,588
Special Assessments Receivable	0	219,212	219,212
Deferred Charges	537,614	0	537,614
Assets Held for Resale	116,970	0	116,970
Nondepreciable Capital Assets	7,044,735	903,641	7,948,376
Depreciable Capital Assets, Net	30,228,270	3,883,642	34,111,912
<i>Total Assets</i>	<u>47,905,526</u>	<u>6,471,569</u>	<u>54,377,095</u>
Liabilities			
Accounts Payable	48,471	2,868	51,339
Accrued Wages	227,758	10,848	238,606
Matured Compensated Absences Payable	247,698	4,509	252,207
Intergovernmental Payable	451,147	14,939	466,086
Accrued Interest Payable	138,488	0	138,488
Deferred Revenue	2,739,384	0	2,739,384
Long-Term Liabilities:			
Due Within One Year	1,224,290	73,720	1,298,010
Due In More Than One Year	15,936,097	259,697	16,195,794
<i>Total Liabilities</i>	<u>21,013,333</u>	<u>366,581</u>	<u>21,379,914</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	22,144,290	4,505,611	26,649,901
Restricted for:			
Capital Projects	1,644,581	0	1,644,581
State Highway	88,386	0	88,386
Street Maintenance	451,150	0	451,150
Permissive Motor Vehicle Tax	93,636	0	93,636
Public Safety Grants	253,509	0	253,509
Recreation and Land Acquisition	197,173	0	197,173
Other Purposes	210,884	0	210,884
Unrestricted	1,808,584	1,599,377	3,407,961
<i>Total Net Assets</i>	<u>\$26,892,193</u>	<u>\$6,104,988</u>	<u>\$32,997,181</u>

See Accompanying Notes to the Basic Financial Statements

City of Eastlake, Ohio
Statement of Activities
For the Year Ended December 31, 2011

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Interest
Governmental Activities:				
Current:				
General Government	\$4,077,015	\$777,138	\$10,918	\$0
Security of Persons and Property	6,587,675	1,110,504	385,621	9,736
Public Health Services	175,749	33,909	476	0
Transportation	1,719,656	176,171	796,710	474,040
Community Environment	309,974	60,287	67,934	0
Basic Utility Services	2,152,737	546,327	0	0
Leisure Time Activities	1,185,163	210,472	116,363	0
Interest and Fiscal Charges	929,715	0	0	0
<i>Total Governmental Activities</i>	<u>17,137,684</u>	<u>2,914,808</u>	<u>1,378,022</u>	<u>483,776</u>
Business-Type Activities:				
Sanitary Sewer	911,032	2,543,479	0	2,088
Storm Water	0	42,816	0	0
<i>Total Business-Type Activities</i>	<u>911,032</u>	<u>2,586,295</u>	<u>0</u>	<u>2,088</u>
<i>Total</i>	<u>\$18,048,716</u>	<u>\$5,501,103</u>	<u>\$1,378,022</u>	<u>\$485,864</u>

General Revenues

Property Taxes Levied for:

- General Purposes
- Debt Service
- Police Pension
- Fire Pension
- Fire Levy
- Road Levy

Municipal Income Tax Levied for General Purposes

Hotel Taxes

Grants and Entitlements not Restricted to Specific Programs

Franchise Taxes

Interest

Other

Total General Revenues

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

See Accompanying Notes to the Basic Financial Statements

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
(\$3,288,959)	\$0	(\$3,288,959)
(5,081,814)	0	(5,081,814)
(141,364)	0	(141,364)
(272,735)	0	(272,735)
(181,753)	0	(181,753)
(1,606,410)	0	(1,606,410)
(858,328)	0	(858,328)
(929,715)	0	(929,715)
<u>(12,361,078)</u>	<u>0</u>	<u>(12,361,078)</u>
0	1,634,535	1,634,535
<u>0</u>	<u>42,816</u>	<u>42,816</u>
<u>0</u>	<u>1,677,351</u>	<u>1,677,351</u>
<u>(12,361,078)</u>	<u>1,677,351</u>	<u>(10,683,727)</u>
1,328,862	0	1,328,862
192,068	0	192,068
137,187	0	137,187
137,187	0	137,187
153,420	0	153,420
823,842	0	823,842
6,473,579	0	6,473,579
281,148	0	281,148
2,227,974	0	2,227,974
266,889	0	266,889
5,153	0	5,153
<u>108,128</u>	<u>0</u>	<u>108,128</u>
<u>12,135,437</u>	<u>0</u>	<u>12,135,437</u>
(225,641)	1,677,351	1,451,710
<u>27,117,834</u>	<u>4,427,637</u>	<u>31,545,471</u>
<u>\$26,892,193</u>	<u>\$6,104,988</u>	<u>\$32,997,181</u>

City of Eastlake, Ohio

Balance Sheet

Governmental Funds

December 31, 2011

	General	General Bond Retirement	Road Improvement	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$98,637	\$3,073	\$637,639	\$1,593,198	\$2,332,547
Accounts Receivable	822,038	0	0	0	822,038
Intergovernmental Receivable	1,056,208	12,220	48,959	469,783	1,587,170
Municipal Income Taxes Receivable	1,877,425	0	0	0	1,877,425
Hotel Taxes Receivable	0	0	0	13,862	13,862
Permissive Motor Vehicle Taxes Receivable	0	0	0	10,864	10,864
Prepaid Items	61,497	0	0	14,973	76,470
Materials and Supplies Inventory	41,118	0	30,000	52,612	123,730
Property Taxes Receivable	1,489,336	216,381	935,337	482,534	3,123,588
Assets Held for Resale	116,970	0	0	0	116,970
Restricted Assets: Equity in Pooled Cash and Cash Equivalents	10,243	0	0	0	10,243
Total Assets	\$5,573,472	\$231,674	\$1,651,935	\$2,637,826	\$10,094,907
Liabilities					
Accounts Payable	\$34,242	\$0	\$422	\$13,807	\$48,471
Accrued Wages	222,470	0	0	5,288	227,758
Matured Compensated Absences Payable	229,485	0	0	18,213	247,698
Intergovernmental Payable	409,984	0	8,688	32,475	451,147
Deferred Revenue	3,786,621	228,601	984,296	810,244	5,809,762
Total Liabilities	4,682,802	228,601	993,406	880,027	6,784,836
Fund Balances					
Nonspendable	229,828	0	30,000	67,585	327,413
Restricted	0	3,073	628,529	1,690,214	2,321,816
Assigned	85,339	0	0	0	85,339
Unassigned	575,503	0	0	0	575,503
Total Fund Balances	890,670	3,073	658,529	1,757,799	3,310,071
Total Liabilities and Fund Balances	\$5,573,472	\$231,674	\$1,651,935	\$2,637,826	\$10,094,907

See Accompanying Notes to the Basic Financial Statements

City of Eastlake, Ohio
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 December 31, 2011*

Total Governmental Funds Balances	\$3,310,071
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*Amounts reported for governmental activities in the
 statement of net assets are different because*

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	37,273,005
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Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds:	
Charges for Services	491,362
Intergovernmental	1,062,911
Municipal Income Taxes	1,131,901
Property Taxes	384,204
Total	3,070,378

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(138,488)
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Bond issuance costs will be amortized over the life of the bonds on the statement of net assets.	537,614
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
General Obligation Bonds	(15,189,167)
OPWC Loans Payable	(315,517)
Capital Leases Payable	(29,840)
ODOT Payable	(131,805)
Claims Payable	(37,728)
Compensated Absences Payable	(1,456,330)
Total	(17,160,387)

<i>Net Assets of Governmental Activities</i>	<u><u>\$26,892,193</u></u>
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See Accompanying Notes to the Basic Financial Statements

City of Eastlake, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2011

	General	General Bond Retirement	Road Improvement	Other Governmental Funds	Total Governmental Funds
Revenues					
Property Taxes	\$1,314,238	\$189,231	\$810,597	\$422,435	\$2,736,501
Municipal Income Taxes	6,561,895	0	0	0	6,561,895
Hotel Taxes	0	0	0	281,148	281,148
Permissive Motor Vehicle Taxes	0	0	0	138,757	138,757
Intergovernmental	2,288,232	37,999	476,974	1,320,305	4,123,510
Charges for Services	1,508,538	0	0	0	1,508,538
Fees, Licenses and Permits	662,671	0	0	132,037	794,708
Franchise Taxes	266,889	0	0	0	266,889
Fines and Forfeitures	180,220	0	0	10,501	190,721
Interest	1,851	2,588	0	714	5,153
Rentals	0	0	0	230,715	230,715
Contributions and Donations	30,543	0	0	9,689	40,232
Other	33,024	0	0	75,104	108,128
<i>Total Revenues</i>	<u>12,848,101</u>	<u>229,818</u>	<u>1,287,571</u>	<u>2,621,405</u>	<u>16,986,895</u>
Expenditures					
Current:					
General Government	4,004,437	0	0	2,897	4,007,334
Security of Persons and Property	5,989,291	2,897	0	632,888	6,625,076
Public Health Services	175,749	0	0	0	175,749
Transportation	201,720	0	57,880	872,147	1,131,747
Community Environment	314,695	0	0	0	314,695
Basic Utility Services	1,185,694	0	0	28,675	1,214,369
Leisure Time Activities	925,271	0	0	214,253	1,139,524
Capital Outlay	0	0	772,225	438,027	1,210,252
Debt Service:					
Principal Retirement	12,288	745,000	60,201	0	817,489
Interest and Fiscal Charges	1,728	730,415	0	0	732,143
Bond Issuance Costs	0	309,167	0	0	309,167
<i>Total Expenditures</i>	<u>12,810,873</u>	<u>1,787,479</u>	<u>890,306</u>	<u>2,188,887</u>	<u>17,677,545</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>37,228</u>	<u>(1,557,661)</u>	<u>397,265</u>	<u>432,518</u>	<u>(690,650)</u>
Other Financing Sources (Uses)					
General Obligation Refunding Bonds Issued	0	9,995,000	0	0	9,995,000
Payment to Refunded Bond Escrow Agent	0	(9,685,833)	0	0	(9,685,833)
OPWC Loans Issued	0	0	96,508	0	96,508
Transfers In	0	1,251,500	0	14,400	1,265,900
Transfers Out	(693,900)	0	0	(572,000)	(1,265,900)
<i>Total Other Financing Sources (Uses)</i>	<u>(693,900)</u>	<u>1,560,667</u>	<u>96,508</u>	<u>(557,600)</u>	<u>405,675</u>
<i>Net Change in Fund Balances</i>	(656,672)	3,006	493,773	(125,082)	(284,975)
<i>Fund Balances Beginning of Year</i>	<u>1,547,342</u>	<u>67</u>	<u>164,756</u>	<u>1,882,881</u>	<u>3,595,046</u>
<i>Fund Balances End of Year</i>	<u>\$890,670</u>	<u>\$3,073</u>	<u>\$658,529</u>	<u>\$1,757,799</u>	<u>\$3,310,071</u>

See Accompanying Notes to the Basic Financial Statements

City of Eastlake, Ohio
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2011*

Net Change in Fund Balances - Total Governmental Funds (\$284,975)

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

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

Capital Outlay	1,011,890	
Depreciation	(1,786,934)	
Total	(775,044)	(775,044)

Revenue in the statement of activities that do not provide current financial resources are not reported as revenue in governmental funds.

Property Taxes	36,065	
Municipal Income Taxes	(88,316)	
Intergovernmental	(73,970)	
Charges for Services	51,369	
Total	(74,852)	(74,852)

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

Payment to Refunded Bond Escrow Agent	9,685,833	
General Obligation Bonds	745,000	
OPWC Loans Payable	27,250	
Capital Leases Payable	12,288	
Total	10,470,371	10,470,371

Other financing sources in the governmental funds increase long-term liabilities in the statement of net assets.

General Obligation Refunding Bonds Issued	(9,995,000)	
OPWC Loans Issued	(96,508)	
Total	(10,091,508)	(10,091,508)

In the statement of activities, bond issuance costs are amortized over the term of the bonds, whereas in governmental funds a bond issuance expenditure is reported when bonds are issued.

309,167

Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt on the statement of net assets.

Accrued Interest	88,278	
Amortization of Bond Issuance Costs	(285,850)	
Total	(197,572)	(197,572)

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

ODOT Payable	32,951	
Compensated Absences	423,549	
Claims	(37,728)	
Total	418,772	418,772

Change in Net Assets of Governmental Activities (\$225,641)

See Accompanying Notes to the Basic Financial Statements

City of Eastlake, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$1,974,559	\$1,974,559	\$1,314,238	(\$660,321)
Municipal Income Taxes	6,553,830	6,553,830	6,530,333	(23,497)
Intergovernmental	2,613,640	2,613,640	2,325,077	(288,563)
Charges for Services	1,438,836	1,438,836	1,536,319	97,483
Fees, Licenses and Permits	483,231	483,231	654,343	171,112
Franchise Taxes	234,418	234,418	261,671	27,253
Fines and Forfeitures	185,279	185,279	180,060	(5,219)
Interest	5,057	5,057	1,851	(3,206)
Contributions and Donations	27,402	27,402	30,543	3,141
Other	65,007	65,007	42,221	(22,786)
<i>Total Revenues</i>	13,581,259	13,581,259	12,876,656	(704,603)
Expenditures				
Current:				
General Government	4,435,546	4,417,288	4,148,315	268,973
Security of Persons and Property	6,255,937	6,264,414	6,008,741	255,673
Public Health Services	175,749	175,749	175,749	0
Transportation	225,856	225,856	207,922	17,934
Community Environment	323,212	323,462	309,002	14,460
Basic Utility Services	1,235,044	1,250,044	1,249,537	507
Leisure Time Activities	1,049,817	1,044,348	924,018	120,330
<i>Total Expenditures</i>	13,701,161	13,701,161	13,023,284	677,877
<i>Excess of Revenues Under Expenditures</i>	(119,902)	(119,902)	(146,628)	(26,726)
Other Financing Sources (Uses)				
Advances In	50,000	50,000	7,500	(42,500)
Advances Out	(50,000)	(50,000)	(7,500)	42,500
Transfers Out	(695,400)	(695,400)	(693,900)	1,500
<i>Total Other Financing Sources (Uses)</i>	(695,400)	(695,400)	(693,900)	1,500
<i>Net Change in Fund Balance</i>	(815,302)	(815,302)	(840,528)	(25,226)
<i>Fund Balance Beginning of Year</i>	665,033	665,033	665,033	0
Prior Year Encumbrances Appropriated	191,266	191,266	191,266	0
<i>Fund Balance End of Year</i>	\$40,997	\$40,997	\$15,771	(\$25,226)

See Accompanying Notes to the Basic Financial Statements

City of Eastlake, Ohio
Statement of Fund Net Assets
Enterprise Funds
December 31, 2011

	<u>Sanitary Sewer</u>	<u>Storm Water</u>	<u>Total</u>
Assets			
<i>Current Assets</i>			
Equity in Pooled Cash and Cash Equivalents	\$549,010	\$48,555	\$597,565
Accounts Receivable	847,571	8,281	855,852
Accrued Interest Receivable	2,088	0	2,088
Special Assessments Receivable	3,038	0	3,038
Materials and Supplies Inventory	9,569	0	9,569
<i>Total Current Assets</i>	<u>1,411,276</u>	<u>56,836</u>	<u>1,468,112</u>
<i>Noncurrent Assets</i>			
Special Assessments Receivable	216,174	0	216,174
Nondepreciable Capital Assets	903,641	0	903,641
Depreciable Capital Assets, Net	3,883,642	0	3,883,642
<i>Total Noncurrent Assets</i>	<u>5,003,457</u>	<u>0</u>	<u>5,003,457</u>
<i>Total Assets</i>	<u>6,414,733</u>	<u>56,836</u>	<u>6,471,569</u>
Liabilities			
<i>Current Liabilities</i>			
Accounts Payable	2,868	0	2,868
Accrued Wages	10,848	0	10,848
Matured Compensated Absences Payable	4,509	0	4,509
Intergovernmental Payable	14,939	0	14,939
Compensated Absences Payable	14,302	0	14,302
Capital Leases Payable	56,918	0	56,918
OPWC Loan Payable	2,500	0	2,500
<i>Total Current Liabilities</i>	<u>106,884</u>	<u>0</u>	<u>106,884</u>
<i>Non-Current Liabilities (Net of Current Portion)</i>			
Compensated Absences Payable	37,443	0	37,443
Capital Leases Payable	179,754	0	179,754
OPWC Loan Payable	42,500	0	42,500
<i>Total Long-Term Liabilities</i>	<u>259,697</u>	<u>0</u>	<u>259,697</u>
<i>Total Liabilities</i>	<u>366,581</u>	<u>0</u>	<u>366,581</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	4,505,611	0	4,505,611
Unrestricted	1,542,541	56,836	1,599,377
<i>Total Net Assets</i>	<u>\$6,048,152</u>	<u>\$56,836</u>	<u>\$6,104,988</u>

See Accompanying Notes to the Basic Financial Statements

City of Eastlake, Ohio
*Statement of Revenues,
Expenses and Changes in Fund Net Assets
Enterprise Funds
For the Year Ended December 31, 2011*

