



Dave Yost • Auditor of State

**CITY OF AVON LAKE
LORAIN COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the City Council:

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

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

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

As described in Note 19, the City implemented Governmental Accounting Standard Board Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" and restated the December 31, 2010 fund balances of the Governmental Funds and the net assets of the Governmental and Business Type Activities.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2013, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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
Columbus, Ohio

June 27, 2013

City of Avon Lake, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2011
(Unaudited)

The discussion and analysis of the City of Avon Lake's financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2011. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers should also review the financial statement and notes to those respective statements to enhance their understanding of the City's financial performance.

Financial Highlights

Key financial highlights for 2011 are as follows:

- The City's economic condition started to improve as municipal income tax revenue increased by \$1,141,619 over 2010. In comparison and to emphasize the improvement in 2011 and 2010, municipal income tax revenue decreased from 2008 to 2009 by \$2,161,959.
- Total net assets increased \$3,545,376 in 2011.
- The force main and pump station and collection system construction projects continued throughout 2011 and into 2012. The Jaycox Road sewer separation and various sewer projects had begun in 2010 and continued into 2011. These business-type capital assets had total additions of \$10,821,504.
- Total liabilities increased \$3,708,957 in 2011.
- Cash and cash equivalents decreased by \$995,114 in 2011 to \$21,169,297.

Overview of Financial Statements

This annual financial report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 15 and 16) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements begin on page 18. For governmental activities, these statements tell how these services were financed in the short-term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most financially significant funds.

Government-wide Financial Statements

Our analysis of the City as a whole begins on page 5. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. Accrual of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

City of Avon Lake, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2011
(Unaudited)

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

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

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

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

Fund Financial Statements

Our analysis of the City's major funds begins on page 10. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. Some funds are required to be established by State law. However, City Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (i.e. grants received from Federal and State agencies). The City's three kinds of funds, governmental, proprietary and fiduciary, use different accounting approaches.

Governmental Funds

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

Proprietary Funds

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

Fiduciary Funds

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

City of Avon Lake, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2011
(Unaudited)

Notes to the Basic Financial Statements

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

The City of Avon Lake as a Whole

Analysis of Net Assets

The City's total net assets changed from a year ago, increasing from \$107,724,725 to \$111,270,725. Looking at the net assets and net expenses of governmental and business-type activities separately, different stories emerge. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the City's governmental and business-type activities.

Table 1

	Governmental Activities		Business-Type Activities		Total	
	2011	2010 *	2011	2010 *	2011	2010 *
ASSETS						
Current and other assets	\$ 23,317,497	\$ 24,895,685	\$ 17,792,860	\$ 17,923,705	\$ 41,110,357	\$ 42,819,390
Capital assets, net	58,881,913	58,804,821	87,477,951	78,591,677	146,359,864	137,396,498
Total Assets	<u>82,199,410</u>	<u>83,700,506</u>	<u>105,270,811</u>	<u>96,515,382</u>	<u>187,470,221</u>	<u>180,215,888</u>
LIABILITIES						
Current and other liabilities	6,341,323	6,145,913	1,784,820	1,402,106	8,126,143	7,548,019
Long-term liabilities:						
Due within one year	1,710,439	1,624,095	3,045,314	2,964,094	4,755,753	4,588,189
Due in more than one year	12,971,435	12,971,261	50,346,789	47,383,694	63,318,224	60,354,955
Total Liabilities	<u>21,023,197</u>	<u>20,741,269</u>	<u>55,176,923</u>	<u>51,749,894</u>	<u>76,200,120</u>	<u>72,491,163</u>
NET ASSETS						
Invested in capital assets, net of related debt	46,558,254	46,549,247	34,565,370	28,756,401	81,123,624	75,305,648
Restricted	7,757,417	8,350,517	1,304,490	1,305,583	9,061,907	9,656,100
Unrestricted	6,860,542	8,059,473	14,224,028	14,703,504	21,084,570	22,762,977
Total Net Assets	<u>\$ 61,176,213</u>	<u>\$ 62,959,237</u>	<u>\$ 50,093,888</u>	<u>\$ 44,765,488</u>	<u>\$ 111,270,101</u>	<u>\$ 107,724,725</u>

Total assets increased by \$7,254,533 in 2011 resulting primarily from capital asset additions, offset by depreciation of capital assets. Capital assets are used to provide services to the City's citizens; however, they are not available for future spending. Total capital assets (net of depreciation) increased \$8,963,366.

Current and other assets decreased \$1,709,033 mainly from a decrease in equity in pooled cash and cash equivalents which resulted from utilization of carryover balances to finance current year operations.

Total liabilities increased by \$3,708,957 in 2011 with current liabilities increasing \$578,124 and long-term liabilities increasing \$3,130,833. The large increase in long-term liabilities was primarily due to the issuance of additional OWDA loans for the LORCO force main and pump station and the LORCO collection system project.

Total net assets increased \$3,545,376 from 2010 to 2011. The investment in capital assets, net of related debt increased \$5,817,976, which was the effect of the utilization of carryover balances to finance infrastructure. Restricted net assets decreased by \$594,193 and unrestricted net assets decreased \$1,678,407.

City of Avon Lake, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2011
(Unaudited)

Table 2 shows the changes in net assets for governmental activities and business-type activities for the year ended December 31, 2011 compared to December 31, 2010.

Table 2

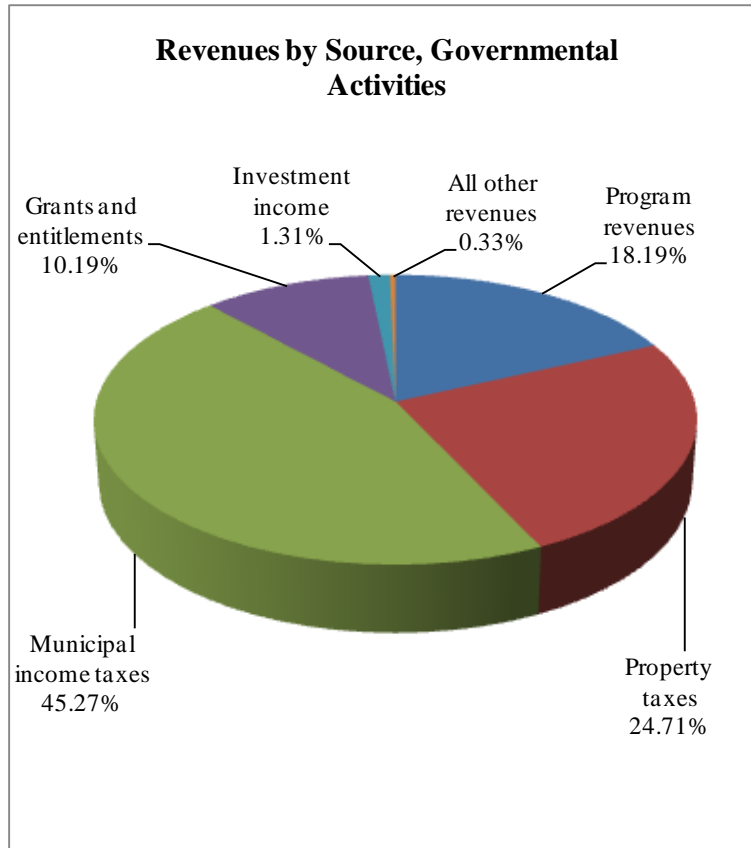
	Governmental Activities		Business-Type Activities		Total	
	2011	2010 *	2011	2010 *	2011	2010 *
REVENUES						
Program Revenues:						
Charges for services	\$ 1,890,041	\$ 1,817,583	\$ 14,989,878	\$ 12,642,798	\$ 16,879,919	\$ 14,460,381
Operating grants and contributions	956,515	1,423,818	513,007	-	1,469,522	1,423,818
Capital grants and contributions	769,020	322,042	2,962,466	2,959,058	3,731,486	3,281,100
Total Program Revenues	3,615,576	3,563,443	18,465,351	15,601,856	22,080,927	19,165,299
General Revenues:						
Property taxes	4,913,620	6,132,324	-	-	4,913,620	6,132,324
Municipal income taxes	9,001,318	7,797,503	258,615	320,811	9,259,933	8,118,314
Grants and entitlements	2,026,080	1,781,735	-	-	2,026,080	1,781,735
Investment income	259,795	267,001	127,307	220,757	387,102	487,758
All other revenues	65,757	86,562	101,779	124,981	167,536	211,543
Total General Revenues	16,266,570	16,065,125	487,701	666,549	16,754,271	16,731,674
Total Revenues	19,882,146	19,628,568	18,953,052	16,268,405	38,835,198	35,896,973
EXPENSES						
Program Expenses:						
Security of persons and property	8,503,399	8,431,818	-	-	8,503,399	8,431,818
Public health and welfare	153,410	128,170	-	-	153,410	128,170
Leisure time activities	1,266,323	628,833	-	-	1,266,323	628,833
Community environment	395,885	429,459	-	-	395,885	429,459
Basic utility services	621,573	628,726	-	-	621,573	628,726
Transportation	7,264,429	7,195,981	-	-	7,264,429	7,195,981
General government	2,941,143	2,833,799	-	-	2,941,143	2,833,799
Interest and fiscal charges	523,145	649,798	-	-	523,145	649,798
Water	-	-	9,785,666	7,348,436	9,785,666	7,348,436
Sewer	-	-	3,834,849	6,679,879	3,834,849	6,679,879
Total Expenses	21,669,307	20,926,584	13,620,515	14,028,315	35,289,822	34,954,899
Change in Net Assets before Transfers	(1,787,161)	(1,298,016)	5,332,537	2,240,090	3,545,376	942,074
Transfers	4,137	(882,072)	(4,137)	882,072	-	-
Change in Net Assets	(1,783,024)	(2,180,088)	5,328,400	3,122,162	3,545,376	942,074
Net Assets - Beginning of Year	62,959,237	65,139,325	44,765,488	41,643,326	107,724,725	106,782,651
Net Assets - End of Year	\$ 61,176,213	\$ 62,959,237	\$ 50,093,888	\$ 44,765,488	\$ 111,270,101	\$ 107,724,725

* - Restated

City of Avon Lake, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2011
(Unaudited)

Governmental Activities

Revenues by source of governmental activities for 2011 were comprised of:



Revenues

Total revenues increased by \$253,578 or 1.29%. The 1.5 percent municipal income tax is the largest revenue source totaling \$9,001,318 or 45.27%. Municipal income tax increased by 1,203,815 or 15.44%. The municipal income tax revenue is allocated by ordinance as follows: the Capital Acquisition and Improvement Fund receives 20%, the Sewer System Construction Fund receives 5% and the remaining 75% is allocated to the General Fund. The next largest revenue source is property taxes totaling \$4,913,620 or 24.71%. Property taxes experienced a decrease from 2010 of \$1,218,704 or 19.87%. The operating grants and contributions decreased by \$467,303 and capital grants and contributions and increased \$446,978.

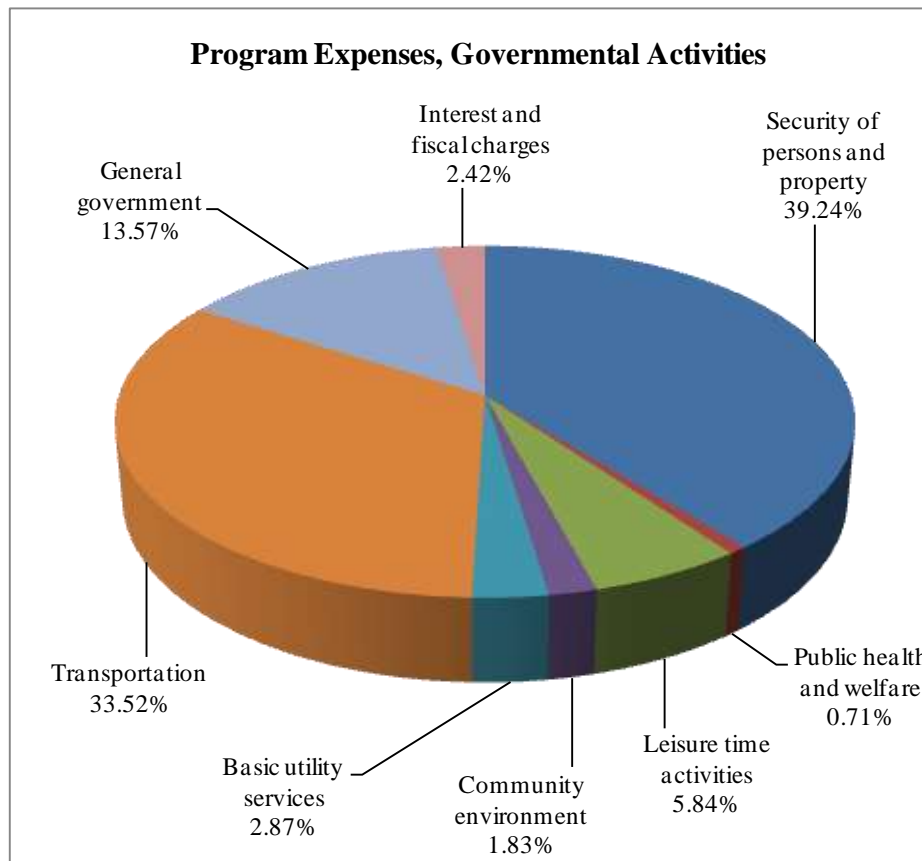
For the three year period from 2007 to 2010, the municipal income revenue collections decreased each year as the economic recession continued. Economic conditions improved in 2011 to the point that municipal income tax revenue collections increased to a level greater than that in 2008 but less than the 2007 level which was the highest in the five years from 2007 to 2011. The improvements to income tax revenues were due to slight increases in the number of jobs, bonuses, and the opening of a few new businesses.

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Management's Discussion and Analysis
For the Year Ended December 31, 2011
(Unaudited)

Although income tax revenues increased, property tax revenues continued to decrease as assessed values continued to decline and new construction and major improvements remained the lowest in recent history.

Expenses

Program expenses of governmental activities for 2011 were comprised of:



Program expenses amounted to \$21,669,307 in 2011, of which only \$3,615,576 was supported by program revenues. Security of persons and property, which includes police, fire and paramedic services, represented \$8,503,399 or 39.24% of total program expenses. Transportation, which includes street maintenance, snow removal, etc., represents \$7,264,429 or 33.52% of program expenses. General government, which includes legislative and administrative services of council, mayor, law, finance, building services, and utilities and maintenance of the buildings that house these functions, represents \$2,941,143 or 13.57%. Leisure time activities represented \$1,266,323 or 5.84% of program expenses and includes recreation pool and special programs. Other program expenses consisting of public health and welfare, community environment and basic utility services amounted to 5.41%. Program expenses increased in 2011 by \$742,723 or 3.55% from the 2010 program expenses.