	<u>Sanitary Sewer</u>	<u>Storm Water</u>	<u>Total</u>
Operating Revenue			
Charges for Services	<u>\$2,543,479</u>	<u>\$42,816</u>	<u>\$2,586,295</u>
Operating Expenses			
Personal Services	349,413	0	349,413
Materials and Supplies	293,624	0	293,624
Contractual Services	119,483	0	119,483
Depreciation	125,984	0	125,984
Other	<u>15,141</u>	<u>0</u>	<u>15,141</u>
<i>Total Operating Expenses</i>	<u>903,645</u>	<u>0</u>	<u>903,645</u>
<i>Operating Income</i>	<u>1,639,834</u>	<u>42,816</u>	<u>1,682,650</u>
Non-Operating Income (Expense)			
Interest Income	2,088	0	2,088
Interest and Fiscal Charges	<u>(7,387)</u>	<u>0</u>	<u>(7,387)</u>
<i>Total Non-Operating Income (Expense)</i>	<u>(5,299)</u>	<u>0</u>	<u>(5,299)</u>
<i>Change in Net Assets</i>	1,634,535	42,816	1,677,351
<i>Net Assets Beginning of Year</i>	<u>4,413,617</u>	<u>14,020</u>	<u>4,427,637</u>
<i>Net Assets End of Year</i>	<u><u>\$6,048,152</u></u>	<u><u>\$56,836</u></u>	<u><u>\$6,104,988</u></u>

See Accompanying Notes to the Basic Financial Statements

City of Eastlake, Ohio
Statement of Cash Flows
Enterprise Funds
For the Year Ended December 31, 2011

	<u>Sanitary Sewer</u>	<u>Storm Water</u>	<u>Total</u>
Increase (Decrease) in Cash and Cash Equivalents			
Cash Flows from Operating Activities			
Cash Received from Customers	\$2,482,587	\$37,862	\$2,520,449
Cash Payments to Suppliers for Goods and Services	(569,857)	0	(569,857)
Cash Payments for Employee Services and Benefits	(360,669)	0	(360,669)
Cash Payments for Other Operating Expenses	(15,141)	0	(15,141)
<i>Net Cash Provided by Operating Activities</i>	<u>1,536,920</u>	<u>37,862</u>	<u>1,574,782</u>
Cash Flows from Capital and Related Financing Activities			
Acquisition of Capital Assets	(1,162,604)	0	(1,162,604)
Capital Lease Issued	299,720	0	299,720
Principal Paid on OPWC Loan	(2,500)	0	(2,500)
Principal Paid on Notes	(450,000)	0	(450,000)
Interest Paid on Bond Anticipation Notes	(8,598)	0	(8,598)
Principal Paid on Capital Lease	(63,048)	0	(63,048)
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(1,387,030)</u>	<u>0</u>	<u>(1,387,030)</u>
Net Increase in Cash and Cash Equivalents	149,890	37,862	187,752
<i>Cash and Cash, Equivalents Beginning of Year</i>	<u>399,120</u>	<u>10,693</u>	<u>409,813</u>
<i>Cash and Cash, Equivalents End of Year</i>	<u>\$549,010</u>	<u>\$48,555</u>	<u>\$597,565</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating Income	\$1,639,834	\$42,816	\$1,682,650
Adjustments:			
Depreciation	125,984	0	125,984
(Increase)/Decrease in Assets:			
Accounts Receivable	(87,610)	(4,954)	(92,564)
Special Assessments Receivable	26,718	0	26,718
Materials and Supplies Inventory	(1,443)	0	(1,443)
Increase/(Decrease) in Liabilities:			
Accounts Payable	(155,464)	0	(155,464)
Accrued Wages	(198)	0	(198)
Matured Compensated Absences Payable	4,509	0	4,509
Compensated Absences Payable	(7,672)	0	(7,672)
Intergovernmental Payable	(7,738)	0	(7,738)
<i>Net Cash Provided by Operating Activities</i>	<u>\$1,536,920</u>	<u>\$37,862</u>	<u>\$1,574,782</u>

See Accompanying Notes to the Basic Financial Statements

City of Eastlake, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Funds
December 31, 2011

Assets	
Equity in Pooled Cash and Cash Equivalents	<u><u>\$218,047</u></u>
Liabilities	
Deposits Held and Due to Others	<u><u>\$218,047</u></u>

See Accompanying Notes to the Basic Financial Statements

City of Eastlake, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

Note 1 - Reporting Entity

The City of Eastlake is a charter municipal corporation established and operated under the laws of the State of Ohio. The charter first became effective November 3, 1953. The current charter provides for a council-mayor form of government. Elected officials include six council members and a mayor. The council members are elected for five year staggered terms. Two of the council members are elected at large. The mayor is elected for a five year term.

Reporting Entity

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, agencies, boards and departments that are not legally separate from the City. For the City of Eastlake, this includes the agencies and departments that provide the following services: police and fire protection, emergency medical response, parks and recreation, planning, zoning, street maintenance and repair, refuse collection, sanitary sewer service and general administrative services.

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 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 approves the budget, the issuance of debt, or the levying of taxes. The reporting entity of the City does not include any component units.

The City participates in a jointly governed organization and an insurance purchasing pool. These organizations are the Northeast Ohio Public Energy Council and the Northern Ohio Risk Management Association (NORMA). The City is also involved with the Eastlake Port Authority, a related organization. These organizations are presented in Notes 18, 19 and 20 to the basic financial statements.

The City's management believes these financial statements present all activities for which the City is financially accountable.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the City of Eastlake have been prepared in conformity with generally accepted accounting principles (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 governmental and business-type activities and to its enterprise funds unless those pronouncements conflict with or contradict GASB pronouncements. The City has elected not to apply FASB statements and interpretations issued after November 30, 1989, to its business-type activities and enterprise funds. The more significant of the City's accounting policies are described below.

City of Eastlake, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

Basis of Presentation

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

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

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, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program or business activity 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. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

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 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 and reports all financial resources except those required to be accounted for and reported 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 Eastlake and/or the general laws of Ohio.

General Bond Retirement Fund The general bond retirement debt service fund is used to account for and report restricted property tax revenues to be used for the payment of principal and interest and fiscal charges on general obligation debt.

City of Eastlake, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

Road Improvement Fund The road improvement capital projects fund is used to account for and report restricted monies received from a three percent voted levy for road construction and improvements made to the City.

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

Proprietary Fund Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service. The City has no internal service funds.

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:

Sanitary Sewer Fund The sanitary sewer fund accounts for the operation of the City's sanitary sewer service.

Storm Water Fund The storm water fund accounts for the operations of the storm water collection system within the City.

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. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City only utilizes the agency fund type. The agency funds account for employee payroll withholdings and deductions, insurance proceeds held by the City to secure proper handling of fire damaged structures until adequately repaired or demolished, construction deposits and Lake County water collections.

Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using a flow of 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 (e.g. revenues) and decreases (e.g. expenses) in total net assets.

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

Like the government-wide statements, the 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 fund net assets. The statement of changes in fund net assets presents

City of Eastlake, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements and the statements presented for the proprietary funds are prepared using the accrual basis of accounting. Governmental funds use the modified 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 Nonexchange 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 year in which the resources are measurable and become available. Available means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the City, available means expected to be received within sixty days of year-end.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes and grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the year in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 8). 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 the modified accrual basis, revenue from nonexchange 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, interest, Federal and State grants and subsidies, State-levied locally shared taxes (including gasoline tax and motor vehicle license fees), fees and fines and forfeitures.

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, 2011, but which were levied to finance year 2012 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

City of Eastlake, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

Budgetary Data

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount Council may appropriate. The appropriations resolution is Council's authorization to spend resources and set annual limits on expenditures plus encumbrances at the level of control selected by Council. The legal level of control has been established by Council at the object level within each department in the general fund and at the personal services and other object level for all other funds. For the other object level the Finance Director has been authorized to allocate appropriations within each department and any object level which he maintains on his books, other than personal services. Budgetary modifications may only be made by resolution of the City Council at the legal level of control.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Finance Director. The amounts reported as the original and final budgeted amounts on the budgetary statements reflect the amount on the amended certificate of estimated resources in effect at the time the original and final appropriations were enacted by Council.

The appropriation resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by Council during that year.

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 the City's records. Interest in the pool is presented as "equity in pooled cash and cash equivalents".

The City of Eastlake has invested in the State Treasury Asset Reserve of Ohio (STAR Ohio) during 2011. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's net asset value per share which is the price the investment could be sold at December 31, 2011.

Interest earnings are allocated to City funds according to State statutes, City Charter, grant requirements, or debt related restrictions. Interest revenue credited to the general bond retirement debt service fund during 2011 was \$2,588, which includes \$2,585 assigned from other City funds.

Investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the City are presented on the financial statements as cash equivalents.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2011, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount at the time of purchase and reflecting the expenditure/expense in the year in which the services are consumed.

City of Eastlake, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

Inventory

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

Assets Held for Resale

Assets held for resale represents assets consisting of homes purchased and repaired which will be resold under the Community Development in-fill housing project.

Restricted Assets

Assets are reported as restricted when limitations on their use change in nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments or imposed by law through constitutional provisions or enabling legislation. Restricted assets in the general fund represent money set aside for unclaimed monies.

Capital Assets

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in the governmental funds. General capital 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 enterprise 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. The City was able to estimate the historical cost for the initial reporting of infrastructure by backtrending (i.e. estimating the current replacement cost of the asset to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of two thousand five hundred dollars. 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.

All 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 Estimated Lives	Business-Type Activities Estimated Lives
Land Improvements	50 years	50 years
Buildings and Improvements	50 years	50 years
Machinery and Equipment	5 - 30 years	5 - 30 years
Vehicles	5 - 15 years	5 - 15 years
Infrastructure	25 years	50 years

The City's infrastructure consists of streets, sidewalks, and sanitary sewers and includes infrastructure acquired prior to December 31, 1980.

City of Eastlake, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

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. The City records a liability for all accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the termination method. An accrual for sick leave is made to the extent it is probable that benefits will result in termination payments. The liability is an estimate based on the City's past experience of making termination payments. Accumulated unused sick leave is paid to employees who retire at various rates depending on City policy and length of service.

The entire compensated absences liability is reported on the government-wide financial statements.

On the governmental fund financial statements and business-type financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments came due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the funds from which the employees who have resigned or retired will be paid.

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 the 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 are recognized as a liability on the governmental fund financial statements when due.

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 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 include police and fire operations.

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

Fund Balance

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

City of Eastlake, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

Nonspendable The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criteria includes items that are not expected to be converted to cash.

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

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

Assigned Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies and authorized purchase commitments by City Council or a City official who delegated that authority by City Charter or ordinance, or by State Statute

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

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

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the City, these revenues are charges for services for sanitary sewer and storm water services. Operating expenses are necessary costs that have been incurred in order to provide the good or service that is the primary activity of the fund. Any revenues and expenses not meeting the definitions of operating are reported as nonoperating.

Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues. Transfers between governmental activities are eliminated on the government-wide financial statements. Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the statement of activities. Payments for interfund services provided and used are not eliminated.

City of Eastlake, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

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 non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds initially paid for them are not presented on the financial statements.

Bond Issuance Costs

On the government-wide financial statements, bond issuance costs are deferred and amortized over the term of the applicable bonds using the effective interest method. Within the governmental fund statements, bond issuance costs are expended when incurred. Issuance costs are generally paid from bond proceeds.

As permitted by State statute, the City paid bond issuance costs from the bond proceeds and therefore does not consider that portion of the debt to be capital-related debt. That portion of the debt was offset against the unamortized bond issuance costs which were included in the determination of unrestricted net assets. Reporting both within the same element of net assets prevents one classification from being overstated while another is understated by the same amount.

Gain/Loss on Refunding

On the government-wide financial statements, the difference between the reacquisition price (funds required to refund the old debt) and the net carrying amount of the old debt, the gain/loss on refunding, is being amortized as a component of interest expense. This deferred amount is amortized over the life of the old debt or the life of the new debt, whichever is shorter, using the effective interest method.

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 and that are either unusual in nature or infrequent in occurrence.

Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles 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 – Change in Accounting Principles

For 2011, the City has implemented Governmental Accounting Standard Board (GASB) Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions” and Statement No. 59, “Financial Instruments Omnibus”.

GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy

City of Eastlake, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of this statement did not result in any change in the City's financial statements.

GASB Statement No. 59 addresses significant practice issues that have arisen when accounting for financial instruments by updating and improving existing standards regarding financial reporting of certain financial instruments and external investment pools. The implementation of this statement did not result in any change in the City's financial statements.

Note 4 – Fund Balance

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

Fund Balances	General	General Bond Retirement	Road Improvement	Nonmajor Governmental Funds	Total
<i>Nonspendable</i>					
Unclaimed Monies	\$10,243	\$0	\$0	\$0	\$10,243
Assets Held for Resale	116,970	0	0	0	116,970
Prepays	61,497	0	0	14,973	76,470
Inventory	41,118	0	30,000	52,612	123,730
<i>Total Nonspendable</i>	229,828	0	30,000	67,585	327,413
<i>Restricted for</i>					
Road Improvements	0	0	628,529	326,938	955,467
Public Safety	0	0	0	289,501	289,501
Fire Operations	0	0	0	414,220	414,220
Police and Fire Pension	0	0	0	43	43
Senior Citizens	0	0	0	87,705	87,705
Stadium Maintenance	0	0	0	359,084	359,084
Recreation Land Acquisition	0	0	0	197,173	197,173
Debt Service Payments	0	3,073	0	0	3,073
Capital Improvement	0	0	0	15,550	15,550
<i>Total Restricted</i>	0	3,073	628,529	1,690,214	2,321,816
<i>Assigned to</i>					
Other Purposes	85,339	0	0	0	85,339
<i>Unassigned</i>	575,503	0	0	0	575,503
<i>Total Fund Balances</i>	\$890,670	\$3,073	\$658,529	\$1,757,799	\$3,310,071

City of Eastlake, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

Note 5 - Budgetary Basis of Accounting

While the City is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP basis), 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 Balance - Budget (Non-GAAP Basis) and Actual presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as restricted, committed or assigned fund balance (GAAP basis).
4. Advances In and Advances Out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statement to the budgetary basis statement on a fund type basis for the general fund.

	<u>General</u>
GAAP Basis	(\$656,672)
Net Adjustment for Revenue Accruals	28,555
Net Adjustment for Expenditure Accruals	(119,302)
Advances In	7,500
Advances Out	(7,500)
Encumbrances	<u>(93,109)</u>
Budget Basis	<u><u>(\$840,528)</u></u>

Note 6 - Deposits and Investments

The City is a charter City and has adopted an investment policy through City Ordinance. The City has elected to follow the provision of State statute. State statutes classify monies held by the City into three categories.

Active deposits are public deposits determined to be necessary to meet current demands upon the City treasury. Active monies must be maintained either as cash in the City Treasury, in commercial accounts payable withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Council has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not 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.

City of Eastlake, Ohio
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Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation 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.

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

Interim monies may be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAR Ohio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

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; and
3. Obligations of the City.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short

City of Eastlake, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

Deposits

Custodial Credit Risk Custodial credit risk for deposits 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, \$1,830,001 of the City's bank balance of \$2,926,000 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

The City has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the City or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the 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 the deposits being secured.

Investments

At December 31, 2011, the City had \$361,092 invested in STAR Ohio with an average maturity of 57.0 days.

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 investments so that securities mature to meet cash requirements for ongoing operations. The stated intent of the policy is to avoid the need to sell securities prior to maturity.

Credit Risk Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. STAR Ohio carries a rating of AAAM by Standard & Poor's. The City has no policy that addresses credit risk.

Concentration of Risk The City places no limit on the amount that may be invested in any one issuer.

Note 7 - Receivables

Receivables at December 31, 2011, consisted primarily of municipal income taxes, property and, permissive motor vehicle taxes, intergovernmental receivables arising from entitlements and shared revenues, special assessments, accrued interest on investments and accounts (billings for utility service).

No allowance for doubtful accounts has been recorded because uncollectible amounts are expected to be insignificant. All receivables except for delinquent property taxes and special assessments are expected to be collected within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

City of Eastlake, Ohio
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Special assessments expected to be collected in more than one year amount to \$219,212 in the sanitary sewer enterprise fund. At December 31, 2011, the amount of delinquent special assessments was \$125,367.

Property Taxes

Property taxes include amounts levied against all real and public utility property located in the City. Property tax revenue received during 2011 for real and public utility property taxes represents collections of the 2010 taxes.

2011 real property taxes are levied after October 1, 2011 on the assessed value as of January 1, 2011, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2011 real property taxes are collected in and intended to finance 2012.

Real property taxes are payable annually or semi-annually. If paid annually, the payment is due January 20; if paid semi-annually, the first payment is due January 20 with the remainder payable by July 18. Under certain circumstances, State statute permits later payment dates to be established.