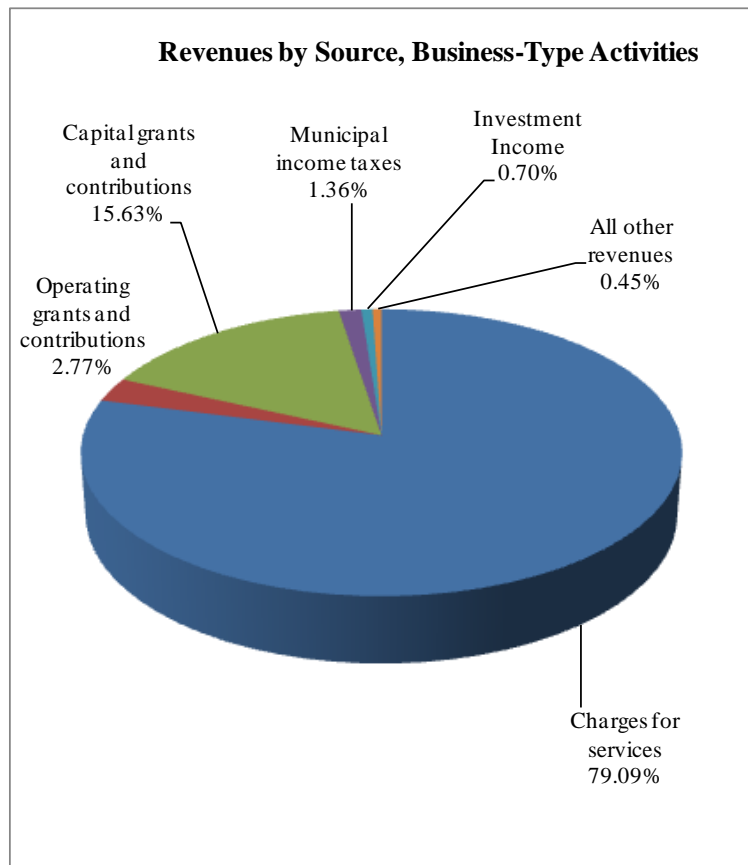
Security of persons and property, transportation, leisure time activities and general government expenses increased due to increased costs for supplies, contractual services, and education and training with increases in the cost of gasoline the main reason for the increase in the cost of supplies.

City of Avon Lake, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2011
(Unaudited)

Business-Type Activities

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

Revenues by source for business-type activities for 2011 were comprised of:

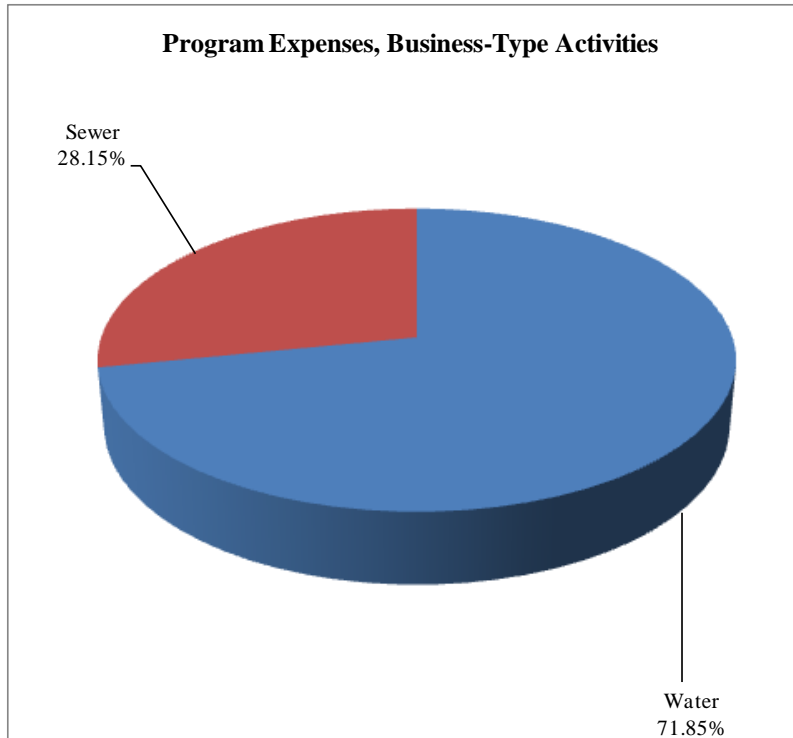


Revenues

Program revenue consisting of charges for services, operating and capital grants and contributions represented 97.42% of total revenues for the business-type activities in 2011. Charges for services for the business-type activities amounted to \$14,989,878 with 65.16% provided by water services and 34.84% from sanitary sewer services.

In June 2011 and according to the cooperative agreement between the City of Avon Lake (acting through Avon Lake Municipal Utilities) and the Lorain County Rural Wastewater District (LORCO), the pump station, force main and related infrastructure that had been under construction became operational and the City began charging customers for services. The City collected \$1,505,401 in user charges in the last six months of 2011. Also, in July of 2011, water rates were increased by approximately 13 percent for all users.

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



Expenses

Water operation expenses amounted to \$9,785,666 or 71.85% and sanitary sewer operation expenses amounted to \$3,834,849 or 28.15% of total program expenses for business-type activities in 2011.

Total expenses for business-type activities decreased by \$407,800 due mainly to decreases in contractual services and chemical supplies. Contractual services decreased as a result of the pump station, force main and related infrastructure for LORCO becoming operational in 2011.

The City's Funds

Information about the City's major governmental funds begins on page 18. These funds are reported using the modified accrual basis of accounting. All governmental funds had total revenues of \$21,117,680 and expenditures of \$22,538,591 (not including other financing sources and uses). The General Fund's fund balance decreased by \$877,165. The City closely monitors its revenues and expenditures to maintain a sound fund balance.

General Fund Analysis

The General Fund is the chief operating fund of the City. At the beginning of the current year, total fund balance for the General Fund was \$4,232,157. General Fund expenditures (including transfers out) for the current year were \$15,067,502, with revenues and other financing sources of \$14,190,337, leaving a fund balance of \$3,354,992, and an unassigned balance of \$671,702 in the General Fund.

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As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures (including transfers out). The General Fund's unassigned fund balance represents 4.46 percent of total General Fund expenditures while total fund balance represents 22.27 percent of that same amount. The City's General Fund balance decreased by \$877,165 in 2011 when compared to 2010. Key factors in the decreased fund balance are decreases in intergovernmental revenues and increases in the cost of supplies, gasoline, contractual services, and utilities. Public utility reimbursement, personal property state reimbursement, and estate tax intergovernmental revenues decreased \$697,003 from 2010 to 2011.

Other Major Funds Analysis

The City's Capital Improvement Fund experienced a slight increase of \$86,874 in its 2011 fund balance when compared to 2012. The main contributor to this increase in 2011 was due to an increase in income tax revenue of \$100,000.

The City's Water Fund experienced an increase of \$738,458 in its 2011 fund balance when compared to 2010. The main contributor to this increase is driven by the City's approximately 13 percent increase in water fees beginning July 2011.

The City's Sewer Fund experienced an increase of \$4,589,942, in its 2011 fund balance when compared to 2010. This increase can be attributed to an increase in revenues and a decrease in expenses when compared to similar amounts in the prior year. The City received a \$5,000,000 Ohio Water Development Authority loan for the construction of various sewers for which the debt was forgiven. Also, in 2011, the LORCO projects were completed to the point that operations could begin and \$1,505,401 in user charges were collected.

General Fund Budgeting Highlights

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

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

City of Avon Lake, Ohio
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For the Year Ended December 31, 2011
(Unaudited)

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

The General Fund's original estimated revenues were \$16,408 higher than the overall General Fund final estimated revenues of \$13,480,009 as indicated on page 22. This change represents 0.12% of total final estimated revenue. The General Fund variance from original appropriations to final appropriations was \$856,049, increasing the overall General Fund final appropriations to \$15,743,183. This change represents 5.44% of total final appropriations. These changes reflect the City's realistic estimates based on the financial conditions in our State's economy providing effective fiscal management.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Capital assets, net of depreciation, at December 31, 2011 and 2010 consisted of:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Land	\$ 5,469,373	\$ 5,469,373	\$ 1,665,385	\$ 1,665,385	\$ 7,134,758	\$ 7,134,758
Construction in progress	805,378	-	27,842,900	25,987,249	28,648,278	25,987,249
Buildings and improvements	16,543,658	17,070,327	19,501,974	19,974,819	36,045,632	37,045,146
Machinery and equipment	1,668,813	1,606,235	2,117,798	2,152,656	3,786,611	3,758,891
Vehicles	1,486,078	1,653,931	314,400	347,937	1,800,478	2,001,868
Infrastructure	32,908,613	33,004,955	36,035,494	28,463,631	68,944,107	61,468,586
Total Capital Assets,						
Net of Depreciation	<u>\$58,881,913</u>	<u>\$58,804,821</u>	<u>\$87,477,951</u>	<u>\$78,591,677</u>	<u>\$ 146,359,864</u>	<u>\$ 137,396,498</u>

Capital assets are major assets that are used in operations and have useful lives of more than one year. The City's total capital assets, net of depreciation amounted to \$146,359,864 at December 31, 2011, which was \$8,963,366 higher than the previous year. In 2011, capital assets, net of depreciation under governmental activities slightly increased by \$77,092. Business-type capital assets, net of depreciation significantly increased by \$8,886,274.

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

City of Avon Lake, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2011
(Unaudited)

Debt

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

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
General Obligation Bonds	\$ 9,063,612	\$ 9,725,770	\$ 5,727,803	\$ 6,535,221	\$ 14,791,415	\$ 16,260,991
Special Assessment Bonds	2,055,283	2,271,423	-	-	2,055,283	2,271,423
Long-term Notes Payable	1,073,610	-	-	-	1,073,610	-
OWDA Loans	-	65,835	38,472,429	33,899,521	38,472,429	33,965,356
OPWC Loans	83,333	90,000	-	-	83,333	90,000
Mortgage Revenue Bonds	-	-	8,460,000	9,340,000	8,460,000	9,340,000
ETL1 Loan	-	-	247,638	-	247,638	-
Police/Fire Pension Liability	94,418	99,270	-	-	94,418	99,270
Promissory Note	40,000	64,500	-	-	40,000	64,500
Capital Leases	7,821	38,046	4,711	60,534	12,532	98,580
Total Outstanding Debt	<u>\$ 12,418,077</u>	<u>\$ 12,354,844</u>	<u>\$ 52,912,581</u>	<u>\$ 49,835,276</u>	<u>\$ 65,330,658</u>	<u>\$ 62,190,120</u>

At December 31, 2011, the City had outstanding debt and other long-term obligations in the amount of \$12,418,077 for the governmental activities and \$52,912,581 for business-type activities.

During 2011, the City issued \$1,071,000 in long-term notes with an interest rate of 2.95 percent and will mature in five years. These notes were utilized by the governmental funds for street improvements.

During 2011, an Agency fund of the City provided the Water fund a loan in the amount of \$585,327 with an interest rate of 2.202 percent and will mature on October 1, 2021. This loan was utilized by the Water fund to cover a portion of the costs of realigning a segment of the water main known as the Eastern Transmission Line 1 (ETL1). The City will repay this loan with funds provided by the Cities of Avon and North Ridgeville.

During 2011, the City continued several sewer projects that were funded by the Ohio Water Development Authority (OWDA). The City received \$5,592,829 in loan proceeds from OWDA. Further information pertaining to these loans can be found in Note 8 to the Basic Financial Statements.

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

CURRENT FINANCIAL RELATED ACTIVITIES

The City's governmental activities continued to struggle with many of the same economic issues as other communities including unfunded capital costs, increased operating costs, and decreasing revenue sources.

The municipal income tax revenue increased by \$1,141,619 in 2011; however, State funding cuts decreased intergovernmental revenues by \$568,556.

City of Avon Lake, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2011
(Unaudited)

\$1,908,917 was expended in 2011 to resurface and repair various streets throughout the City. Asphalt work was completed on Webber Road, Redwood Boulevard, Dellwood Road, Inwood Boulevard, Bellaire Road, Crestwood, Vinewood, Colony Drive, Bonnie View, and Parkland Drive. Concrete work was completed on Mulberry Lane, Marbrook Lane, Bayview Drive, Westwind Drive, Windward Way, Long Point, Vinewood, Greenwood, Starboard Cove, Bounty Way, Seaward Way, Chestnut Court, Stoneybrook Drive, Dakota Run, Elmwood Drive, Parkview Drive, Glenview Drive, Redwood Boulevard, Greenbriar Drive, Evergreen Court, Orchard Park, Fredericksburg, Division Road, and Birchwood Lane.

A Powering Our Communities grant from the Northeast Ohio Public Energy Council (NOPEC) for \$201,900 was awarded in 2011. The grant must be used for energy conservation measures. The initial project to retrofit the City Hall windows was completed by year end.

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

The Municipal Utilities completed the Jaycox Road combined sewer separation project which was funded by an Ohio Water Development Authority (OWDA) loan. This project includes improvements to the Jaycox, Harvey Parkway, Cherry, Electric, Yoder and Lake Roads. The ETL1 (Eastern Transmission Line) project to relocate the water transmission line under interstate 90 began in 2011 with approximately 68 percent of the project completed by the end of the year.

The Municipal Utilities completed the LORCO sewers project which was also funded by an OWDA loan. Due to OWDA receiving ARRA funds, \$5,000,000 of the principal balance of the loan has been forgiven.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

City of Avon Lake, Ohio
Statement of Net Assets
December 31, 2011

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Equity in Pooled Cash and Cash Equivalents	\$ 10,492,346	\$ 9,314,810	\$ 19,807,156
Cash and Cash Equivalents:			
With Escrow Agents	57,651	-	57,651
Materials and Supplies Inventory	154,567	86,490	241,057
Accounts Receivable	152,711	1,476,161	1,628,872
Accrued Interest Receivable	62,032	31,353	93,385
Intergovernmental Receivable	1,381,716	2,579,754	3,961,470
Prepaid Items	37,687	23,653	61,340
Income Taxes Receivable	2,934,099	154,426	3,088,525
Property and Other Taxes Receivable	5,412,944	-	5,412,944
Special Assessments Receivable	2,552,616	180,221	2,732,837
Deferred Charges	79,128	412,731	491,859
Restricted Assets:			
Cash and Cash Equivalents	-	1,304,490	1,304,490
Investment in Joint Venture	-	2,228,771	2,228,771
Nondepreciable Capital Assets	6,274,751	29,508,285	35,783,036
Depreciable Capital Assets	52,607,162	57,969,666	110,576,828
Total Assets	82,199,410	105,270,811	187,470,221
LIABILITIES			
Accounts Payable	203,045	226,156	429,201
Contracts Payable	-	177,181	177,181
Accrued Wages and Benefits	391,323	103,273	494,596
Intergovernmental Payable	571,130	1,158,581	1,729,711
Accrued Interest Payable	49,231	119,629	168,860
Retainage Payable	5,839	-	5,839
Deferred Revenue	5,120,755	-	5,120,755
Long-term Liabilities:			-
Due within one year	1,710,439	3,045,314	4,755,753
Due in more than one year	12,971,435	50,346,789	63,318,224
Total Liabilities	21,023,197	55,176,923	76,200,120
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	46,558,254	34,565,370	81,123,624
Restricted for:			
Debt Service	2,809,570	1,304,490	4,114,060
Capital Projects	3,226,009	-	3,226,009
Public Safety	831,115	-	831,115
Parks and Recreation	242,659	-	242,659
Streets and Highways	645,974	-	645,974
Other Purposes	2,090	-	2,090
Unrestricted	6,860,542	14,224,028	21,084,570
Total Net Assets	\$ 61,176,213	\$ 50,093,888	\$ 111,270,101

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

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

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental activities:				
Security of Persons and Property	\$ 8,503,399	\$ 458,276	\$ 1,200	\$ -
Public Health and Welfare	153,410	-	-	-
Leisure Time Activities	1,266,323	463,375	10,575	-
Community Environment	395,885	-	22,481	-
Basic Utility Services	621,573	10,471	-	-
Transportation	7,264,429	197,409	900,321	769,020
General Government	2,941,143	760,510	21,938	-
Interest and Fiscal Charges	523,145	-	-	-
Total Governmental activities	<u>21,669,307</u>	<u>1,890,041</u>	<u>956,515</u>	<u>769,020</u>
Business-type activities:				
Water	9,785,666	9,766,739	473,053	75,640
Sewer	3,834,849	5,223,139	39,954	2,886,826
Total Business-type activities	<u>13,620,515</u>	<u>14,989,878</u>	<u>513,007</u>	<u>2,962,466</u>
Total Primary Government	<u>\$ 35,289,822</u>	<u>\$ 16,879,919</u>	<u>\$ 1,469,522</u>	<u>\$ 3,731,486</u>