Public utility personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2011 public utility property taxes which became a lien December 31, 2010, are levied after October 1, 2011, and are collected in 2012 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2011 was \$8.30 per \$1,000 of assessed value. The assessed values of real property and public utility property upon which 2011 property tax receipts were based are as follows:

<u>Category</u>	<u>Assessed Value</u>
Real Estate	
Residential/Agricultural	\$310,688,040
Other Real Estate	136,694,060
Public Utility Personal Property	<u>76,109,100</u>
Total Assessed Values	<u><u>\$523,491,200</u></u>

The County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and public utility property taxes and outstanding delinquencies which are measurable as of December 31, 2011 and for which there is an enforceable legal claim. In the governmental funds, the entire receivable has been deferred since current taxes were not levied to finance 2011 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as revenue while on the modified accrual basis the revenue has been deferred.

Income Taxes

The City levies a municipal income tax of two percent on substantially all income earned within the City; in addition, residents are required to pay tax on income earned outside the City. The City allows a credit of two percent for income tax paid to another municipality up to the total amount owed to the City.

City of Eastlake, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

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

Intergovernmental Receivable

A summary of the principal items of intergovernmental receivables follows:

Governmental Activities	
Local Government	\$875,232
Gasoline Tax	317,686
Homestead and Rollback	141,462
Estate Tax	79,830
Auto Registration	71,564
Victims of Crimes Act Grant	47,599
Tangible Personal Property Loss Reimbursements	30,462
City of Willoughby	9,646
Village of Lakeline	8,328
State Victim Assistance Academy Grant	4,119
Lake County Visitor's Bureau	1,242
Total	<u><u>\$1,587,170</u></u>

Note 8 - Interfund Transfers

During 2011, the general fund transferred \$693,900 to other governmental funds to provide additional resources for current operations. Other governmental funds made transfers in the amount of \$572,000 to the general bond retirement debt service fund as debt payments came due.

Note 9 - Contingencies

Litigation

The City is a party to various legal proceedings which seek damages or injunctive relief generally incidental to its operations and pending projects. The City's management is of the opinion that the ultimate disposition of various claims and legal proceedings will not have a material effect, if any, on the financial condition of the City.

As to the *Ohio Department of Transportation vs. Eastlake Development Company* court case, the matter was settled. However, there was no agreed payment plan. Instead, the parties agreed to further negotiate and payment terms and ODOT agreed that there would be no execution against the City on the judgment unless a number of conditions which evidence the City's financial health occur. The City has not met those conditions and likely will not in the foreseeable future.

City of Eastlake, Ohio
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As to *Richard Fatur v. City of Eastlake, et al.*, Lake County Court of Common Pleas, Case No. 05 CV001922, the lawsuit remains in its infancy. A great number of the original claims and the number of years at issue has previously been reduced on the defendants' motion to dismiss. A motion to reconsider the refusal to accept jurisdiction by the Ohio Supreme Court is pending. The City has presented, and still has available, numerous arguments of law and fact.

Grants

For the period January 1, 2011, to December 31, 2011, the City received Federal and State grants for specific purposes that are subject to review and audit by the grantor agencies or their designees. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the City believes such disallowances, if any, would be immaterial.

Note 10 - Capital Assets

A summary of changes in capital assets during 2011 follows:

	Balance 12/31/2010	Additions	Deletions	Balance 12/31/2011
Governmental Activities				
<i>Nondepreciable Capital Assets</i>				
Land	\$7,044,735	\$0	\$0	\$7,044,735
Construction in Progress	1,709,031	98,012	(1,807,043)	0
<i>Total Nondepreciable Capital Assets</i>	<u>8,753,766</u>	<u>98,012</u>	<u>(1,807,043)</u>	<u>7,044,735</u>
<i>Depreciable Capital Assets</i>				
Land Improvements	17,903,119	32,046	0	17,935,165
Buildings and Improvements	8,528,626	217,472	0	8,746,098
Machinery and Equipment	2,726,234	371,919	0	3,098,153
Vehicles	4,613,710	118,099	0	4,731,809
Infrastructure	21,482,637	1,981,385	0	23,464,022
<i>Total Depreciable Capital Assets</i>	<u>55,254,326</u>	<u>2,720,921</u>	<u>0</u>	<u>57,975,247</u>
Less Accumulated Depreciation:				
Land Improvements	(3,291,302)	(362,617)	0	(3,653,919)
Buildings and Improvements	(4,608,667)	(152,078)	0	(4,760,745)
Machinery and Equipment	(1,893,349)	(153,331)	0	(2,046,680)
Vehicles	(2,495,302)	(180,540)	0	(2,675,842)
Infrastructure	(13,671,423)	(938,368)	0	(14,609,791)
<i>Total Accumulated Depreciation</i>	<u>(25,960,043)</u>	<u>(1,786,934) *</u>	<u>0</u>	<u>(27,746,977)</u>
<i>Total Depreciable Capital Assets, Net</i>	<u>29,294,283</u>	<u>933,987</u>	<u>0</u>	<u>30,228,270</u>
<i>Total Governmental Capital Assets, Net</i>	<u>\$38,048,049</u>	<u>\$1,031,999</u>	<u>(\$1,807,043)</u>	<u>\$37,273,005</u>

City of Eastlake, Ohio
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For the Year Ended December 31, 2011

	Balance 12/31/2010	Additions	Deletions	Balance 12/31/2011
Business-Type Activities				
<i>Nondepreciable Capital Assets</i>				
Land	\$75,556	\$0	\$0	\$75,556
Construction in Progress	300,751	527,334	0	828,085
<i>Total Nondepreciable Capital Assets</i>	<u>376,307</u>	<u>527,334</u>	<u>0</u>	<u>903,641</u>
<i>Depreciable Capital Assets</i>				
Buildings and Improvements	2,158,690	0	0	2,158,690
Machinery and Equipment	241,100	358,518	0	599,618
Vehicles	427,086	71,915	0	499,001
Infrastructure				
Sewers	9,155,278	204,837	0	9,360,115
<i>Total Depreciable Capital Assets</i>	<u>11,982,154</u>	<u>635,270</u>	<u>0</u>	<u>12,617,424</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(798,408)	(37,677)	0	(836,085)
Machinery and Equipment	(51,082)	(23,639)	0	(74,721)
Vehicles	(359,159)	(18,686)	0	(377,845)
Infrastructure				
Sewers	(7,399,149)	(45,982)	0	(7,445,131)
<i>Total Accumulated Depreciation</i>	<u>(8,607,798)</u>	<u>(125,984)</u>	<u>0</u>	<u>(8,733,782)</u>
<i>Total Depreciable Capital Assets, Net</i>	<u>3,374,356</u>	<u>509,286</u>	<u>0</u>	<u>3,883,642</u>
<i>Total Business-Type Activities Capital Assets, Net</i>	<u>\$3,750,663</u>	<u>\$1,036,620</u>	<u>\$0</u>	<u>\$4,787,283</u>

* Depreciation expense was charged to governmental functions as follows:

General Government	\$37,531
Security of Persons and Property	204,092
Transportation	120,121
Community Environment	85
Basic Utility Services	486,737
Leisure Time Activities	938,368
Total	<u>\$1,786,934</u>

Note 11 - Assets Held for Resale

Assets held for resale represents homes purchased and repaired to be resold under the Community Development in-fill housing project. As of December 31, 2011, the City has two homes which are being held for resale.

City of Eastlake, Ohio
Notes to the Basic Financial Statements
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Note 12 - Risk Management

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

During 2011, the City participated in NORMA, an insurance pool for the following types of insurance:

Type	Coverage
Property	\$419,155,845
Inland Marine	7,300,000
General Liability	1,000,000
Automobile Liability	1,000,000
Law Enforcement Liability	1,000,000
Public Officials Liability	1,000,000
Employment Practices Liability	1,000,000
Umbrella	15,000,000

Claims have not exceeded this coverage in any of the past three years and there have been no significant reductions in overall commercial coverage in any of the past three years.

During fiscal year 2011, the City began participating in the State Workers' Compensation retrospective rating and payment system. CareWorks Consultants serves as the City's third party administrator. Once the City receives notice of the 2011 claims paid by the Bureau of Workers' Compensation, CareWorks Consultants will reimburse the State for claims paid on the City's behalf. The payable is reclassified from claims payable to intergovernmental payable. This plan involves the payment of a minimum premium for administrative services and stop-loss coverage plus the actual claim costs for employees injured in 2011. The minimum premium portion of intergovernmental payable is \$149,640 and the actual claim costs are \$37,728. The maintenance of these benefits is accounted for in the general fund. Claims of \$37,728 have been accrued as a liability at December 31, 2011 based on an estimate provided by CareWorks Consultants. Changes in the claims liability amount in 2011 were:

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
2011	\$0	\$37,728	\$0	\$37,728

Note 13 - Defined Benefit Pension Plan

Ohio Public Employees Retirement System

Plan Description – The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed Plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest

City of Eastlake, Ohio
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over five years at 20 percent per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost-of-living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions and currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units and 18.1 percent of covered payroll for law enforcement and public safety employer units. Member contribution rates, as set forth in the Ohio Revised Code, are not to exceed 10 percent of covered payroll for members in State and local divisions and 12 percent for law enforcement and public safety members. For the year ended December 31, 2011, members in state and local divisions contributed 10 percent of covered payroll while public safety and law enforcement members contributed 11.0 percent and 11.6 percent, respectively. 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. For 2011, member and employer contribution rates were consistent across all three plans.

The City's 2011 contribution rate was 14.0 percent, except for those plan members in law enforcement or public safety, for whom the City's contribution was 18.1 percent of covered payroll. The portion of employer contributions used to fund pension benefits is net of post-employment health care benefits. The portion of employer contribution allocated to health care for members in the Traditional Plan was 4 percent for 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent for 2011. Employer contribution rates are actuarially determined.

The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2011, 2010 and 2009 were \$244,364, \$298,841 and \$256,613, respectively. For 2011, 91.79 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2010 and 2009. Contributions to the Member-Directed plan for 2011 were \$6,663 made by the City and \$9,329 made by plan members.

Ohio Police and Fire Pension Fund

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

City of Eastlake, Ohio
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Funding Policy – The Ohio Revised Code requires plan members to contribute 10.0 percent of their annual covered salary, while employers are required to contribute 19.5 percent for police officers and 24.0 percent for firefighters.

The OP&F Pension Fund is authorized by the Ohio Revised Code to allocate a portion of the employer contributions to retiree health care benefits. The portion of employer contributions used to fund pension benefits was 12.75 percent of covered payroll for police officers and 17.25 percent of covered payroll for firefighters. The City's contributions to OP&F for police and firefighters pension were \$300,360 and \$345,148 for the year ended December 31, 2011, \$301,187 and \$341,818 for the year ended December 31, 2010, and \$331,347 and \$338,275 for the year ended December 31, 2009, respectively. For 2011, 84.21 percent for police and 83.57 percent for firefighters has been contributed with the balance for both police and firefighters being reported as an intergovernmental payable. The full amount has been contributed for 2010 and 2009.

Note 14 - Postemployment Benefits

Ohio Public Employees Retirement System

Plan Description – Ohio Public Employees Retirement System (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 defined contribution plan.

OPERS maintains a cost-sharing multiple-employer defined benefit post-employment health care plan for 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. The plan includes a medical plan, prescription drug program and Medicare Part B premium reimbursement.

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 for disability benefit recipients and qualified survivor benefit recipients is available. The Ohio Revised Code permits, but does not mandate, OPERS to provide health care benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy – The post-employment health care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2011, state and local employers contributed at a rate of 14.0 percent of covered payroll, and public safety and law enforcement employers contributed at 18.10 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code.

City of Eastlake, Ohio
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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. The portion of employer contributions allocated to health care for members in the Traditional Plan was 4.0 percent for 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent for 2011.

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. Active members do not make contributions to the post-employment health care plan.

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2011, 2010 and 2009 were \$160,632, \$170,350 and \$189,970, respectively. For 2011, 91.79 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2010 and 2009.

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 on January 1 of each year from 2006 to 2008. Rates for law enforcement and public safety employers increased over a six year period beginning on January 1, 2006, with a final rate increase on January 1, 2011. These rate increases allowed additional funds to be allocated to the health care plan.

Ohio Police and Fire Pension Fund

Plan Description – The City contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored health care program, a cost-sharing multiple-employer defined post-employment 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 for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45.

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

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

Funding Policy – The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F defined benefit pension plan. Participating employers are required by Ohio Revised Code to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.5 percent and 24.0 percent of covered payroll for police and fire employers, respectively. Active members do not make contributions to the OPEB Plan.

City of Eastlake, Ohio
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OP&F maintains funds for health care in two separate accounts. One for health care benefits under an IRS Code Section 115 trust and one for Medicare Part B reimbursements 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, 2011, the employer contribution allocated to the health care plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

The City's contributions to OP&F which were allocated to fund post-employment health care benefits for police and firefighters were \$147,450 and \$127,658 for the year ended December 31, 2011, \$159,452 and \$133,755 for the year ended December 31, 2010, and \$162,661 and \$125,115 for the year ended December 31, 2009. For 2011, 84.21 percent has been contributed for police and 83.57 percent has been contributed for firefighters with the balance for both police and firefighters being reported as an intergovernmental payable. The full amount has been contributed for 2010 and 2009.

Note 15 - Long-term Obligations

The original issuance amounts for the City's long-term obligations are as follows:

Debt Issue	Interest Rate	Original Issue Amount	Year of Maturity
Governmental Activities			
<i>General Obligation Bonds:</i>			
Tax Exempt Capital Facilities Bonds - 2002	2-5%	\$4,380,000	2027
Capital Facilities Bonds - 2004	3.6-5.75%	4,320,000	2031
Various Purpose Bonds - 2004	2.5-5%	9,890,000	2031
City Hall Construction Refunding Bonds - 2005	3.6-6%	2,790,000	2017
Tax Exempt Various Purpose Refunding Bonds - 2011	2-4%	9,995,000	2027
<i>OPWC Loans:</i>			
Eastlake 377th Street Road Improvement	0%	103,600	2014
North Parkway Road and Sewer	0%	50,000	2019
Parkland Drive Road and Sewer	0%	24,907	2021
Stevens Boulevard Road and Sewer	0%	49,138	2021
East Overlook Road, Storm and Sanitary Sewer	0%	26,254	2023
Roberts Road Improvements	0%	150,000	2025
Plymouth Road and Sewer	0%	58,200	2025
Roberts Road Improvements - Phase 2	0%	96,508	2031
Business-Type Activities			
<i>OPWC Loan:</i>			
Robin/Forest/King Drive Pump Stations	0%	50,000	2030

City of Eastlake, Ohio
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For the Year Ended December 31, 2011

Changes in long-term obligations of the City during 2011 were as follows:

	Balance 12/31/2010	Increase	Decrease	Balance 12/31/2011	Amounts Due in One Year
Governmental Activities					
General Obligation Bonds					
Tax Exempt Capital Facilities Bonds					
Serial	\$285,000	\$0	\$140,000	\$145,000	\$145,000
Term	3,200,000	0	3,200,000	0	0
Total Tax Exempt Capital Facilities Bonds	<u>3,485,000</u>	<u>0</u>	<u>3,340,000</u>	<u>145,000</u>	<u>145,000</u>
Capital Facilities Bonds					
Serial	720,000	0	105,000	615,000	110,000
Term	3,215,000	0	0	3,215,000	0
Total Capital Facilities Bonds	<u>3,935,000</u>	<u>0</u>	<u>105,000</u>	<u>3,830,000</u>	<u>110,000</u>
Various Purpose Bonds					
Serial	1,875,000	0	1,875,000	0	0
Term	4,610,000	0	4,550,000	60,000	0
Total Various Purpose Bonds	<u>6,485,000</u>	<u>0</u>	<u>6,425,000</u>	<u>60,000</u>	<u>0</u>
City Hall Construction Refunding Bonds	<u>1,720,000</u>	<u>0</u>	<u>215,000</u>	<u>1,505,000</u>	<u>225,000</u>
Tax Exempt Various Purpose Refunding Bonds					
Serial	0	8,620,000	0	8,620,000	410,000
Term	0	1,375,000	0	1,375,000	0
Deferred Amount on Refunding	0	(345,833)	0	(345,833)	0
Total Various Purpose Bonds	<u>0</u>	<u>9,649,167</u>	<u>0</u>	<u>9,649,167</u>	<u>410,000</u>
<i>Total General Obligation Bonds</i>	<u>15,625,000</u>	<u>9,649,167</u>	<u>10,085,000</u>	<u>15,189,167</u>	<u>890,000</u>
OPWC Loans					
East 377th Street Road Improvement	20,000	0	6,907	13,093	6,906
North Parkway Sewer	24,174	0	2,500	21,674	2,500
Parkland Drive Road and Sewer	12,454	0	1,246	11,208	1,246
Stevens Boulevard Road and Sewer	24,568	0	2,456	22,112	2,457
East Overlook Road, Storm and Sanitary Sewer	16,414	0	1,318	15,096	1,313
Roberts Road Improvements	105,000	0	7,500	97,500	7,500
Plymouth Road and Sewer	43,649	0	2,910	40,739	2,910
Roberts Road Improvements-Phase 2	0	96,508	2,413	94,095	4,826
<i>Total OPWC Loans</i>	<u>246,259</u>	<u>96,508</u>	<u>27,250</u>	<u>315,517</u>	<u>29,658</u>
Other Long-Term Obligations					
ODOT Payable	164,756	0	32,951	131,805	32,951
Capital Leases Payable	42,128	0	12,288	29,840	12,881
Compensated Absences Payable	1,879,879	66,560	490,109	1,456,330	221,072
Workers' Compensation Liability	0	37,728	0	37,728	37,728
<i>Total Other Long-Term Obligations</i>	<u>2,086,763</u>	<u>104,288</u>	<u>535,348</u>	<u>1,655,703</u>	<u>304,632</u>
Total Governmental Activities	<u>\$17,958,022</u>	<u>\$9,849,963</u>	<u>\$10,647,598</u>	<u>\$17,160,387</u>	<u>\$1,224,290</u>

City of Eastlake, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

	Balance 12/31/2010	Increase	Decrease	Balance 12/31/2011	Amounts Due in One Year
Business-Type Activities					
Notes Payable					
Sanitary Sewer Improvement Notes	\$450,000	\$0	\$450,000	\$0	\$0
OPWC Loan					
Robin/Forest/King Drive Pump Stations	47,500	0	2,500	45,000	2,500
Other Long-Term Obligations					
Capital Leases Payable	0	299,720	63,048	236,672	56,918
Compensated Absences Payable	59,417	18,051	25,723	51,745	14,302
<i>Total Other Long-Term Obligations</i>	<u>59,417</u>	<u>317,771</u>	<u>88,771</u>	<u>288,417</u>	<u>71,220</u>
Total Business-Type Activities	<u>\$556,917</u>	<u>\$317,771</u>	<u>\$541,271</u>	<u>\$333,417</u>	<u>\$73,720</u>

General obligation bonds General obligation bonds are direct obligations of the City for which its full faith and credit are pledged for repayment. General obligation bonds are to be repaid from both voted and unvoted general property taxes levied on all taxable property located within the City as well as municipal income taxes. Tax monies will be received in and the debt will be retired from the general obligation bond retirement debt service and road improvement capital projects funds.