General Revenues:

Property and Other Taxes levied for:

General Purposes

Income Taxes levied for:

General Purposes

Sewer

Grants & Entitlements not restricted to specific programs

Investment Income

Gain on Sale of Capital Assets

All Other Revenues

Transfers

Total General Revenues

Change in Net Assets

Net Assets - Beginning of Year, Restated

Net Assets - End of Year

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

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business-type Activities	Total
\$ (8,043,923)	\$ -	(8,043,923)
(153,410)	-	(153,410)
(792,373)	-	(792,373)
(373,404)	-	(373,404)
(611,102)	-	(611,102)
(5,397,679)	-	(5,397,679)
(2,158,695)	-	(2,158,695)
(523,145)	-	(523,145)
<u>(18,053,731)</u>	<u>-</u>	<u>(18,053,731)</u>
-	529,766	529,766
-	4,315,070	4,315,070
-	4,844,836	4,844,836
<u>(18,053,731)</u>	<u>4,844,836</u>	<u>(13,208,895)</u>
4,913,620	-	4,913,620
9,001,318	-	9,001,318
-	258,615	258,615
2,026,080	-	2,026,080
259,795	127,307	387,102
37,061	-	37,061
28,696	101,779	130,475
4,137	(4,137)	-
<u>16,270,707</u>	<u>483,564</u>	<u>16,754,271</u>
<u>(1,783,024)</u>	<u>5,328,400</u>	<u>3,545,376</u>
<u>62,959,237</u>	<u>44,765,488</u>	<u>107,724,725</u>
<u>\$ 61,176,213</u>	<u>\$ 50,093,888</u>	<u>\$ 111,270,101</u>

City of Avon Lake, Ohio
Balance Sheet
Governmental Funds
December 31, 2011

	<u>General Fund</u>	<u>Capital Improvements</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Equity in Pooled Cash and Cash Equivalents	\$ 2,657,899	\$ 858,851	\$ 6,975,596	\$ 10,492,346
Cash and Cash Equivalents:				
With Escrow Agents	-	10,936	46,715	57,651
Materials and Supplies Inventory	68,782	-	85,785	154,567
Accrued Interest Receivable	-	58,469	3,563	62,032
Accounts Receivable	145,575	-	7,136	152,711
Interfund Receivable	133,126	-	234,336	367,462
Intergovernmental Receivable	722,889	-	658,827	1,381,716
Prepaid Items	33,299	-	4,388	37,687
Income Taxes Receivable	2,316,394	617,705	-	2,934,099
Property and Other Taxes Receivable	3,702,103	-	1,710,841	5,412,944
Special Assessments Receivable	-	-	2,552,616	2,552,616
Total Assets	<u>\$ 9,780,067</u>	<u>\$ 1,545,961</u>	<u>\$ 12,279,803</u>	<u>\$ 23,605,831</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	\$ 167,631	\$ 11,898	\$ 23,516	\$ 203,045
Accrued Wages and Benefits	327,789	-	63,534	391,323
Intergovernmental Payable	431,444	-	139,686	571,130
Retainage Payable	-	5,839	-	5,839
Interfund Payable	-	44,000	323,462	367,462
Deferred Revenue	5,485,482	335,229	4,738,120	10,558,831
Compensated Absences	12,729	-	-	12,729
Total Liabilities	<u>6,425,075</u>	<u>396,966</u>	<u>5,288,318</u>	<u>12,110,359</u>
Fund Balances:				
Nonspendable	147,081	-	90,173	237,254
Restricted	-	-	2,463,198	2,463,198
Committed	390,996	1,148,995	4,594,806	6,134,797
Assigned	2,145,213	-	145,515	2,290,728
Unassigned (Deficit)	671,702	-	(302,207)	369,495
Total Fund Balance	<u>3,354,992</u>	<u>1,148,995</u>	<u>6,991,485</u>	<u>11,495,472</u>
Total Liabilities and Fund Balance	<u>\$ 9,780,067</u>	<u>\$ 1,545,961</u>	<u>\$ 12,279,803</u>	<u>\$ 23,605,831</u>

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

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

Total Governmental Funds Balance \$ 11,495,472

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

Capital Assets used in Governmental Activities are not financial resources
 and, therefore, are not reported in the funds 58,881,913

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

Property and other taxes	\$	207,218	
Municipal income and other taxes		1,592,337	
Special assessments		2,552,616	
Intergovernmental		987,933	
Accounts Receivable		97,972	
Total			5,438,076

In the Statement of Activities, interest is accrued on outstanding
 bonds, whereas in Governmental funds, an interest expenditure
 is reported when due. (49,231)

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

General obligation bonds		(9,063,612)	
Special assessment bonds		(2,055,283)	
OPWC loan		(83,333)	
Note Payable		(1,073,610)	
Deferred Charges related to debt issuance		79,128	
Capital leases		(7,821)	
Other long-term obligations		(832,073)	
Compensated absences		(1,553,413)	
Total			(14,590,017)

Net Assets of Governmental Activities \$ 61,176,213

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

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

	General Fund	Capital Improvements	Other Governmental Funds	Total Governmental Funds
REVENUES				
Property and Other Taxes	\$ 3,867,712	\$ -	\$ 1,624,510	\$ 5,492,222
Income Taxes	6,875,408	1,830,658	698,413	9,404,479
Intergovernmental	1,883,889	-	2,020,650	3,904,539
Interest	-	240,443	19,352	259,795
Licenses and Permits	217,945	-	30,911	248,856
Fines and Forfeitures	273,248	-	75,965	349,213
Charges for Services	908,736	-	-	908,736
Special Assessments	-	-	410,275	410,275
All Other Revenues	126,338	7	13,220	139,565
Total Revenues	14,153,276	2,071,108	4,893,296	21,117,680
EXPENDITURES				
Security of Persons and Property	6,301,426	163,046	1,845,306	8,309,778
Public Health and Welfare	118,787	34,623	-	153,410
Leisure Time Activities	874,699	44,448	350	919,497
Community Environment	394,328	-	2,156	396,484
Basic Utility Services	667,103	-	-	667,103
Transportation	2,765,269	1,826,169	1,440,116	6,031,554
General Government	2,491,839	207,366	21,173	2,720,378
Capital Outlay	-	17,737	1,777,858	1,795,595
Debt Service:				
Principal Retirement	10,476	19,749	1,032,617	1,062,842
Interest and Fiscal Charges	3,916	1,052	476,982	481,950
Total Expenditures	13,627,843	2,314,190	6,596,558	22,538,591
Excess of Revenues (Under) Expenditures	525,433	(243,082)	(1,703,262)	(1,420,911)
OTHER FINANCING SOURCES (USES)				
Sale of Capital Assets	37,061	-	-	37,061
Bond Anticipation Notes Issued	-	146,000	925,000	1,071,000
Premium on Notes Issued	-	-	2,900	2,900
Transfers In	-	968,000	1,323,517	2,291,517
Transfers Out	(1,439,659)	(784,044)	(63,677)	(2,287,380)
Total Other Financing Sources (Uses)	(1,402,598)	329,956	2,187,740	1,115,098
Net Change in Fund Balances	(877,165)	86,874	484,478	(305,813)
Fund Balances - Beginning of Year, Restated	4,232,157	1,062,121	6,507,007	11,801,285
Fund Balances - End of Year	\$ 3,354,992	\$ 1,148,995	\$ 6,991,485	\$ 11,495,472