The term bonds maturing on August 1, 2022, 2025 and 2031 are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be redeemed, plus accrued interest to the date of redemption, on August 1 in the years and in the respective principal amounts as follows:

Year	2004 Capital Facilities Term Bonds		
	\$985,000	\$625,000	\$1,605,000
2017	\$145,000	\$0	\$0
2018	150,000	0	0
2019	160,000	0	0
2020	170,000	0	0
2021	175,000	0	0
2023	0	195,000	0
2024	0	210,000	0
2026	0	0	230,000
2027	0	0	245,000
2028	0	0	260,000
2029	0	0	275,000
2030	0	0	290,000
Total	<u>\$800,000</u>	<u>\$405,000</u>	<u>\$1,300,000</u>
<i>Stated Maturity</i>	<i>8/1/2022</i>	<i>8/1/2025</i>	<i>8/1/2031</i>

The remaining principal amount of the term bonds (\$185,000, \$220,000 and \$305,000) will mature at the stated maturity.

Refunded Bonds On April 1, 2005, the City issued \$2,790,000 in general obligation refunding bonds with interest rates varying from 3.6 percent to 6 percent. Proceeds were used to refund \$2,665,000 of the 1993 general obligation bonds for city hall building improvements.

City of Eastlake, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

Proceeds were deposited in an irrevocable trust with an escrow agent to provide for all future debt payments on the refunded 1993 general obligation bonds. As a result \$2,790,000 of these bonds were considered defeased and the liability for the refunded bonds has been removed from the City's financial statements. The amount still outstanding at December 31, 2011 is \$1,465,000.

On December 15, 2011, the City issued \$9,995,000 in general obligation refunding bonds, to partially refund bonds previously issued in fiscal year 2002 and 2004 for construction of the stadium. The bonds were issued with interest rates varying from 2 percent to 4 percent. The bonds were issued for a 16 year period with final maturity during fiscal year 2027. The bonds will be retired through the general obligation bond retirement debt service fund.

	2002 Tax Exempt Capital Facilities Bonds	2004 Various Purpose Bonds
Outstanding at December 31, 2010	\$3,485,000	\$6,485,000
Amount Refunded	(3,200,000)	(6,140,000)
Principal Payment on Non-Refunded Portion	(140,000)	(285,000)
Outstanding at December 31, 2011	\$145,000	\$60,000

Proceeds were deposited in an irrevocable trust with an escrow agent to provide for all future debt payments on the refunded 2002 and 2004 tax exempt bonds. As a result, \$9,340,000 of these bonds were considered defeased and the liability for the refunded bonds has been removed from the City's financial statements. The amount still outstanding at December 31, 2011 is \$9,340,000.

Although the refunding will result in the recognition of an accounting loss of \$345,833, the City in effect decreased its aggregated debt service payments by \$756,048 over the next 16 years and obtained an economic gain (difference between present values of the old debt and new debt service payments) of \$585,729.

Early Extinguished Bonds On September 18, 2009, the City early extinguished \$7,230,000 of its 2002 Taxable Capital Facilities Bonds. The early extinguishment was deposited in an irrevocable trust with an escrow agent to provide for all future debt payments on the 2002 Taxable Capital Facilities Bonds. As a result the entire amount of extinguished bonds were considered defeased and the liability for the extinguished bonds has been removed from the City's financial statements. The amount still outstanding at December 31, 2011 is \$6,570,000.

OPWC loans OPWC loans consist of money owed to the Ohio Public Works Commission for road improvements and for sanitary sewer improvements. The loans are interest free. OPWC loans will be paid from the road improvement capital projects fund.

ODOT Payable ODOT payable consists of money owed to the Ohio Department of Transportation for work done on the access modification to the baseball stadium and parking lot. The payable will be paid from the road improvement capital projects fund.

Capital Leases Capital lease obligations will be paid from the fund that maintains custody of the related assets. Capital leases will be paid from the general fund and sewer enterprise fund.

City of Eastlake, Ohio
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For the Year Ended December 31, 2011

Compensated Absences The compensated absences liability will be paid from the fund from which the employees' salaries are paid. These funds include the general fund; the street construction, maintenance, and repair; the federal grants; and Taft center donation special revenue funds; the road improvement capital projects fund; and the sanitary sewer enterprise fund.

The City's overall legal debt margin was \$40,399,354 with an unvoted debt margin of \$13,779,847 at December 31, 2011.

Principal and interest requirements to retire governmental and business-type activities long-term obligations outstanding at December 31, 2011, were as follows:

Governmental Activities				
General Obligation Bonds				
Year	Serial		Term	
	Principal	Interest	Principal	Interest
2012	\$890,000	\$535,395	\$0	\$3,000
2013	905,000	521,548	0	3,000
2014	935,000	495,647	0	3,000
2015	970,000	468,398	0	3,000
2016	995,000	439,475	0	3,000
2017-2021	3,405,000	955,438	800,000	838,711
2022-2026	2,235,000	213,064	2,445,000	847,078
2027-2031	550,000	19,938	1,405,000	247,313
Total	\$10,885,000	\$3,648,903	\$4,650,000	\$1,948,102

Year	OPWC Loans	ODOT Payable
	Principal	Principal
2012	\$29,658	\$32,951
2013	29,658	32,951
2014	46,033	32,951
2015	20,251	32,952
2016	20,250	0
2017-2021	87,714	0
2022-2026	60,238	0
2027-2021	21,715	0
Total	\$315,517	\$131,805

City of Eastlake, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

Business-Type Activities	
	OPWC Loans
Year	Principal
2012	\$2,500
2013	2,500
2014	2,500
2015	2,500
2016	2,500
2017-2021	12,500
2022-2026	12,500
2027-2031	7,500
Total	\$45,000

Note 16 - Capital Leases - Lessee Disclosure

The City has entered into capitalized leases for copiers and a sewer cleaner. The leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures on the statement of revenues, expenditures, and changes in fund balance for governmental funds.

	Governmental Activities	Business-Type Activities
Copiers	\$62,301	\$0
Sewer Cleaner	0	299,720
Less: Accumulated Depreciation	(37,380)	(14,986)
Total	\$24,921	\$284,734

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of December 31, 2011.

	Governmental Activities	Business-Type Activities
2012	\$14,016	\$63,048
2013	14,016	63,048
2014	3,493	63,048
2015	0	63,048
Total Mimimum Lease Payments	31,525	252,192
Less: Amount representing interest	(1,685)	(15,520)
Present Value of Mimimum Lease Payments	\$29,840	\$236,672

City of Eastlake, Ohio
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Capital lease payments have been reclassified and reflected as debt service in the fund financial statement for the general fund. These expenditures are reflected as program expenditures on a budgetary basis.

Note 17 – Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Employees earn vacation at different rates which are affected by length of service. At the time of separation the employee is entitled to payment for any earned but unused vacation. Sick leave is accrued at the rate of 4.6 hours for each 80 hours of completed service, including paid holidays and paid vacation, with a maximum accumulation of 1,344 hours. Upon retirement, employees are paid for all the sick days they have accumulated.

Note 18 - Jointly Governed Organization

The City is a member of The Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of electricity. NOPEC is currently comprised of over 112 communities who have been authorized by ballot to purchase electricity on behalf of their citizens. The intent of NOPEC is to provide electricity at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity to the citizens of its member communities. The City did not contribute to NOPEC during 2011. Financial information can be obtained by contacting Joseph Migliorini, Board Chairman, 175 South Main Street, Akron, Ohio 44308 or at the website www.nopecinfo.org.

Note 19 - Shared Risk Pool

The Northern Ohio Risk Management Association (NORMA) is a shared risk pool comprised of the Cities of Bedford Heights, Eastlake, Highland Heights, Hudson, Maple Heights, Mayfield Heights, Richmond Heights, Solon, South Euclid, and the Village of Chagrin Falls. NORMA was formed to enable its members to obtain property and liability insurance, including vehicles, and provide for a formalized, jointly administered self-insurance fund. The members formed a not-for-profit corporation known as NORMA, Inc. to administer the pool. NORMA is governed by a board of trustees that consists of the Mayor from each of the participating members.

Each entity must remain a member for at least three years from the commencement date of October 1, 1987, with the exception of the Cities of Eastlake and Solon whose commencement date is October 1, 1989, and the City of Maple Heights, whose commencement date is October 1, 1993. After the initial three years, each City may extend its term in three-year increments.

Each member provides operating resources to NORMA based on actuarially determined rates. In the event of losses, the first \$2,500 of any valid claim will be paid by the member. The next payment, generally a maximum of \$100,000 per occurrence, will come from the self-insurance pool with any excess paid from the stop-loss coverage carried by the pool. Any loss over these amounts would be the obligation of the individual member. If the aggregate claims paid by the pool exceed the available resources, the pool may require the members to make additional supplementary payments up to a maximum of the regular annual payment.

City of Eastlake, Ohio
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In 2011, the City of Eastlake paid \$101,926 in premiums from the general fund and special revenue funds, which represents 11.78 percent of the total premiums paid by all members. Financial information can be obtained by contacting the fiscal agent, the Finance Director at the City of Maple Heights, 5353 Lee Road, Maple Heights, Ohio, 44137.

Note 20 - Related Organization

The Eastlake Port Authority was created under the Ohio Revised Code and conducts port development and operations. The Authority is governed by a seven member Board of Directors which consists of five members appointed by the Mayor and two appointed by City Council. The City's accountability does not extend beyond appointing board members.

City of Eastlake, Ohio
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The discussion and analysis of the City of Eastlake's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2010. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers are encouraged to consider the information presented here in conjunction with the additional information contained in the basic financial statements and notes to enhance their understanding of the City's financial performance.

Financial Highlights

- In total, the City's net assets increased slightly from 2009. The cash balance decreased as well as long-term liabilities.
- The City continues to focus on the maintenance and repair of sidewalks and streets. In 2010, portions of East 347th and East 348th Streets were in the process of complete restoration.
- A review of the enterprise funds reflects a large increase in their capital assets. Construction of new pump stations at Robin, Forester, and King Drive were completed during 2009. A complete renovation of a pump station and service area at Quentin Road is in the final stages of completion at the end of the year.

Using This Annual Financial Report

This discussion and analysis is intended to serve as an introduction to the City of Eastlake's basic financial statements. These statements are organized so that readers can understand the City as a financial whole or as an entire operating entity. The statements then proceed to provide an increasing detailed look at specific financial conditions.

The statement of Net Assets and Statement of Activities provide information about the activities of the whole City. They provide both an aggregate view of the City's finances in addition to a longer-term view of those assets. Major fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what dollars remain for future spending. The fund financial statements also look at the City's most significant funds with all other non-major funds presented in total in one column.

The City of Eastlake as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and asks the questions, "How did we do financially during 2010?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by the private sector. The basis for this accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

The *statement of net assets* presents information on all of the City of Eastlake's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Eastlake is improving or deteriorating.

City of Eastlake, Ohio
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However, the analysis on the City's condition must also look at the City's tax base, property tax evaluation and the condition of the City's assets.

The *statement of activities* presents information showing how the government's net assets changed during the recent year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Eastlake that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Eastlake include general government, security of persons and property (police and fire), public health services, leisure time activities, community environment and transportation. Business-type activities include sanitary sewer and storm water operations.

Reporting the City's Most Significant Funds

Fund Financial Statements A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Eastlake, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Eastlake can be divided into three categories: governmental, proprietary and fiduciary.

Governmental funds Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on *near-term inflows and outflows of expendable resources*, as well as on balances of expendable resources available at the end of the year.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds and governmental activities*.

The City of Eastlake maintains thirty-six individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the general fund and road improvement capital projects fund, which are considered to be major funds. Data from the other governmental funds are combined into single, aggregated presentation.

The City of Eastlake adopts an annual appropriated budget for each of its funds to demonstrate budgetary compliance.

City of Eastlake, Ohio
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Proprietary Funds The City of Eastlake's proprietary funds are the sanitary sewer and storm water enterprise funds. Proprietary fund statements provide the same type of information as the government-wide financial statements, only in more detail.

Fiduciary Funds The City uses agency funds to account for the portion of Council payroll donated for civic purposes, insurance proceeds held by the City to secure proper handling of fire damaged structures until adequately repaired or demolished, construction deposits, and Lake County water collections. The City assigns an agency fund to account for these receipts and disbursements.

Notes to the Basic Financial Statements The notes provide additional information that are essential for a full understanding of the data provided in the government-wide and fund financial statements.

The City as a Whole

As noted earlier, the Statement of Net Assets looks at the City as a whole. The following table provides a summary of the City's net assets for 2010 compared to 2009.

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2010	Restated 2009	2010	Restated 2009	2010	Restated 2009
Assets						
Current and Other Assets	\$12,383,798	\$13,957,829	\$1,427,157	\$1,099,708	\$13,810,955	\$15,057,537
Capital Assets, Net	38,048,049	38,047,709	3,750,663	3,427,210	41,798,712	41,474,919
Total Assets	50,431,847	52,005,538	5,177,820	4,526,918	55,609,667	56,532,456
Liabilities						
Current Liabilities	5,355,991	6,060,248	193,266	44,349	5,549,257	6,104,597
Long-Term Liabilities						
Due Within One Year	1,088,620	1,054,843	21,297	13,351	1,109,917	1,068,194
Due in More Than One Year	16,869,402	18,086,290	535,620	45,676	17,405,022	18,131,966
Total Liabilities	23,314,013	25,201,381	750,183	103,376	24,064,196	25,304,757
Net Assets						
Invested in Capital Assets,						
Net of Related Debt	22,484,203	21,545,693	3,253,163	3,427,210	25,737,366	24,972,903
Restricted for:						
Capital Projects	1,281,727	1,363,190	0	0	1,281,727	1,363,190
Debt Service	0	183,493	0	0	0	183,493
Other Purposes	1,208,158	1,206,168	0	0	1,208,158	1,206,168
Unrestricted	2,143,746	2,505,613	1,174,474	996,332	3,318,220	3,501,945
Total Net Assets	\$27,117,834	\$26,804,157	\$4,427,637	\$4,423,542	\$31,545,471	\$31,227,699

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Total net asset for governmental activities showed a slight increase due to the increase in municipal income taxes revenue and less interest and fiscal charges paid on debt obligations in 2010.

Total net assets for business-type activities also showed a small increase that can be primarily attributed to the capital asset addition of the Quentin Road pump station, offset by an additional note and OPWC Loan debt.

In order to further understand what makes up the changes in net assets for the current year, the following table gives readers further details regarding the results of activities for the current year.

Table 2
Change in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2010	Restated 2009	2010	Restated 2009	2010	Restated 2009
Revenues						
Program Revenues						
Charges for Services	\$2,503,625	\$3,001,997	\$2,039,743	\$1,720,954	\$4,543,368	\$4,722,951
Operating Grants and Contributions	1,627,145	1,307,039	0	0	1,627,145	1,307,039
Capital Grants and Contributions	658,044	557,824	0	0	658,044	557,824
Total Program Revenues	4,788,814	4,866,860	2,039,743	1,720,954	6,828,557	6,587,814
General Revenues						
Property Taxes	3,194,267	2,989,906	0	0	3,194,267	2,989,906
Income Taxes	6,640,465	5,895,129	0	0	6,640,465	5,895,129
Hotel Taxes	344,423	35,267	0	0	344,423	35,267
Grants and Entitlements	2,863,920	3,332,617	0	0	2,863,920	3,332,617
Franchise Taxes	251,299	235,855	0	0	251,299	235,855
Investment Earnings	4,661	30,803	0	0	4,661	30,803
Other	176,126	69,940	0	0	176,126	69,940
Total General Revenues	13,475,161	12,589,517	0	0	13,475,161	12,589,517
Total Revenues	\$18,263,975	\$17,456,377	\$2,039,743	\$1,720,954	\$20,303,718	\$19,177,331

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Table 2
Change in Net Assets (continued)

	Governmental Activities		Business-Type Activities		Total	
		Restated		Restated		Restated
	2010	2009	2010	2009	2010	2009
Program Expenses						
General Government	\$3,649,548	\$4,406,774	\$0	\$0	(\$3,649,548)	(\$4,406,774)
Security of Persons and Property	7,842,017	7,877,033	0	0	(7,842,017)	(7,877,033)
Public Health Services	192,223	189,449	0	0	(192,223)	(189,449)
Transportation	1,356,476	1,651,848	0	0	(1,356,476)	(1,651,848)
Community Environment	331,445	323,953	0	0	(331,445)	(323,953)
Basic Utility Services	2,033,754	1,305,265	0	0	(2,033,754)	(1,305,265)
Leisure Time Activities	1,804,814	1,897,607	0	0	(1,804,814)	(1,897,607)
Interest	740,021	1,270,556	0	0	(740,021)	(1,270,556)
Sanitary Sewer	0	0	1,925,648	1,368,015	(1,925,648)	(1,368,015)
Storm Water	0	0	110,000	99,000	(110,000)	(99,000)
Total Program Expenses	17,950,298	18,922,485	2,035,648	1,467,015	(19,985,946)	(20,389,500)
<i>Increase (Decrease) in Net Assets</i>						
<i>Before Special and Extraordinary Items</i>						
<i>and Transfers and Contributions</i>	313,677	(1,465,148)	4,095	253,939	317,772	(1,211,209)
Special and Extraordinary Items						
Special Item	0	3,986,000	0	0	0	3,986,000
Extraordinary Item	0	(1,035,975)	0	0	0	(1,035,975)
Transfers and Contributions	0	(550,054)	0	550,054	0	0
Total Special and Extraordinary Items						
<i>and Transfers and Contributions</i>	0	2,399,971	0	550,054	0	2,950,025
Increase in Net Assets	313,677	934,823	4,095	803,993	317,772	1,738,816
Net Assets Beginning of Year-Restated	26,804,157	25,869,334	4,423,542	3,619,549	31,227,699	29,488,883
Net Assets End of Year	\$27,117,834	\$26,804,157	\$4,427,637	\$4,423,542	\$31,545,471	\$31,227,699

Governmental Activities

Several revenue sources fund governmental activities with City municipal income tax being the largest contributor. The City has a current municipal income tax rate of 2 percent and grants a 2 percent credit to residents who pay municipal income tax to another city. The income tax revenue for 2010 was \$745,336 higher than 2009 due to the City increasing its efforts to collect on delinquent income tax returns. Property tax collections are the next largest source of revenue for governmental activities. The City collects 3 mills of inside millage and has approved 5.3 mills of outside millage. The outside millage is generated from a 1.8 mill general fund operating levy, 3 mill road levy, and a .5 mill fire levy. The .5 mill fire levy was renewed by the voters in the November 2010 election. The City is constantly reviewing its fee structure to insure that all fees constitute a fair charge for the cost of providing government services. During 2010, property taxes were \$204,361 higher than 2009 due to a slight turnaround in the economy. Grants and Entitlements decreased as a result of less local government revenue received from the State. Franchise taxes and interest earnings remained fairly consistent with 2009 levels.

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Table 3, indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted intergovernmental revenues.

Table 3
 Total and Net Cost of Program Services
 Governmental Activities

	2010		2009	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
General Government	\$3,649,548	(\$3,007,796)	\$4,406,774	(\$4,222,197)
Security of Persons and Property	7,842,017	(6,408,031)	7,877,033	(7,015,081)
Public Health Services	192,223	(160,971)	189,449	(189,449)
Transportation	1,356,476	154,740	1,651,848	(152,678)
Community Environment	331,445	(276,344)	323,953	(100,303)
Basic Utility Services	2,033,754	(1,518,384)	1,305,265	(381,695)
Leisure Time Activities	1,804,814	(1,204,677)	1,897,607	(723,666)
Interest and Fiscal Charges	740,021	(740,021)	1,270,556	(1,270,556)
Total	\$17,950,298	(\$13,161,484)	\$18,922,485	(\$14,055,625)

Expenses decreased by \$972,187 compared to 2009. General government, transportation, leisure time activities decreased mainly due to cost-cutting measures implemented by the City. Public safety, including police and fire departments, is the largest area of expenses and accounts for program expenses of \$7,842,017, which is 44 percent of total expenses. This was comparable to 2009 levels as the City continues to strive to provide better police and fire service at low cost per man-hour. Interest and fiscal charges decreased in 2010 by \$530,535 as the City paid less debt obligations compared to 2009.

Business-Type Activities

The City's business-type activities are comprised of two enterprise funds, which are the City's sanitary sewer system and storm water collection. In 2010, charges for services continued to be the major revenue source for business-type activities. An increase in total revenues resulted from the sewer rate increase, which was approved in August 2010.

Governmental Funds Financial Analysis

A review of the City's governmental funds provides information on near-term flows and balances of expendable resources and serves as a useful measure of a government's net resources. Governmental fund information can be found on page 66 and is accounted for using the modified accrual basis of accounting.

The City's major governmental funds are the general fund and the road improvement capital projects fund. The general fund expenditures exceeded revenues for the year, with revenues decreasing very slightly from the previous year, and expenditures decreasing from the previous year. The decrease in expenditures is due to continued cost-cutting measures implemented by the City. The road improvement capital projects fund had an increase in fund balance as a result of decreased contracts for continued road improvement projects.

City of Eastlake, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2010
Unaudited

General Fund Budgeting Highlights

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the general fund. During the course of 2010, the City amended its general fund accordingly to avoid waiting until the end of the year to adjust appropriations. All recommendations for budget changes are presented to the Finance Committee of Council before going to City Council for legislative action to approve the change. Budgetary changes normally consist of requests for additional funds to cover overtime, union wage adjustments, and transfers to the callable bond debt service retirement fund and the employee termination special revenue fund. The control level of the general fund is by object within each department. This allows the City to make small interdepartmental budget modifications within departments. The general fund is monitored closely with regard to revenues and related expenditures. There was a decrease in revenues from the final budget to actual due to lower property and municipal income taxes received than expected. There was also a decrease in actual expenditures made compared to the final budget. This was due to restricting spending as much as possible in the City's efforts to continue its financial recovery.

Capital Assets and Debt Administration

Capital Assets

Table 4 shows 2010 balances of capital assets as compared to 2009.

Table 4
 Capital Assets at December 31
 (Net of Accumulated Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
		Restated				
Land	\$7,044,735	\$7,044,735	\$75,556	\$75,556	\$7,120,291	\$7,120,291
Construction in Progress	1,709,031	673,384	300,751	63,236	2,009,782	736,620
Land Improvements	14,611,817	14,969,569	0	0	14,611,817	14,969,569
Buildings and Improvements	3,919,959	3,374,736	1,360,282	1,397,960	5,280,241	4,772,696
Machinery and Equipment	832,885	947,429	190,018	39,436	1,022,903	986,865
Vehicles	2,118,408	2,386,357	67,927	88,799	2,186,335	2,475,156
Infrastructure	7,811,214	8,651,499	1,756,129	1,762,223	9,567,343	10,413,722
Total Capital Assets	\$38,048,049	\$38,047,709	\$3,750,663	\$3,427,210	\$41,798,712	\$41,474,919

For 2010, the primary additions for governmental activities included the Houston Fisher Pool rehabilitation and construction in progress on the South Lakeshore Boulevard road improvements and the East 347th and East 348th Street improvements. Disposals were minimal.

The primary addition for the business-type activities was the purchase of cameras for the sewer lines and the construction in progress of the Quentin Road pump station. There were no disposals for business-type activities in 2010. Additional information concerning the City's capital assets can be found in Note 9 to the basic financial statements.

City of Eastlake, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2010
Unaudited

Debt

Table 5 summarizes the City's long-term obligations outstanding at December 31, 2010.

Table 5
 Outstanding Long-Term Obligations at Year End

	Governmental Activities		Business-Type Activity		Total	
	2010	2009	2010	2009	2010	2009
General Obligation Bonds	\$15,625,000	\$16,610,000	\$0	\$0	\$15,625,000	\$16,610,000
OPWC Loans	246,259	271,090	47,500	0	293,759	271,090
Notes Payable	0	0	450,000	0	450,000	0
ODOT Payable	164,756	230,658	0	0	164,756	230,658
Capital Leases	42,128	53,694	0	0	42,128	53,694
Compensated Absences	1,879,879	1,975,691	59,417	59,027	1,939,296	2,034,718
Total	\$17,958,022	\$19,141,133	\$556,917	\$59,027	\$18,514,939	\$19,200,160

At December 31, 2010, the general obligation bonds outstanding consist of the 2002 Tax Exempt Capital Facilities Bonds, 2004 Capital Facilities and Various Purpose Bonds, and the 2005 City Hall Refunding Bonds. The OPWC loans outstanding are for infrastructure improvement projects, which are being repaid using road improvement capital projects revenues. The notes payable outstanding is for sewer improvements. The other long-term loans consist of money owed to the Ohio Department of Transportation for work done on the access modification to the baseball stadium and parking lot. The payable is being repaid from the road improvement capital projects fund.

In addition to the debt discussed above, the City's long-term obligations also include capital leases and compensated absences. Additional information concerning debt issuances can be found in Note 14 to the basic financial statements.

Current Related Financial Activities

The City maintains a careful watch over its financial operations. This, coupled with an improving economy, should help the City continue to remain financially strong. In addition, the City of Eastlake has a strong internal control system, and has implemented even more stringent budgeting and procurement standards to help the City meet the challenges of the future. The City remains open to providing the Citizens of Eastlake with full disclosure of the financial position of the City.

Contacting the City of Eastlake's Financial Management

This financial report is designed to provide the citizens, taxpayers, creditors, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, contact the Finance Director, City of Eastlake, 35150 Lakeshore Boulevard, Eastlake, Ohio 44095.

Basic Financial Statements

City of Eastlake, Ohio

Statement of Net Assets

December 31, 2010

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$2,876,507	\$409,813	\$3,286,320
Accounts Receivable	826,573	763,288	1,589,861
Intergovernmental Receivable	1,697,154	0	1,697,154
Municipal Income Taxes Receivable	1,934,179	0	1,934,179
Permissive Motor Vehicle Taxes Receivable	10,484	0	10,484
Prepaid Items	82,262	0	82,262
Materials and Supplies Inventory	114,634	8,126	122,760
Property Taxes Receivable	4,210,738	0	4,210,738
Special Assessments Receivable	0	245,930	245,930
Deferred Charges	514,297	0	514,297
Assets Held for Resale	116,970	0	116,970
Nondepreciable Capital Assets	8,753,766	376,307	9,130,073
Depreciable Capital Assets, Net	29,294,283	3,374,356	32,668,639
<i>Total Assets</i>	<u>50,431,847</u>	<u>5,177,820</u>	<u>55,609,667</u>
Liabilities			
Accounts Payable	237,361	158,332	395,693
Contracts Payable	74,106	0	74,106
Accrued Wages	267,411	11,046	278,457
Matured Compensated Absences Payable	61,749	0	61,749
Intergovernmental Payable	625,999	22,677	648,676
Accrued Interest Payable	226,766	1,211	227,977
Deferred Revenue	3,862,599	0	3,862,599
Long-Term Liabilities:			
Due Within One Year	1,088,620	21,297	1,109,917
Due In More Than One Year	16,869,402	535,620	17,405,022
<i>Total Liabilities</i>	<u>23,314,013</u>	<u>750,183</u>	<u>24,064,196</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	22,484,203	3,253,163	25,737,366
Restricted for:			
Capital Projects	1,281,727	0	1,281,727
State Highway	95,955	0	95,955
Street Maintenance	384,703	0	384,703
Permissive Motor Vehicle Tax	84,918	0	84,918
Senior Citizens	66,249	0	66,249
Recreation and Land Acquisition	196,673	0	196,673
Other Purposes	379,660	0	379,660
Unrestricted	2,143,746	1,174,474	3,318,220
<i>Total Net Assets</i>	<u>\$27,117,834</u>	<u>\$4,427,637</u>	<u>\$31,545,471</u>

See Accompanying Notes to the Basic Financial Statements

City of Eastlake, Ohio
Statement of Activities
For the Year Ended December 31, 2010

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	
Governmental Activities:				
Current:				
General Government	\$3,649,548	\$639,884	\$1,868	\$0
Security of Persons and Property	7,842,017	1,055,844	295,592	82,550
Public Health Services	192,223	31,161	91	0
Transportation	1,356,476	41,308	993,579	476,329
Community Environment	331,445	54,949	152	0
Basic Utility Services	2,033,754	514,814	556	0
Leisure Time Activities	1,804,814	165,665	335,307	99,165
Interest and Fiscal Charges	740,021	0	0	0
<i>Total Governmental Activities</i>	<u>17,950,298</u>	<u>2,503,625</u>	<u>1,627,145</u>	<u>658,044</u>
Business-Type Activities:				
Sanitary Sewer	1,925,648	1,996,813	0	0
Storm Water	110,000	42,930	0	0
<i>Total Business-Type Activities</i>	<u>2,035,648</u>	<u>2,039,743</u>	<u>0</u>	<u>0</u>
<i>Total</i>	<u>\$19,985,946</u>	<u>\$4,543,368</u>	<u>\$1,627,145</u>	<u>\$658,044</u>

General Revenues

Property Taxes Levied for:

General Purposes

Debt Service

Police Pension

Fire Pension

Fire Levy

Road Levy

Municipal Income Tax Levied for General Purposes

Hotel Taxes

Grants and Entitlements not Restricted to Specific Programs

Franchise Taxes

Interest

Other

Total General Revenues

Change in Net Assets

Net Assets Beginning of Year - Restated (See Note3)

Net Assets End of Year

See Accompanying Notes to the Basic Financial Statements

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
(\$3,007,796)	\$0	(\$3,007,796)
(6,408,031)	0	(6,408,031)
(160,971)	0	(160,971)
154,740	0	154,740
(276,344)	0	(276,344)
(1,518,384)	0	(1,518,384)
(1,204,677)	0	(1,204,677)
(740,021)	0	(740,021)
<u>(13,161,484)</u>	<u>0</u>	<u>(13,161,484)</u>
0	71,165	71,165
<u>0</u>	<u>(67,070)</u>	<u>(67,070)</u>
0	4,095	4,095
<u>(13,161,484)</u>	<u>4,095</u>	<u>(13,157,389)</u>
1,572,865	0	1,572,865
201,631	0	201,631
184,275	0	184,275
184,275	0	184,275
165,173	0	165,173
886,048	0	886,048
6,640,465	0	6,640,465
344,423	0	344,423
2,863,920	0	2,863,920
251,299	0	251,299
4,661	0	4,661
176,126	0	176,126
<u>13,475,161</u>	<u>0</u>	<u>13,475,161</u>
313,677	4,095	317,772
<u>26,804,157</u>	<u>4,423,542</u>	<u>31,227,699</u>
<u>\$27,117,834</u>	<u>\$4,427,637</u>	<u>\$31,545,471</u>

City of Eastlake, Ohio

Balance Sheet

Governmental Funds

December 31, 2010

	General	Road Improvement	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and				
Cash Equivalents	\$856,299	\$252,308	\$1,767,900	\$2,876,507
Accounts Receivable	793,238	0	33,335	826,573
Intergovernmental Receivable	1,187,108	51,893	458,153	1,697,154
Municipal Income Taxes Receivable	1,934,179	0	0	1,934,179
Permissive Motor Vehicle				
Taxes Receivable	0	0	10,484	10,484
Prepaid Items	62,990	0	19,272	82,262
Materials and Supplies Inventory	30,865	29,322	54,447	114,634
Property Taxes Receivable	2,021,050	1,329,282	860,406	4,210,738
Assets Held for Resale	116,970	0	0	116,970
<i>Total Assets</i>	<u>\$7,002,699</u>	<u>\$1,662,805</u>	<u>\$3,203,997</u>	<u>\$11,869,501</u>
Liabilities				
Accounts Payable	\$150,473	\$18,814	\$68,074	\$237,361
Contracts Payable	0	74,106	0	74,106
Accrued Wages	260,635	0	6,776	267,411
Matured Compensated Absences Payable	61,749	0	0	61,749
Intergovernmental Payable	533,866	23,954	68,179	625,999
Deferred Revenue	4,448,634	1,381,175	1,178,020	7,007,829
<i>Total Liabilities</i>	<u>5,455,357</u>	<u>1,498,049</u>	<u>1,321,049</u>	<u>8,274,455</u>
Fund Balances				
Reserved for Encumbrances	73,059	13,283	52,602	138,944
Unreserved:				
Undesignated, Reported in:				
General Fund	1,474,283	0	0	1,474,283
Special Revenue Funds	0	0	940,739	940,739
Debt Service Funds	0	0	67	67
Capital Projects Funds	0	151,473	889,540	1,041,013
<i>Total Fund Balances</i>	<u>1,547,342</u>	<u>164,756</u>	<u>1,882,948</u>	<u>3,595,046</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$7,002,699</u>	<u>\$1,662,805</u>	<u>\$3,203,997</u>	<u>\$11,869,501</u>