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

City of Avon Lake, Ohio
*Reconciliation of the Statement of Revenues, Expenditures and Changes
 In Fund Balance of Governmental Funds to the Statement of Activities
 For the Year Ended December 31, 2011*

Net Change in Fund Balances-Total Governmental Funds \$ (305,813)

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

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

Capital Outlay	\$ 3,474,360	
Depreciation	<u>(3,369,891)</u>	
Total		104,469

In the Statement of Activities, only the loss on the disposal of capital assets is reported, whereas, in the Governmental Funds, the proceeds from the disposals increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the capital assets. (27,377)

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

Property and other taxes	(578,602)	
Municipal income taxes	(403,161)	
Special assessments	(399,804)	
Intergovernmental	(81,067)	
Accounts Receivable	<u>9,279</u>	
Total		(1,453,355)

Other financing sources in the Governmental funds increase long-term liabilities in the Statement of Net Assets. These sources were attributed to the issuance of long-term notes payable and related premium. (1,073,900)

Repayment of bond principal and capital leases are expenditures in the Governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 981,315

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

Compensated absences	(64,193)	
Other long-term obligations	77,122	
Accrued interest on bonds	(12,500)	
Deferred charges related to debt issuance	<u>(8,792)</u>	
Total		<u>(8,363)</u>

Change in Net Assets of Governmental Activities \$ (1,783,024)

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

City of Avon Lake, Ohio
*Statement of Revenues, Expenditures and Changes in Fund Balance –
 Budget (Non-GAAP Basis) and Actual
 General Fund
 For the Year Ended December 31, 2011*

	Budget Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
REVENUES				
Property Taxes	\$ 3,427,325	\$ 3,427,325	\$ 3,433,196	\$ 5,871
Other Taxes	334,206	334,206	349,545	15,339
Intergovernmental	1,793,216	1,772,127	1,821,993	49,866
Charges for Services	876,243	879,093	906,902	27,809
Licenses and Permits	241,125	241,125	209,714	(31,411)
Fines and Forfeitures	287,000	287,000	276,812	(10,188)
Other	102,465	104,296	131,778	27,482
Total Revenues	<u>7,061,580</u>	<u>7,045,172</u>	<u>7,129,940</u>	<u>84,768</u>
EXPENDITURES				
Current:				
General Government	2,770,713	2,872,912	2,580,429	292,483
Security of Persons and Property	6,160,309	6,160,309	6,068,026	92,283
Public Health and Welfare	85,983	85,983	85,983	-
Basic Utility Services	698,540	698,540	698,540	-
Transportation	2,920,572	2,920,573	2,756,836	163,737
Community Environment	405,204	407,036	394,674	12,362
Leisure Time Activities	873,695	876,546	781,494	95,052
Total Expenditures	<u>13,915,016</u>	<u>14,021,899</u>	<u>13,365,982</u>	<u>655,917</u>
Excess of Revenues Over (Under) Expenditures	(6,853,436)	(6,976,727)	(6,236,042)	740,685
OTHER FINANCING SOURCES (USES)				
Sale of Capital Assets	10,000	10,000	37,061	27,061
Advances In	49,837	49,837	-	(49,837)
Advances Out	(49,837)	(158,837)	(109,000)	49,837
Transfers In	6,375,000	6,375,000	6,375,000	-
Transfers Out	(922,281)	(1,562,447)	(1,562,447)	-
Total Other Financing Sources (Uses)	<u>5,462,719</u>	<u>4,713,553</u>	<u>4,740,614</u>	<u>27,061</u>
Net Change in Fund Balances	(1,390,717)	(2,263,174)	(1,495,428)	767,746
Fund Balances - Beginning of Year	3,261,765	3,261,765	3,261,765	-
Prior Year Encumbrances Appropriated	179,634	179,634	179,634	-
Fund Balances - End of Year	<u>\$ 2,050,682</u>	<u>\$ 1,178,225</u>	<u>\$ 1,945,971</u>	<u>\$ 767,746</u>

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

City of Avon Lake, Ohio
Statement of Fund Net Assets
Proprietary Funds
December 31, 2011

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
ASSETS			
Current Assets:			
Equity in Pooled Cash and Cash Equivalents	\$ 6,546,759	\$ 2,768,051	\$ 9,314,810
Materials and Supplies Inventory	74,377	12,113	86,490
Accrued Interest Receivable	24,409	6,944	31,353
Accounts Receivable	726,804	749,357	1,476,161
Intergovernmental Receivable	1,804,754	775,000	2,579,754
Prepaid Items	16,776	6,877	23,653
Income Taxes Receivable	-	154,426	154,426
Special Assessments Receivable	-	180,221	180,221
Total Current Assets	9,193,879	4,652,989	13,846,868
Noncurrent Assets:			
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	1,304,490	-	1,304,490
Deferred Charges	404,992	7,739	412,731
Investment in Joint Venture	2,228,771	-	2,228,771
Capital Assets:			
Land	671,708	993,677	1,665,385
Construction in Progress	926,127	26,916,773	27,842,900
Depreciable Capital Assets, Net of Depreciation	34,584,220	23,385,446	57,969,666
Total Noncurrent Assets	40,120,308	51,303,635	91,423,943
Total Assets	49,314,187	55,956,624	105,270,811
LIABILITIES			
Current Liabilities:			
Accounts Payable	163,968	62,188	226,156
Accrued Wages and Benefits	63,746	39,527	103,273
Compensated Absences Payable	73,035	68,595	141,630
Contracts Payable	177,181	-	177,181
Intergovernmental Payable	1,082,763	75,818	1,158,581
Accrued Interest Payable	106,679	12,950	119,629
General Obligation Bonds Payable	711,200	145,000	856,200
Revenue Bonds Payable	915,000	-	915,000
OWDA Loans Payable	777,195	209,617	986,812
Capital Leases Payable	1,774	1,774	3,548
ETL1 Loan Payable	142,124	-	142,124
Total Current Liabilities	4,214,665	615,469	4,830,134
Noncurrent Liabilities:			
Compensated Absences Payable	171,182	166,710	337,892
General Obligation Bonds Payable	1,072,005	3,799,598	4,871,603
Revenue Bonds Payable	7,545,000	-	7,545,000
OWDA Loans Payable	6,240,250	31,245,367	37,485,617
Capital Leases Payable	582	581	1,163
ETL1 Loan Payable	105,514	-	105,514
Total Noncurrent Liabilities	15,134,533	35,212,256	50,346,789
Total Liabilities	19,349,198	35,827,725	55,176,923
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	18,671,411	15,893,959	34,565,370
Restricted for:			
Debt Service	1,304,490	-	1,304,490
Unrestricted	9,989,088	4,234,940	14,224,028
Total Net Assets	\$ 29,964,989	\$ 20,128,899	\$ 50,093,888

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

City of Avon Lake, Ohio
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2011

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
OPERATING REVENUES			
Charges for Services	\$ 9,766,739	\$ 5,223,139	\$ 14,989,878
Miscellaneous	101,777	2	101,779
Total Operating Revenues	9,868,516	5,223,141	15,091,657
OPERATING EXPENSES			
Salaries	2,146,692	2,077,742	4,224,434
Purchased Services	3,435,870	196,779	3,632,649
Materials and Supplies	1,874,960	249,800	2,124,760
Depreciation	1,119,010	816,220	1,935,230
Other	4,528	3,564	8,092
Total Operating Expense	8,581,060	3,344,105	11,925,165
Operating Income	1,287,456	1,879,036	3,166,492
NONOPERATING REVENUES (EXPENSES)			
Interest	97,675	29,632	127,307
Interest and Fiscal Charges	(1,070,502)	(490,744)	(1,561,246)
Intergovernmental	473,053	39,954	513,007
Loss on Investment in Joint Venture	(134,104)	-	(134,104)
Income Taxes	-	258,615	258,615
Total Nonoperating Revenues (Expenses)	(633,878)	(162,543)	(796,421)
Capital Grants and Contributions	75,640	2,886,826	2,962,466
Transfers In	9,240	11,683	20,923
(Transfers Out)	-	(25,060)	(25,060)
Change in Net Assets	738,458	4,589,942	5,328,400
Net Assets - Beginning of Year, Restated	29,226,531	15,538,957	44,765,488
Net Assets - End of Year	\$ 29,964,989	\$ 20,128,899	\$ 50,093,888