See Accompanying Notes to the Basic Financial Statements

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

Total Governmental Funds Balances	\$3,595,046
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*Amounts reported for governmental activities in the
 statement of net assets are different because*

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	38,048,049
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Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds:	
Charges for Services	439,993
Intergovernmental	1,136,881
Municipal Income Taxes	1,220,217
Property Taxes	348,139
Total	3,145,230

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(226,766)
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Bond issuance costs will be amortized over the life of the bonds on the statement of net assets.	514,297
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
General Obligation Bonds	(15,625,000)
OPWC Loans Payable	(246,259)
Capital Leases Payable	(42,128)
ODOT Payable	(164,756)
Compensated Absences Payable	(1,879,879)
Total	(17,958,022)

<i>Net Assets of Governmental Activities</i>	<u><u>\$27,117,834</u></u>
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See Accompanying Notes to the Basic Financial Statements

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

	General	Road Improvement	Other Governmental Funds	Total Governmental Funds
Revenues				
Property Taxes	\$1,528,667	\$855,818	\$715,032	\$3,099,517
Municipal Income Taxes	6,730,757	0	0	6,730,757
Hotel Taxes	0	0	344,423	344,423
Permissive Motor Vehicle Taxes	0	0	139,751	139,751
Intergovernmental	2,740,488	477,552	1,682,149	4,900,189
Charges for Services	1,526,211	0	3,000	1,529,211
Fees, Licenses and Permits	308,073	0	124,023	432,096
Franchise Taxes	251,299	0	0	251,299
Fines and Forfeitures	211,430	0	7,084	218,514
Interest	3,156	0	1,505	4,661
Rentals	0	0	231,519	231,519
Contributions and Donations	6,241	0	66,400	72,641
Other	88,616	61,641	25,869	176,126
<i>Total Revenues</i>	<u>13,394,938</u>	<u>1,395,011</u>	<u>3,340,755</u>	<u>18,130,704</u>
Expenditures				
Current:				
General Government	3,566,071	0	2,500	3,568,571
Security of Persons and Property	6,949,095	0	636,930	7,586,025
Public Health Services	192,223	0	0	192,223
Transportation	258,183	0	1,015,487	1,273,670
Community Environment	318,332	0	0	318,332
Basic Utility Services	1,174,641	0	0	1,174,641
Leisure Time Activities	826,423	0	421,960	1,248,383
Capital Outlay	0	1,220,640	789,846	2,010,486
Debt Service:				
Principal Retirement	111,566	24,831	890,000	1,026,397
Interest and Fiscal Charges	297,257	0	469,014	766,271
<i>Total Expenditures</i>	<u>13,693,791</u>	<u>1,245,471</u>	<u>4,225,737</u>	<u>19,164,999</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(298,853)</u>	<u>149,540</u>	<u>(884,982)</u>	<u>(1,034,295)</u>
Other Financing Sources (Uses)				
Transfers In	0	0	191,820	191,820
Transfers Out	(145,824)	0	(45,996)	(191,820)
<i>Total Other Financing Sources (Uses)</i>	<u>(145,824)</u>	<u>0</u>	<u>145,824</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	(444,677)	149,540	(739,158)	(1,034,295)
<i>Fund Balances Beginning of Year - Restated (See Note 3)</i>	<u>1,992,019</u>	<u>15,216</u>	<u>2,622,106</u>	<u>4,629,341</u>
<i>Fund Balances End of Year</i>	<u>\$1,547,342</u>	<u>\$164,756</u>	<u>\$1,882,948</u>	<u>\$3,595,046</u>

See Accompanying Notes to the Basic Financial Statements

City of Eastlake, Ohio
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2010*

Net Change in Fund Balances - Total Governmental Funds (\$1,034,295)

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

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

Capital Outlay	1,834,037	
Depreciation	(1,833,697)	
Total		340

Revenue in the statement of activities that do not provide current financial resources are not reported as revenue in governmental funds.

Property Taxes	94,750	
Municipal Income Taxes	(90,292)	
Intergovernmental	36,528	
Charges for Services	92,285	
Total		133,271

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

General Obligation Bonds	985,000	
OPWC Loans Payable	24,831	
Capital Leases Payable	11,566	
Total		1,021,397

Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt on the statement of net assets.

Accrued Interest	63,409	
Amortization of Bond Issuance Costs	(32,159)	
Total		31,250

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

ODOT Payable	65,902	
Compensated Absences	95,812	
Total		161,714

Change in Net Assets of Governmental Activities \$313,677

See Accompanying Notes to the Basic Financial Statements

City of Eastlake, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$1,960,078	\$1,659,563	\$1,528,667	(\$130,896)
Municipal Income Taxes	6,928,000	6,928,000	6,717,787	(210,213)
Intergovernmental	2,299,532	2,729,212	2,712,160	(17,052)
Charges for Services	1,533,209	1,530,209	1,488,613	(41,596)
Fees, Licenses and Permits	253,065	253,065	308,073	55,008
Franchise Taxes	231,000	231,000	248,978	17,978
Fines and Forfeitures	222,250	222,250	214,036	(8,214)
Interest	17,000	17,000	4,870	(12,130)
Contributions and Donations	3,800	3,800	6,241	2,441
Other	24,800	27,800	79,548	51,748
<i>Total Revenues</i>	13,472,734	13,601,899	13,308,973	(292,926)
Expenditures				
Current:				
General Government	4,038,809	3,979,964	3,790,637	189,327
Security of Persons and Property	6,912,610	7,101,471	6,872,989	228,482
Public Health Services	203,000	192,300	192,223	77
Transportation	263,809	269,309	253,577	15,732
Community Environment	337,802	332,263	317,681	14,582
Basic Utility Services	1,167,290	1,181,829	1,174,642	7,187
Leisure Time Activities	939,536	1,088,673	1,004,154	84,519
Debt Service:				
Principal Retirement	100,000	100,000	100,000	0
Interest and Fiscal Charges	295,000	295,000	295,000	0
<i>Total Expenditures</i>	14,257,856	14,540,809	14,000,903	539,906
<i>Excess of Revenues Under Expenditures</i>	(785,122)	(938,910)	(691,930)	246,980
Other Financing Uses				
Transfers Out	(171,000)	(145,824)	(145,824)	0
<i>Net Change in Fund Balance</i>	(956,122)	(1,084,734)	(837,754)	246,980
<i>Fund Balance Beginning of Year</i>	715,477	715,477	715,477	0
Prior Year Encumbrances Appropriated	787,310	787,310	787,310	0
<i>Fund Balance End of Year</i>	\$546,665	\$418,053	\$665,033	\$246,980

See Accompanying Notes to the Basic Financial Statements

City of Eastlake, Ohio
Statement of Fund Net Assets
Enterprise Funds
December 31, 2010

	<u>Sanitary Sewer</u>	<u>Storm Water</u>	<u>Total</u>
Assets			
<i>Current Assets</i>			
Equity in Pooled Cash and Cash Equivalents	\$399,120	\$10,693	\$409,813
Accounts Receivable	759,961	3,327	763,288
Special Assessments Receivable	3,038	0	3,038
Materials and Supplies Inventory	8,126	0	8,126
<i>Total Current Assets</i>	<u>1,170,245</u>	<u>14,020</u>	<u>1,184,265</u>
<i>Noncurrent Assets</i>			
Special Assessments Receivable	242,892	0	242,892
Nondepreciable Capital Assets	376,307	0	376,307
Depreciable Capital Assets, Net	3,374,356	0	3,374,356
<i>Total Noncurrent Assets</i>	<u>3,993,555</u>	<u>0</u>	<u>3,993,555</u>
<i>Total Assets</i>	<u>5,163,800</u>	<u>14,020</u>	<u>5,177,820</u>
Liabilities			
<i>Current Liabilities</i>			
Accounts Payable	158,332	0	158,332
Accrued Wages	11,046	0	11,046
Intergovernmental Payable	22,677	0	22,677
Accrued Interest Payable	1,211	0	1,211
Compensated Absences Payable	18,797	0	18,797
OPWC Loan Payable	2,500	0	2,500
<i>Total Current Liabilities</i>	<u>214,563</u>	<u>0</u>	<u>214,563</u>
<i>Non-Current Liabilities (Net of Current Portion)</i>			
Compensated Absences Payable	40,620	0	40,620
OPWC Loan Payable	45,000	0	45,000
Notes Payable	450,000	0	450,000
<i>Total Long-Term Liabilities</i>	<u>535,620</u>	<u>0</u>	<u>535,620</u>
<i>Total Liabilities</i>	<u>750,183</u>	<u>0</u>	<u>750,183</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	3,253,163	0	3,253,163
Unrestricted	1,160,454	14,020	1,174,474
<i>Total Net Assets</i>	<u>\$4,413,617</u>	<u>\$14,020</u>	<u>\$4,427,637</u>

See Accompanying Notes to the Basic Financial Statements

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

	<u>Sanitary Sewer</u>	<u>Storm Water</u>	<u>Total</u>
Operating Revenue			
Charges for Services	<u>\$1,996,813</u>	<u>\$42,930</u>	<u>\$2,039,743</u>
Operating Expenses			
Personal Services	394,997	0	394,997
Materials and Supplies	166,751	0	166,751
Contractual Services	1,246,144	110,000	1,356,144
Depreciation	113,748	0	113,748
Other	<u>2,797</u>	<u>0</u>	<u>2,797</u>
<i>Total Operating Expenses</i>	<u>1,924,437</u>	<u>110,000</u>	<u>2,034,437</u>
<i>Operating Income (Loss)</i>	72,376	(67,070)	5,306
Non-Operating Expense			
Interest and Fiscal Charges	<u>(1,211)</u>	<u>0</u>	<u>(1,211)</u>
<i>Change in Net Assets</i>	71,165	(67,070)	4,095
<i>Net Assets Beginning of Year</i>	<u>4,342,452</u>	<u>81,090</u>	<u>4,423,542</u>
<i>Net Assets End of Year</i>	<u><u>\$4,413,617</u></u>	<u><u>\$14,020</u></u>	<u><u>\$4,427,637</u></u>

See Accompanying Notes to the Basic Financial Statements

City of Eastlake, Ohio
Statement of Cash Flows
Enterprise Funds
For the Year Ended December 31, 2010

	Sanitary Sewer	Storm Water	Total
Increase (Decrease) in Cash and Cash Equivalents			
Cash Flows from Operating Activities			
Cash Received from Customers	\$1,840,635	\$44,676	\$1,885,311
Cash Payments to Suppliers for Goods and Services	(1,256,254)	0	(1,256,254)
Cash Payments for Employee Services and Benefits	(397,918)	(110,000)	(507,918)
Cash Payments for Other Operating Expenses	(2,818)	0	(2,818)
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u>183,645</u>	<u>(65,324)</u>	<u>118,321</u>
Cash Flows from Capital and Related Financing Activities			
Acquisition of Capital Assets	(437,201)	0	(437,201)
OPWC Loans Issued	50,000	0	50,000
Bond Anticipation Notes Issued	450,000	0	450,000
Principal Paid on OPWC Loan	(2,500)	0	(2,500)
<i>Net Cash Provided by Capital and Related Financing Activities</i>	<u>60,299</u>	<u>0</u>	<u>60,299</u>
Net Increase (Decrease) in Cash and Cash Equivalents	243,944	(65,324)	178,620
<i>Cash and Cash, Equivalents Beginning of Year</i>	<u>155,176</u>	<u>76,017</u>	<u>231,193</u>
<i>Cash and Cash, Equivalents End of Year</i>	<u>\$399,120</u>	<u>\$10,693</u>	<u>\$409,813</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities			
Operating Income (Loss)	\$72,376	(\$67,070)	\$5,306
Adjustments:			
Depreciation	113,748	0	113,748
(Increase)/Decrease in Assets:			
Accounts Receivable	(156,178)	1,746	(154,432)
Materials and Supplies Inventory	5,603	0	5,603
Increase/(Decrease) in Liabilities:			
Accounts Payable	151,302	0	151,302
Contracts Payable	(285)	0	(285)
Accrued Wages	582	0	582
Compensated Absences Payable	390	0	390
Intergovernmental Payable	(3,893)	0	(3,893)
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u>\$183,645</u>	<u>(\$65,324)</u>	<u>\$118,321</u>

See Accompanying Notes to the Basic Financial Statements

City of Eastlake, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Funds
December 31, 2010

Assets	
Equity in Pooled Cash and Cash Equivalents	<u><u>\$216,112</u></u>
Liabilities	
Deposits Held and Due to Others	<u><u>\$216,112</u></u>

See Accompanying Notes to the Basic Financial Statements

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

Note 1 - Reporting Entity

The City of Eastlake is a charter municipal corporation established and operated under the laws of the State of Ohio. The charter first became effective November 3, 1953. The current charter provides for a council-mayor form of government. Elected officials include six council members and a mayor. The council members are elected for five year staggered terms. Two of the council members are elected at large. The mayor is elected for a five year term.

Reporting Entity

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, agencies, boards and departments that are not legally separate from the City. For the City of Eastlake, this includes the agencies and departments that provide the following services: police and fire protection, emergency medical response, parks and recreation, planning, zoning, street maintenance and repair, refuse collection, sanitary sewer service and general administrative services.

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 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 approves the budget, the issuance of debt, or the levying of taxes. The reporting entity of the City does not include any component units.

The City participates in a jointly governed organization and an insurance purchasing pool. These organizations are the Northeast Ohio Public Energy Council and the Northern Ohio Risk Management Association (NORMA). The City is also involved with the Eastlake Port Authority, a related organization. These organizations are presented in Notes 17, 18 and 19 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the City of Eastlake have been prepared in conformity with generally accepted accounting principles (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 governmental and business-type activities and to its enterprise funds unless those pronouncements conflict with or contradict GASB pronouncements. The City has elected not to apply FASB statements and interpretations issued after November 30, 1989, to its business-type activities and enterprise funds. The more significant of the City's accounting policies are described below.

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

Basis of Presentation

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

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

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, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program or business activity 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. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

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 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 Eastlake and/or the general laws of Ohio.

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

Road Improvement Fund The road improvement capital projects fund is used to account for monies received from a three percent levy for road construction and improvements made to the City.

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

Proprietary Fund Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service. The City has no internal service funds.

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:

Sanitary Sewer Fund The sanitary sewer fund accounts for the operation of the City's sanitary sewer service.

Storm Water Fund The storm water fund accounts for the operations of the storm water collection system within the City.

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. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City only utilizes the agency fund type. The agency funds account for employee payroll withholdings and deductions, insurance proceeds held by the City to secure proper handling of fire damaged structures until adequately repaired or demolished, construction deposits and Lake County water collections.

Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using a flow of 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 (e.g. revenues) and decreases (e.g. expenses) in total net assets.

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

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

Like the government-wide statements, the 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 fund net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements and the statements presented for the proprietary funds are prepared using the accrual basis of accounting. Governmental funds use the modified 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 Nonexchange 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 year in which the resources are measurable and become available. Available means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the City, available means expected to be received within sixty days of year-end.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes and grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the year 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 the modified accrual basis, revenue from nonexchange 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, interest, Federal and State grants and subsidies, State-levied locally shared taxes (including gasoline tax and motor vehicle license fees), fees and fines and forfeitures.

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

Property taxes for which there is an enforceable legal claim as of December 31, 2010, but which were levied to finance year 2011 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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.

Budgetary Data

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount Council may appropriate. The appropriations resolution is Council's authorization to spend resources and set annual limits on expenditures plus encumbrances at the level of control selected by Council. The legal level of control has been established by Council at the object level within each department in the general fund and at the personal services and other object level for all other funds. For the other object level the Finance Director has been authorized to allocate appropriations within each department and any object level which he maintains on his books, other than personal services. Budgetary modifications may only be made by resolution of the City Council at the legal level of control.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Finance Director. The amounts reported as the original and final budgeted amounts on the budgetary statements reflect the amount on the amended certificate of estimated resources in effect at the time the original and final appropriations were enacted by Council.

The appropriation resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by Council during that year.

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 the City's records. Interest in the pool is presented as "equity in pooled cash and cash equivalents".

During 2010, investments were limited to STAR Ohio (State Treasury Asset Reserve of Ohio). STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2010.

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

Interest earnings are allocated to City funds according to State statutes, City Charter, grant requirements, or debt related restrictions. Interest revenue credited to the general fund during 2010 was \$3,156, which includes \$2,361 assigned from other City funds.

Investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the City are presented on the financial statements as cash equivalents.

Prepaid Items

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

Inventory

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

Assets Held for Resale

Assets held for resale represents assets consisting of homes purchased and repaired which will be resold under the Community Development in-fill housing project.

Capital Assets

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in the governmental funds. General capital 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 enterprise 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. The City was able to estimate the historical cost for the initial reporting of infrastructure by backtrending (i.e. estimating the current replacement cost of the asset to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of two thousand five hundred dollars. 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.

All 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.

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

Depreciation is computed using the straight-line method over the following useful lives:

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
Land Improvements	50 years	50 years
Buildings and Improvements	50 years	50 years
Furniture and Fixtures		
Machinery and Equipment	5 - 30 years	5 - 30 years
Vehicles	5 - 15 years	5 - 15 years
Infrastructure	25 years	50 years

The City's infrastructure consists of streets, sidewalks, and sanitary sewers and includes infrastructure acquired prior to December 31, 1980.

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. The City records a liability for all accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the termination method. An accrual for sick leave is made to the extent it is probable that benefits will result in termination payments. The liability is an estimate based on the City's past experience of making termination payments. Accumulated unused sick leave is paid to employees who retire at various rates depending on City policy and length of service.

The entire compensated absences liability is reported on the government-wide financial statements.

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments came due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the funds from which the employees who have resigned or retired will be paid.

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 the 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 are recognized as a liability on the governmental fund financial statements when due.

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

Fund Balance Reserves and Designations

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. Fund balance reserves have been established for encumbrances.

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 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 include police and fire operations.

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

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the City, these revenues are charges for services for sanitary sewer and storm water services. Operating expenses are necessary costs that have been incurred in order to provide the good or service that is the primary activity of the fund. Any revenues and expenses not meeting the definitions of operating are reported as nonoperating.

Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues. Transfers between governmental activities are eliminated on the government-wide financial statements. Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the statement of activities. Payments for interfund services provided and used are not eliminated.

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 non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds initially paid for them are not presented on the financial statements.

Bond Issuance Costs

On the government-wide financial statements, bond issuance costs are deferred and amortized over the term of the applicable bonds using the effective interest method. Within the governmental fund statements, bond issuance costs are expended when incurred. Issuance costs are generally paid from bond proceeds.

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

As permitted by State statute, the City paid bond issuance costs from the bond proceeds and therefore does not consider that portion of the debt to be capital-related debt. That portion of the debt was offset against the unamortized bond issuance costs which were included in the determination of unrestricted net assets. Reporting both within the same element of net assets prevents one classification from being overstated while another is understated by the same amount.

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 and that are either unusual in nature or infrequent in occurrence.

Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles 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 – Change in Accounting Principles and Restatement of Prior Year’s Fund Balance and Net Assets

Changes in Accounting Principles

For 2010, the City has implemented Governmental Accounting Standard Board (GASB) Statement No. 51, “Accounting and Reporting for Intangible Assets.” GASB 51 Statement No. 51 establishes accounting and financial reporting of intangible assets to reduce inconsistencies thereby enhancing the comparability of accounting and financial reporting of such assets among state and local governments. The implementation of this statement did not result in any change to the City’s financial statements.

Restatement of Prior Year’s Fund Balance and Net Assets

During 2010, it was determined that Assets Held for Resale were recorded incorrectly for governmental activities. As a result of this misclassification, fund balances of the major and nonmajor funds increased \$116,970 from \$4,512,371 to \$4,629,341 as of December 31, 2009.

During 2010, it was determined that Municipal Income Taxes Receivable were recorded incorrectly for governmental activities. As a result, net assets of major and nonmajor funds decreased from \$29,903,674 to \$26,804,157 as of December 31, 2009.

Note 4 - Budgetary Basis of Accounting

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP basis), the budgetary basis as provided by law and described above 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 are presented in the basic financial statements for the general fund on the budgetary basis to provide a meaningful comparison of actual results with the budget.

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

The major differences between the budget basis and the GAAP Basis (generally accepted accounting principles) are:

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

The following tables summarize the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund:

	General
GAAP Basis	(\$444,677)
Net Adjustment for Revenue Accruals	(85,965)
Net Adjustment for Expenditure Accruals	(115,846)
Encumbrances	(191,266)
Budget Basis	(\$837,754)

Note 5 - Deposits and Investments

The City is a charter City and has adopted an investment policy through City Ordinance. The City has elected to follow the provision of State statute. State statutes classify monies held by the City into three categories.

Active deposits are public deposits determined to be necessary to meet current demands upon the City treasury. Active monies must be maintained either as cash in the City Treasury, in commercial accounts payable withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Council has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not 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.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation 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.

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

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

Interim monies may be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAR Ohio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

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; and
3. Obligations of the City.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

Deposits

Custodial Credit Risk Custodial credit risk for deposits 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, \$1,965,229 of the City's bank balance of \$3,162,197 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although the securities were held by the pledging

City of Eastlake, Ohio
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For the Year Ended December 31, 2010

institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

The City has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the City or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the 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 the deposits being secured.

Investments

At December 31, 2010, the City had \$541,299 invested in STAR Ohio with an average maturity of 58.0 days.

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 investments so that securities mature to meet cash requirements for ongoing operations. The stated intent of the policy is to avoid the need to sell securities prior to maturity.

Credit Risk Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. STAR Ohio carries a rating of AAAM by Standard & Poor's. The City has no policy that addresses credit risk.

Concentration of Risk The City places no limit on the amount that may be invested in any one issuer.

Note 6 – Interfund Transfers

During 2010, the general fund transferred \$145,824 to other governmental funds to provide additional resources for current operations. Other governmental funds made transfers in the amount of \$45,996 to the general bond retirement debt service fund as debt payments came due.

Note 7 - Receivables

Receivables at December 31, 2010, consisted primarily of municipal income taxes, property and, permissive motor vehicle taxes, intergovernmental receivables arising from entitlements and shared revenues, special assessments, accrued interest on investments and accounts (billings for utility service).

No allowance for doubtful accounts has been recorded because uncollectible amounts are expected to be insignificant. All receivables except for delinquent property taxes and special assessments are expected to be collected within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

Special assessments expected to be collected in more than one year amount to \$245,930 in the sanitary sewer enterprise fund. At December 31, 2010, the amount of delinquent special assessments was \$130,388.

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

Property Taxes

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2010 for real and public utility property taxes represents collections of the 2009 taxes. Property tax payments received during 2010 for tangible personal property (other than public utility property) are for 2010 taxes.

2010 real property taxes are levied after October 1, 2010 on the assessed value as of January 1, 2010, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2010 real property taxes are collected in and intended to finance 2011.

Real property taxes are payable annually or semi-annually. If paid annually, the payment is due January 20; if paid semi-annually, the first payment is due January 20 with the remainder payable by July 20. Under certain circumstances, State statute permits later payment dates to be established.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2010 public utility property taxes became a lien December 31, 2009, are levied after October 1, 2010, and are collected in 2011 with real property taxes.

Tangible personal property tax revenue received during 2010 (other than public utility property tax) represents the collection of 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, furniture and fixtures is no longer levied and collected. 2010 is the last year for the collection of tangible personal property taxes from telephone companies; however, the City received no tangible personal property tax revenue from telephone company property. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

The full tax rate for all City operations for the year ended December 31, 2010 was \$8.30 per \$1,000 of assessed value. The assessed values of real property and public utility tangible property upon which 2010 property tax receipts were based are as follows:

Category	Assessed Value
Real Estate	
Residential/Agricultural	\$310,703,960
Other Real Estate	136,086,890
Tangible Personal Property	
Public Utility	85,599,290
Total Assessed Values	\$532,390,140

The County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City of Eastlake. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2010 and for which there is an enforceable legal claim. In the governmental funds, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2010 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on the modified basis the revenue is deferred.

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

Income Taxes

The City levies a municipal income tax of two percent on substantially all income earned within the City; in addition, residents are required to pay tax on income earned outside the City. The City allows a credit of two percent for income tax paid to another municipality up to the total amount owed to the City. Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. All income tax received is recorded in the general fund.

Intergovernmental Receivable

A summary of the principal items of intergovernmental receivables follows:

Governmental Activities	
Local Government	\$1,044,466
Gasoline Tax	339,715
Homestead and Rollback	139,983
Auto Registration	77,578
Tangible Personal Property Loss Reimbursements	39,716
Estate Tax	26,797
City of Willoughby	9,207
Bureau of Workers' Compensation Refund	9,191
State of Ohio	6,383
Village of Lakeline	4,118
Total	<u>\$1,697,154</u>

Note 8 - Assets Held for Resale

Assets held for resale represents homes purchased and repaired to be resold under the Community Development in-fill housing project. As of December 31, 2010, the City has two homes which were being held for resale.

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

Note 9 – Capital Assets

A summary of changes in capital assets during 2010 follows:

	Restated Balance 12/31/2009	Additions	Deletions	Balance 12/31/2010
Governmental Activities				
<i>Nondepreciable Capital Assets</i>				
Land	\$7,044,735	\$0	\$0	\$7,044,735
Construction in Progress	673,384	1,035,647	0	1,709,031
<i>Total Nondepreciable Capital Assets</i>	<u>7,718,119</u>	<u>1,035,647</u>	<u>0</u>	<u>8,753,766</u>
<i>Depreciable Capital Assets</i>				
Land Improvements	17,898,838	4,281	0	17,903,119
Buildings and Improvements	7,836,568	692,058	0	8,528,626
Machinery and Equipment	2,658,280	67,954	0	2,726,234
Vehicles	4,637,945	15,269	(39,504)	4,613,710
Infrastructure	21,463,809	18,828	0	21,482,637
<i>Total Depreciable Capital Assets</i>	<u>54,495,440</u>	<u>798,390</u>	<u>(39,504)</u>	<u>55,254,326</u>
Less Accumulated Depreciation:				
Land Improvements	(2,929,269)	(362,033)	0	(3,291,302)
Buildings and Improvements	(4,461,832)	(146,835)	0	(4,608,667)
Machinery and Equipment	(1,710,851)	(182,498)	0	(1,893,349)
Vehicles	(2,251,588)	(283,218)	39,504	(2,495,302)
Infrastructure	(12,812,310)	(859,113)	0	(13,671,423)
<i>Total Accumulated Depreciation</i>	<u>(24,165,850)</u>	<u>(1,833,697) *</u>	<u>39,504</u>	<u>(25,960,043)</u>
<i>Total Depreciable Capital Assets, Net</i>	<u>30,329,590</u>	<u>(1,035,307)</u>	<u>0</u>	<u>29,294,283</u>
<i>Total Governmental Capital Assets, Net</i>	<u>\$38,047,709</u>	<u>\$340</u>	<u>\$0</u>	<u>\$38,048,049</u>

City of Eastlake, Ohio
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For the Year Ended December 31, 2010

	Balance 12/31/2009	Additions	Deletions	Balance 12/31/2010
Business-Type Activities				
<i>Nondepreciable Capital Assets</i>				
Land	\$75,556	\$0	\$0	\$75,556
Construction in Progress	63,236	237,515	0	300,751
<i>Total Nondepreciable Capital Assets</i>	<u>138,792</u>	<u>237,515</u>	<u>0</u>	<u>376,307</u>
<i>Depreciable Capital Assets</i>				
Buildings and Improvements	2,158,690	0	0	2,158,690
Machinery and Equipment	78,868	162,232	0	241,100
Vehicles	427,086	0	0	427,086
Infrastructure				
Sewers	9,117,824	37,454	0	9,155,278
<i>Total Depreciable Capital Assets</i>	<u>11,782,468</u>	<u>199,686</u>	<u>0</u>	<u>11,982,154</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(760,730)	(37,678)	0	(798,408)
Machinery and Equipment	(39,432)	(11,650)	0	(51,082)
Vehicles	(338,287)	(20,872)	0	(359,159)
Infrastructure				
Sewers	(7,355,601)	(43,548)	0	(7,399,149)
<i>Total Accumulated Depreciation</i>	<u>(8,494,050)</u>	<u>(113,748)</u>	<u>0</u>	<u>(8,607,798)</u>
<i>Total Depreciable Capital Assets, Net</i>	<u>3,288,418</u>	<u>85,938</u>	<u>0</u>	<u>3,374,356</u>
<i>Total Business-Type Activities Capital Assets, Net</i>	<u>\$3,427,210</u>	<u>\$323,453</u>	<u>\$0</u>	<u>\$3,750,663</u>

* Depreciation expense was charged to governmental functions as follows:

General Government	\$115,777
Security of Persons and Property	251,890
Transportation	128,241
Community Environment	9,323
Basic Utility Services	859,113
Leisure Time Activities	469,353
Total	<u>\$1,833,697</u>

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

Note 10 - Risk Management

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

During 2010, the City participated in NORMA, an insurance pool for the following types of insurance:

<u>Type</u>	<u>Coverage</u>
Property	\$401,735,755
Inland Marine	7,300,000
General Liability	1,000,000
Automobile Liability	1,000,000
Law Enforcement Liability	1,000,000
Public Officials Liability	1,000,000
Employment Practices Liability	1,000,000
Umbrella	10,000,000

Claims have not exceeded this coverage in any of the past three years and there have been no significant reductions in overall commercial coverage in any of the past three years.

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

Note 11 – Defined Benefit Pension Plan

Ohio Public Employees Retirement System

Plan Description - The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed Plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

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

City of Eastlake, Ohio
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Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions and currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units and 18.1 percent of covered payroll for law enforcement and public safety employer units. Member contribution rates, as set forth in the Ohio Revised Code, are not to exceed 10 percent of covered payroll. For the year ended December 31, 2010, members in state and local classifications contributed 10 percent of covered payroll while public safety and law enforcement members contributed 10.5 percent and 11.1 percent, respectively. 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. For 2010, member and employer contribution rates were consistent across all three plans.

The City's 2010 contribution rate was 14.0 percent, except for those plan members in law enforcement or public safety, for whom the City's contribution was 17.87 percent of covered payroll. The portion of employer contributions used to fund pension benefits is net of post-employment health care benefits. The portion of employer contribution allocated to health care for members in the Traditional Plan was 5.5 percent from January 1 through February 28, 2010, and 5 percent from March 1 through December 31, 2010. The portion of employer contributions allocated to health care for members in the Combined Plan was 4.73 percent from January 1 through February 28, 2010, and 4.23 percent from March 1 through December 31, 2010. Employer contribution rates are actuarially determined.

The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2010, 2009 and 2008 were \$298,841, \$256,613 and \$265,138, respectively. For 2010, 88.5 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2009 and 2008. Contributions to the Member-Directed Plan for 2010 were \$7,184 made by the City and \$5,131 made by plan members.

Ohio Police and Fire Pension Fund

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

Funding Policy – The Ohio Revised Code requires plan members to contribute 10.0 percent of their annual covered salary, while employers are required to contribute 19.5 percent for police officers and 24.0 percent for firefighters.

The OP&F Pension Fund is authorized by the Ohio Revised Code to allocate a portion of the employer contributions to retiree health care benefits. The portion of employer contributions used to fund pension benefits was 12.75 percent of covered payroll for police officers and 17.25 percent of covered payroll for firefighters. The City's contributions to OP&F for police and firefighters pension were \$301,187 and \$341,818 for the year ended December 31, 2010, \$331,347 and \$338,275 for the year ended December 31, 2009, and \$316,699 and \$294,202 for the year ended December 31, 2008, respectively. For 2010, 72.85 percent for police and 71.50 percent for firefighters has been contributed with the balance for both police and firefighters being reported as an intergovernmental payable. The full amount has been contributed for 2009 and 2008.

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

Note 12 - Postemployment Benefits

Ohio Public Employees Retirement System

Plan Description – Ohio Public Employees Retirement System (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 defined contribution plan.

OPERS maintains a cost-sharing multiple-employer defined benefit post-employment health care plan for 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. The plan includes a medical plan, prescription drug program and Medicare Part B premium reimbursement.

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 for disability benefit recipients and qualified survivor benefit recipients is available. The Ohio Revised Code permits, but does not mandate, OPERS to provide health care benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy – The post-employment health care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through contributions to OPERS. A portion of each employer’s contribution to OPERS is set aside for the funding of post-retirement health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2010, state and local employers contributed at a rate of 14.0 percent of covered payroll, and public safety and law enforcement employers contributed at 17.87 percent. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units and 18.1 percent of covered payroll for law and public safety employer units.

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. The portion of employer contributions allocated to health care for members in the Traditional Plan was 5.5 percent from January 1 through February 28, 2010, and 5 percent from March 1 through December 31, 2010. The portion of employer contributions allocated to health care for members in the Combined Plan was 4.73 percent from January 1 through February 28, 2010, and 4.23 percent from March 1 through December 31, 2010.

The OPERS 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. Active members do not make contributions to the post-employment health care plan.

City of Eastlake, Ohio
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The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2010, 2009 and 2008 were \$170,350, \$189,970 and \$232,217, respectively. For 2010, 88.5 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2009 and 2008.

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 on January 1 of each year from 2006 to 2008. Rates for law enforcement and public safety employers increased over a six year period beginning on January 1, 2006, with a final rate increase on January 1, 2011. These rate increases allowed additional funds to be allocated to the health care plan.

Ohio Police and Fire Pension Fund

Plan Description – The City contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored health care program, a cost-sharing multiple-employer defined post-employment 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 for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45.

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

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

Funding Policy – The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F defined benefit pension plan. Participating employers are required by Ohio Revised Code to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.5 percent and 24.0 percent of covered payroll for police and fire employers, respectively. Active members do not make contributions to the OPEB Plan.