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

City of Avon Lake, Ohio
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2011

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from Customers and Users	\$ 9,718,926	\$ 5,011,660	\$ 14,730,586
Other Cash Receipts	101,777	2	101,779
Cash Payments to Employees for Services	(2,097,653)	(2,143,385)	(4,241,038)
Cash Payments for Goods and Services	(5,010,784)	(500,377)	(5,511,161)
Other Cash Payments	(4,528)	(3,564)	(8,092)
Net Cash Provided by Operating Activities	<u>2,707,738</u>	<u>2,364,336</u>	<u>5,072,074</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Intergovernmental Revenue	380,774	-	380,774
Income Taxes	-	425,000	425,000
Advances In	800,000	-	800,000
Advances Out	-	(800,000)	(800,000)
Transfers In	9,240	11,683	20,923
Transfers Out	-	(25,060)	(25,060)
Net Cash Provided by (Used in) Noncapital Financing Activities	<u>1,190,014</u>	<u>(388,377)</u>	<u>801,637</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from OWDA Loans	-	5,592,829	5,592,829
Proceeds from ETL1 Loan	585,327	-	585,327
Principal Paid on G.O. Bonds	(535,228)	(278,308)	(813,536)
Principal Paid on Revenue Bonds	(880,000)	-	(880,000)
Principal Paid on OWDA Loans	(726,557)	(293,364)	(1,019,921)
Principal Paid on ETL1 Loan	(337,689)	-	(337,689)
Principal Paid on Capital Leases Payable	(1,673)	(54,150)	(55,823)
Interest Payments	(1,046,451)	(492,599)	(1,539,050)
Payments for Capital Acquisitions	(1,600,867)	(9,048,112)	(10,648,979)
Special Assessments	-	36,994	36,994
Intergovernmental Revenue	900,000	39,954	939,954
Capital Grant	-	2,040,942	2,040,942
Net Cash Used in Capital and Related Financing Activities	<u>(3,643,138)</u>	<u>(2,455,814)</u>	<u>(6,098,952)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest on Investments	97,208	28,748	125,956
Net Cash Provided by Investing Activities	<u>97,208</u>	<u>28,748</u>	<u>125,956</u>
Net Increase (Decrease) in Cash and Cash Equivalents	351,822	(451,107)	(99,285)
Cash and Cash Equivalents - Beginning of Year	7,499,427	3,219,158	10,718,585
Cash and Cash Equivalents - End of Year	<u>\$ 7,851,249</u>	<u>\$ 2,768,051</u>	<u>\$ 10,619,300</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating Income	\$ 1,287,456	\$ 1,879,036	\$ 3,166,492
Adjustments:			
Depreciation	1,119,010	816,220	1,935,230
(Increase) Decrease in Assets:			
Accounts Receivable	(47,813)	(211,479)	(259,292)
Materials and Supplies Inventory	2,182	(2,663)	(481)
Prepaid Items	(1,723)	(2,918)	(4,641)
Increase (Decrease) in Liabilities:			
Accounts Payable	96,129	(54,913)	41,216
Contracts Payable	177,181	-	177,181
Accrued Wages	19,349	(17,006)	2,343
Compensated Absences Payable	17,629	(50,619)	(32,990)
Intergovernmental Payable	38,338	8,678	47,016
Net Cash Provided by Operating Activities	<u>\$ 2,707,738</u>	<u>\$ 2,364,336</u>	<u>\$ 5,072,074</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
During 2011, the City received capital contributions in the form of tap fees from LORCO.	\$ -	\$ 775,000	\$ 775,000

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

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

	Agency Funds
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 217,895
Intergovernmental Receivable	<u>1,147,638</u>
Total Assets	<u><u>\$1,365,533</u></u>
Liabilities	
Intergovernmental Payable	\$ 161,927
Deposits Held and Due to Others	<u>1,203,606</u>
Total Liabilities	<u><u>\$1,365,533</u></u>

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

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

NOTE 1: DESCRIPTION OF THE CITY AND REPORTING ENTITY

The City of Avon Lake (the City) is a municipal corporation established under the laws of the State of Ohio which operates under its own charter. The City was incorporated in 1950 and operates under a Council/Mayor form of government. The Mayor and the Council are elected by separate ballot from the municipality for four-year terms. The Mayor appoints the Finance Director. The Council approves and hires all department managers and employees of the City. The administrative authority over municipally owned utilities, water and sewer, are vested in a Board of five members elected at large.

Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that financial statements are not misleading. The primary government of the City consists of all funds, departments, boards and agencies that are not legally separate from the City. For the City of Avon Lake, this includes police and fire, parks and recreation, building inspection services, street maintenance and repairs, water and sewer. Council and the Mayor have direct responsibility for these activities, except the Board of Utilities has direct responsibility over the water and sewer activities.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board; and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations for which the City authorizes the issuance of debt or the levying of taxes, or determines the budget. There are no component units included as part of this report.

The City is associated with the Lorain County Community Alliance Council of Governments and the Northeast Ohio Public Energy Council (NOPEC) as jointly governed organizations. The City is also a member of the Medina-Lorain Water Consortium, a joint venture (See Note 14).

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

City of Avon Lake, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011
(Continued)

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

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

Government-wide Financial Statements

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

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

Fund Financial Statements

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

B. **Fund Accounting**

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

Governmental Funds

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

City of Avon Lake, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011
(Continued)

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

B. Fund Accounting

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

Capital Improvements Fund – This capital projects fund is used to account for and report the City's financial resources that are restricted, committed, or assigned to expenditure for capital outlays including the acquisition or construction of capital facilities and other capital assets.

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

Proprietary Funds

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

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

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

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

Fiduciary Funds

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

City of Avon Lake, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011
(Continued)

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

C. Measurement Focus

Government-wide Financial Statements

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

Fund Financial Statements

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

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

D. Basis of Accounting

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

Revenues - Exchange and Non-exchange Transactions

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

City of Avon Lake, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011
(Continued)

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

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

Revenues - Exchange and Non-exchange Transactions (Continued)

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 6). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: income tax, state-levied locally shared taxes (including gasoline tax and motor vehicle license fees), fines and forfeitures, interest, grants, fees, and rentals.

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of December 31, 2011, but which were levied to finance fiscal year 2012 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures

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

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

E. **Budgetary Process**

An annual appropriated budget is legally required by the City Charter to be prepared for all funds of the City other than agency funds. The legal level of budgetary control has been established by City Council at the personal service and other expenditure level for all funds.

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

City of Avon Lake, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011
(Continued)

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

E. **Budgetary Process** (Continued)

Tax Budget

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

Estimated Resources

The County Budget Commission determines if the tax budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by October 1. As part of this certification, the City receives the official certificate of estimated resources that states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include any unencumbered balances from the preceding year. The certificate of estimated resources can be further amended during the year if the fiscal officer determines, and the Budget Commission agrees, that an estimate needs to be either increased or decreased. The amounts reported in the budgetary statements as original represent the amounts in the official certificate of estimated resources when the original appropriations were adopted. The amounts reported in the budgetary statements as final reflect the amounts in the final amended official certificate of estimated resources issued during 2011.

Appropriations

A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation ordinance must be passed by April 1 of each year, for the period January 1 to December 31. The appropriation ordinance may be supplemented during the year by action of Council, as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. During the year, four supplemental appropriation measures were passed. The amounts reported as the original budgeted amounts in the budgetary statements reflect the first appropriated budget for each fund that covered the entire year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts in the statements of budgetary comparisons represent the final appropriation amounts, including all amendments and modifications.

Lapsing of Appropriations

At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding year and is not re-appropriated.