OP&F maintains funds for health care in two separate accounts. One for health care benefits under an IRS Code Section 115 trust and one for Medicare Part B reimbursements 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, 2010, the employer contribution allocated to the health care plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

The City's contributions to OP&F which were allocated to fund post-employment health care benefits for police and firefighters were \$159,452 and \$133,755 for the year ended December 31, 2010, \$162,661 and \$125,115 for the year ended December 31, 2009, and \$155,470 and \$108,814 for the year ended December 31, 2008. For 2010, 72.85 percent has been contributed for police and 71.50 percent has been contributed for firefighters with the balance for both police and firefighters being reported as an intergovernmental payable. The full amount has been contributed for 2009 and 2008.

Note 13 – Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Employees earn vacation at different rates which are affected by length of service. At the time of separation the employee is entitled to payment for any earned but unused vacation. Sick leave is accrued at the rate of 4.6 hours for each 80 hours of completed service, including paid holidays and paid vacation, with a maximum accumulation of 1,344 hours. Upon retirement, employees are paid for all the sick days they have accumulated.

Note 14 - Long-term Obligations

The original issuance amounts for the City's long-term obligations are as follows:

Debt Issue	Interest Rate	Original Issue Amount	Year of Maturity
Governmental Activities			
<i>General Obligation Bonds:</i>			
Tax Exempt Capital Facilities Bonds - 2002	2-5%	\$4,380,000	2027
Capital Facilities Bonds - 2002	2-5%	8,180,000	2027
Capital Facilities Bonds - 2004	3.6-5.75%	4,320,000	2031
Various Purpose Bonds - 2004	2.5-5%	9,890,000	2031
City Hall Construction Refunding Bonds - 2005	3.6-6%	2,790,000	2017
<i>OPWC Loans:</i>			
Eastlake 377th Street Road Improvement	0%	103,600	2014
North Parkway Road and Sewer	0%	50,000	2019
Stevens Boulevard Road and Sewer	0%	49,138	2021
Parkland Drive Road and Sewer	0%	24,907	2021
East Overlook Road, Storm and Sanitary Sewer	0%	26,254	2023
Roberts Road Improvements	0%	150,000	2025
Plymouth Road and Sewer	0%	58,200	2025
Business-Type Activities			
<i>Notes:</i>			
Sewer Sytem Improvement Notes	1.90%	450,000	2011
<i>OPWC Loan:</i>			
Robin/Forest/King Drive Pump Stations	0%	50,000	2030

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

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

	Balance 12/31/2009	Increase	Decrease	Balance 12/31/2010	Amounts Due in One Year
Governmental Activities					
General Obligation Bonds					
Tax Exempt Capital Facilities Bonds					
Serial	\$425,000	\$0	\$140,000	285,000	\$140,000
Term	3,200,000	0	0	3,200,000	0
Total Tax Exempt Capital Facilities Bonds	<u>3,625,000</u>	<u>0</u>	<u>140,000</u>	<u>3,485,000</u>	<u>140,000</u>
Capital Facilities Bonds					
Serial	820,000	0	100,000	720,000	105,000
Term	3,215,000	0	0	3,215,000	0
Total Capital Facilities Bonds	<u>4,035,000</u>	<u>0</u>	<u>100,000</u>	<u>3,935,000</u>	<u>105,000</u>
Various Purpose Bonds					
Serial	2,150,000	0	275,000	1,875,000	285,000
Term	4,860,000	0	250,000	4,610,000	0
Total Various Purpose Bonds	<u>7,010,000</u>	<u>0</u>	<u>525,000</u>	<u>6,485,000</u>	<u>285,000</u>
City Hall Construction Refunding Bonds	<u>1,940,000</u>	<u>0</u>	<u>220,000</u>	<u>1,720,000</u>	<u>215,000</u>
<i>Total General Obligation Bonds</i>	<u>16,610,000</u>	<u>0</u>	<u>985,000</u>	<u>15,625,000</u>	<u>745,000</u>
OPWC Loans					
East 377th Street Road Improvement	31,080	0	6,906	24,174	6,906
North Parkway Road and Sewer	22,500	0	2,500	20,000	2,500
Stevens Boulevard Road and Sewer	27,025	0	2,457	24,568	2,457
Parkland Drive Road and Sewer	13,700	0	1,246	12,454	1,246
East Overlook Road, Storm and Sanitary Sewer	17,726	0	1,312	16,414	1,312
Roberts Road Improvements	112,500	0	7,500	105,000	7,500
Plymouth Road and Sewer	46,559	0	2,910	43,649	2,910
<i>Total OPWC Loans</i>	<u>271,090</u>	<u>0</u>	<u>24,831</u>	<u>246,259</u>	<u>24,831</u>
Other Long-Term Obligations					
ODOT Payable	230,658	0	65,902	164,756	32,951
Capital Leases Payable	53,694	0	11,566	42,128	12,288
Compensated Absences Payable	1,975,691	271,476	367,288	1,879,879	273,550
<i>Total Other Long-Term Obligations</i>	<u>2,260,043</u>	<u>271,476</u>	<u>444,756</u>	<u>2,086,763</u>	<u>318,789</u>
Total Governmental Activities	<u>\$19,141,133</u>	<u>\$271,476</u>	<u>\$1,454,587</u>	<u>\$17,958,022</u>	<u>\$1,088,620</u>
Business-Type Activities					
Notes Payable					
Sanitary Sewer Improvement Notes	\$0	\$450,000	\$0	\$450,000	\$0
OPWC Loan					
Robin/Forest/King Drive Pump Stations	0	50,000	2,500	47,500	2,500
Compensated Absences Payable	59,027	13,351	12,961	59,417	18,797
Total Business-Type Activities	<u>\$59,027</u>	<u>\$513,351</u>	<u>\$15,461</u>	<u>\$556,917</u>	<u>\$21,297</u>

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

General obligation bonds General obligation bonds are direct obligations of the City for which its full faith and credit are pledged for repayment. General obligation bonds are to be repaid from both voted and unvoted general property taxes levied on all taxable property located within the City as well as municipal income taxes. Tax monies will be received in and the debt will be retired from the general obligation bond retirement debt service and road improvement capital projects funds.

The term bonds maturing on December 1, 2014, 2016, 2018, 2022, and 2027 are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

Year	2002 Tax Exempt Capital Facilities Term Bonds			
	\$315,000	\$340,000	\$370,000	\$2,175,000
2013	\$155,000	0	0	0
2014	0	0	0	0
2015	0	165,000	0	0
2016	0	0	0	0
2017	0	0	180,000	0
2018	0	0	0	0
2019	0	0	0	200,000
2020	0	0	0	205,000
2021	0	0	0	215,000
2022	0	0	0	230,000
2023	0	0	0	240,000
2024	0	0	0	250,000
2025	0	0	0	265,000
2026	0	0	0	280,000
Total	\$155,000	\$165,000	\$180,000	\$1,885,000
<i>Stated Maturity</i>	<i>12/1/2014</i>	<i>12/1/2016</i>	<i>12/1/2018</i>	<i>12/1/2027</i>

The remaining principal amount of the term bonds (\$160,000, \$175,000, \$190,000, and \$290,000) will mature at the stated maturity.

The term bonds maturing on August 1, 2022, 2025 and 2031 are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be redeemed, plus accrued interest to the date of redemption, on August 1 in the years and in the respective principal amounts as follows:

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

Year	2004 Capital Facilities Term Bonds		
	\$985,000	\$625,000	\$1,605,000
2017	\$145,000	0	0
2018	150,000	0	0
2019	160,000	0	0
2020	170,000	0	0
2021	175,000	0	0
2023	0	195,000	0
2024	0	210,000	0
2026	0	0	230,000
2027	0	0	245,000
2028	0	0	260,000
2029	0	0	275,000
2030	0	0	290,000
Total	\$800,000	\$405,000	\$1,300,000
<i>Stated Maturity</i>	<i>8/1/2022</i>	<i>8/1/2025</i>	<i>8/1/2031</i>

The remaining principal amount of the term bonds (\$185,000, \$220,000 and \$305,000) will mature at the stated maturity.

The term bonds maturing on August 1, 2022, 2025 and 2027 are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be redeemed, plus accrued interest to the date of redemption, on August 1 in the years and in the respective principal amounts as follows:

Year	2004 Various Purpose Term Bonds		
	\$2,100,000	\$1,430,000	\$1,080,000
2017	\$350,000	0	0
2018	365,000	0	0
2019	385,000	0	0
2020	400,000	0	0
2021	420,000	0	0
2023	0	455,000	0
2024	0	480,000	0
2026	0	0	520,000
Total	\$1,920,000	\$935,000	\$520,000
<i>Stated Maturity</i>	<i>8/1/2022</i>	<i>8/1/2025</i>	<i>8/1/2027</i>

The remaining principal amount of the term bonds (\$180,000, \$495,000 and \$560,000) will mature at the stated maturity.

Refunded Bonds On April 1, 2005, the City issued \$2,790,000 in general obligation refunding bonds with interest rates varying from 3.6 percent to 6 percent. Proceeds were used to refund \$2,665,000 of the 1993 general obligation bonds for city hall building improvements.

Proceeds were deposited in an irrevocable trust with an escrow agent to provide for all future debt payments on the refunded 1993 general obligation bonds. As a result \$2,790,000 of these bonds were considered defeased and the liability for the refunded bonds has been removed from the City's financial statements. The amount still outstanding at December 31, 2010 is \$1,655,000.

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

Early Extinguished Bonds On September 18, 2009, the City early extinguished \$7,230,000 of its 2002 Taxable Capital Facilities Bonds. The early extinguishment was deposited in an irrevocable trust with an escrow agent to provide for all future debt payments on the 2002 Taxable Capital Facilities Bonds. As a result the entire amount of extinguished bonds were considered defeased and the liability for the extinguished bonds has been removed from the City's financial statements. The amount still outstanding at December 31, 2010 is \$6,800,000.

OPWC loans OPWC loans consist of money owed to the Ohio Public Works Commission for road improvements and for sanitary sewer improvements. The loans are interest free. OPWC loans will be paid from the road improvement capital projects fund.

ODOT Payable ODOT payable consists of money owed to the Ohio Department of Transportation for work done on the access modification to the baseball stadium and parking lot. The payable will be paid from the road improvement capital projects fund.

Notes Payable The City issued a \$450,000 bond anticipation note on November 10, 2010 at 1.90 percent and maturing November 10, 2011, for the purpose of improving sanitary sewer systems.

Capital Leases Capital lease obligations will be paid from the fund that maintains custody of the related assets. Capital leases will be paid from the general fund.

Compensated Absences The compensated absences liability will be paid from the fund from which the employees' salaries are paid. These funds include the general fund; the street construction, maintenance, and repair; the federal grants; and Taft center donation special revenue funds; the road improvement capital projects fund; and the sanitary sewer enterprise fund.

The City's overall legal debt margin was \$39,987,273 with an unvoted debt margin of \$13,367,766 at December 31, 2010.

Principal and interest requirements to retire governmental and business-type activities long-term obligations outstanding at December 31, 2010, were as follows:

Governmental Activities				
General Obligation Bonds				
Year	Serial		Term	
	Principal	Interest	Principal	Interest
2011	\$745,000	\$866,665	\$0	\$0
2012	775,000	839,295	0	0
2013	650,000	656,332	155,000	153,539
2014	685,000	630,580	160,000	147,145
2015	855,000	791,123	165,000	140,545
2016-2020	890,000	395,398	2,905,000	2,395,909
2021-2025	0	0	4,420,000	2,223,477
2026-2030	0	0	2,620,000	963,353
2031	0	0	600,000	51,750
Total	\$4,600,000	\$4,179,393	\$11,025,000	\$6,075,718

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

	OPWC Loans	ODOT Payable
Year	Principal	Principal
2011	\$24,831	\$32,951
2012	24,833	32,951
2013	24,833	32,951
2014	41,207	32,951
2015	15,425	32,952
2016-2020	67,290	0
2021-2025	47,840	0
Total	\$246,259	\$164,756

Business-Type Activities	
	OPWC Loans
Year	Principal
2011	\$2,500
2012	2,500
2013	2,500
2014	2,500
2015	2,500
2016-2020	25,000
2021-2025	10,000
Total	\$47,500

Note 15 - Capital Leases - Lessee Disclosure

The City has entered into capitalized leases for copiers. The leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures on the statement of revenues, expenditures, and changes in fund balance for governmental funds.

	Governmental Activities
Copiers	\$62,301
Less: Accumulated Depreciation	(24,920)
Total	\$37,381

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

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of December 31, 2010.

	Amounts
2011	\$14,016
2012	14,016
2013	14,016
2014	3,493
Total Mimimum Lease Payments	45,541
Less: Amount representing interest	(3,413)
Present Value of Mimimum Lease Payments	\$42,128

Capital lease payments have been reclassified and reflected as debt service in the fund financial statement for the general fund. These expenditures are reflected as program expenditures on a budgetary basis.

Note 16 - Contingencies

Litigation

The City is a party to various legal proceedings which seek damages or injunctive relief generally incidental to its operations and pending projects. The City's management is of the opinion that the ultimate disposition of various claims and legal proceedings will not have a material effect, if any, on the financial condition of the City.

As to the *Ohio Department of Transportation vs. Eastlake Development Company* court case, the matter was settled. However, there was no agreed payment plan. Instead, the parties agreed to further negotiate and payment terms and ODOT agreed that there would be no execution against the City on the judgment unless a number of conditions which evidence the City's financial health occur. The City has not met those conditions and likely will not in the foreseeable future.

As to *Richard Fatur v. City of Eastlake, et al.*, Lake County Court of Common Pleas, Case No. 05 CV001922, the lawsuit remains in its infancy. A great number of the original claims and the number of years at issue has previously been reduced on the defendants' motion to dismiss. A motion to reconsider the refusal to accept jurisdiction by the Ohio Supreme Court is pending. The City has presented, and still has available, numerous arguments of law and fact.

Grants

For the period January 1, 2010 to December 31, 2010, the City received Federal and State grants for specific purposes that are subject to review and audit by the grantor agencies or their designees. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the City believes such disallowances, if any, would be immaterial.

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

Note 17 - Jointly Governed Organization

The City is a member of The Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of electricity. NOPEC is currently comprised of over 112 communities who have been authorized by ballot to purchase electricity on behalf of their citizens. The intent of NOPEC is to provide electricity at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity to the citizens of its member communities. The City did not contribute to NOPEC during 2010. Financial information can be obtained by contacting Joseph Migliorini, Board Chairman, 175 South Main Street, Akron, Ohio 44308 or at the website www.nopecinfo.org.

Note 18 - Shared Risk Pool

The Northern Ohio Risk Management Association (NORMA) is a shared risk pool comprised of the Cities of Bedford Heights, Eastlake, Highland Heights, Hudson, Maple Heights, Mayfield Heights, Richmond Heights, Solon, South Euclid, and the Village of Chagrin Falls. NORMA was formed to enable its members to obtain property and liability insurance, including vehicles, and provide for a formalized, jointly administered self-insurance fund. The members formed a not-for-profit corporation known as NORMA, Inc. to administer the pool. NORMA is governed by a board of trustees that consists of the Mayor from each of the participating members.

Each entity must remain a member for at least three years from the commencement date of October 1, 1987, with the exception of the Cities of Eastlake and Solon whose commencement date is October 1, 1989, and the City of Maple Heights, whose commencement date is October, 1, 1993. After the initial three years, each City may extend its term in three-year increments.

Each member provides operating resources to NORMA based on actuarially determined rates. In the event of losses, the first \$2,500 of any valid claim will be paid by the member. The next payment, generally a maximum of \$100,000 per occurrence, will come from the self-insurance pool with any excess paid from the stop-loss coverage carried by the pool. Any loss over these amounts would be the obligation of the individual member. If the aggregate claims paid by the pool exceed the available resources, the pool may require the members to make additional supplementary payments up to a maximum of the regular annual payment.

In 2010, the City of Eastlake paid \$109,763 in premiums from the general fund and special revenue funds, which represents 11.78 percent of the total premiums paid by all members. Financial information can be obtained by contacting the fiscal agent, the Finance Director at the City of Maple Heights, 5353 Lee Road, Maple Heights, Ohio, 44137.

Note 19 - Related Organization

The Eastlake Port Authority was created under the Ohio Revised Code and conducts port development and operations. The Authority is governed by a seven member Board of Directors which consists of five members appointed by the Mayor and two appointed by City Council. The City's accountability does not extend beyond appointing board members.



Dave Yost • Auditor of State

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

City of Eastlake
Lake County
35150 Lakeshore Boulevard
Eastlake, Ohio 44095

To the City Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Eastlake, Lake County, Ohio (the City) as of and for the years ended December 31, 2011 and 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 17, 2012, wherein we noted the City implemented for 2011, Governmental Accounting Standards Board Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" and restated its December 31, 2010 Fund Balance. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note certain matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated September 17, 2012.

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

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

Dave Yost
Auditor of State

September 17, 2012



Dave Yost • Auditor of State

CITY OF EASTLAKE

LAKE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
OCTOBER 16, 2012