City of Avon Lake, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011
(Continued)

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

E. **Budgetary Process** (Continued)

Encumbrances

As part of formal budgetary control purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to constrain that portion of the applicable appropriation and to determine and maintain legal compliance. The Ohio Revised Code prohibits expenditures plus encumbrances from exceeding appropriations. On the GAAP basis, encumbrances outstanding at year-end are reported as a part of restricted, committed, or assigned fund balances for subsequent year expenditures of governmental funds.

F. **Cash Equivalents**

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

Investments are reported at fair value which is based on quoted market prices, with the exception of nonparticipating repurchase agreements, which are reported at cost. For investments in open-end mutual funds, fair value is determined by the fund's share price. During the year, investments were limited to money market mutual fund accounts, repurchase agreements, investments in U.S. agencies and instrumentalities and the City invested in STAR Ohio, an investment pool managed by the State Treasurer's Office. STAR Ohio allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2011.

Following Ohio statutes, the City has, by ordinance, specified the Capital Improvement Fund to receive an allocation of interest earnings. Interest receipts credited to the Capital Improvement Fund during 2011 amounted to \$240,443 which includes \$199,199 assigned from other City funds.

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

The City presents "Cash and Cash Equivalents with Escrow Agents" on its Statement of Net Assets. In governmental activities, the \$57,651 represents cash held by escrow agent for contractor retainage. During 2011, this amount was invested in money market interest bearing accounts.

In business-type activities, the restricted cash of \$1,304,490 represents cash segregated by the City from funds held by trustees in accordance with the trust agreement associated with the water system mortgage revenue refunding bonds issued on April 22, 2005. During 2011, this restricted cash was invested in U.S. Treasury obligations. See Note 8 for additional information regarding these bonds and related segregated assets.

City of Avon Lake, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011
(Continued)

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

F. **Cash Equivalents** (Continued)

For purposes of the Statement of Cash Flows and for presentation on the Statement of Net assets/balance sheet, investments with an original maturity of three months or less and investments of the cash management pool are considered to be cash equivalents.

G. **Inventories**

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

H. **Prepaid Expenses**

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

I. **Capital Assets**

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

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

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

City of Avon Lake, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011
(Continued)

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

I. **Capital Assets** (Continued)

<u>Description</u>	<u>Governmental Activities Useful Lives</u>	<u>Business-Type Activities Useful Lives</u>
Buildings and Improvements	15 to 70 years	15 to 70 years
Machinery and Equipment	3 to 20 years	3 to 20 years
Vehicles	3 to 20 years	3 to 25 years
Infrastructure	10 to 75 years	10 to 75 years

J. **Interfund Balances**

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

K. **Capitalization of Interest**

The City’s policy is to delay capitalizing net interest on proprietary funds construction projects until substantial completion of the project. The amount of capitalized interest equals the difference between the interest cost associated with the tax exempt borrowing used to finance the project and the interest earned from temporary investment of the debt proceeds. Capitalized interest is amortized on the straight-line basis over the estimated useful life of the asset. For 2011, proprietary funds incurred interest costs on construction projects.

L. **Bond Discounts and Issuance Costs**

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

City of Avon Lake, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011
(Continued)

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

M. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those that the City has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employee wage rates at fiscal year end taking into consideration any limits specified in the City's termination policy. The City records a liability for all accumulated unused vacation time when earned for all employees. The City records a liability for accumulated unused sick leave for all employees ages thirty-eight or older with eight or more years of accumulated service. The entire compensated absence liability is reported on the government-wide financial statements.

For governmental funds, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. If material, these amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

N. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases and long-term loans are recognized as a liability on the fund financial statements when due.

City of Avon Lake, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011
(Continued)

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

O. **Fund Balance**

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

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

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

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

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

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

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

City of Avon Lake, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011
(Continued)

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

P. Net Assets

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

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

Q. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for waste water treatment and water services. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. All revenues and expenses not meeting these definitions are reported as non-operating.

R. Contributions of Capital

Contributions of capital in governmental and proprietary fund financial statements arise from outside contributions of capital assets, tap-in fees to the extent they exceed the cost of the connection to the system, or from grants or outside contributions of resources restricted to capital acquisition and construction.

S. Interfund Activity

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

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

T. Extraordinary and Special Items

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

City of Avon Lake, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011
(Continued)

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

U. Use of Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes.

NOTE 3: **BUDGETARY BASIS OF ACCOUNTING**

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

- Revenues are recorded when received in cash (budget) as opposed to when susceptible accrual (GAAP);
- Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP);
- Encumbrances are treated as expenditures (budget basis) rather than as a part of restricted, committed, and assigned fund balances (GAAP basis); and
- Some funds are included in the General Fund (GAAP basis), but have separate legally adopted budgets (budget basis).

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

	<u>General</u>
GAAP Basis	\$ (877,165)
 <u>Increase (Decrease) Due to:</u>	
Revenue Accruals	(647,419)
Expenditure Accruals	204,640
Outstanding Encumbrances	(279,280)
Funds with Separate Legally Adopted Budgets	103,796
Budget Basis	<u>\$ (1,495,428)</u>

City of Avon Lake, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011
(Continued)

NOTE 4: **ACCOUNTABILITY AND COMPLIANCE**

A. **Deficit Fund Balances**

At December 31, 2011, the COPS Fast, Troy School Driveway, and Cove Avenue Improvements funds had deficit fund balances of \$18,991, \$50,000 and \$233,216, respectively. These deficit fund balances are the result of adjustments for accrued liabilities in these funds. The General Fund is liable for any deficits in these funds and previous transfers when cash is needed, not when accruals occur.

B. **Excess of Expenditures Plus Encumbrances Over Final Appropriations**

For the year ended December 31, 2011, expenditures plus encumbrances exceeded final appropriations in the Sewer fund by \$3,699,041. The over-expenditures were funded by the Sewer fund's available fund balance.

NOTE 5: **DEPOSITS AND INVESTMENTS**

A. **Legal Requirements**

Deposits and investments are restricted by provisions of the Ohio Revised Code. Statutes require the classification of monies held by the City into three categories.

One category consists of "active" monies; those monies required to be kept in a "cash" or "near cash" status for immediate use by the City. Such monies must be maintained either as cash in the treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

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

1. Bonds, notes, or other obligations of, or guaranteed by, the United States, or those for which the faith of the United States is pledged for the payment of principal and interest.
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality.
3. Written repurchase agreements for a period not to exceed thirty days in securities listed above that mature within five years from the date of purchase.

City of Avon Lake, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011
(Continued)

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

A. **Legal Requirements**

4. Bonds and other obligations of the State of Ohio.
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions.
6. The State Treasurer's investment pool (STAR Ohio).

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

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

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

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Director of Finance or, if the securities are not represented by a certificate, upon receipts of confirmation of transfer from the custodian.

B. **Deposits**

Custodial credit risk is the risk that, in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, the carrying amount of the City's deposits was \$682,655 and \$2,645 of petty cash and the bank balance was \$858,543. The City's bank balance was fully covered by federal depository insurance.

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

City of Avon Lake, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011
(Continued)

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

C. Investments

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

Investments are reported at fair value. As of December 31, 2011, the City had the following investments

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturities</u>
Federal Home Loan Bank	\$ 2,311,889	4/13/2012 - 9/11/2015
Federal Farm Credit Bank	302,382	6/20/2012
Federal Home Loan Mortgage Corp.	821,891	3/23/2012 - 1/7/2014
Federal Nation Mtg Assn.	313,644	2/5/2014
Freddie Mac	2,940,231	6/15/2012 - 7/17/2015
Fannie Mae	3,335,747	1/12/2012 - 7/28/2015
United States Treasury Notes	2,971,703	2/15/2012 - 3/31/2016
Money Market Mutual Funds	2,672,116	n/a
Repurchase Agreement	675,000	n/a
STAR Ohio	4,357,289	< 60 days
Total Investments	<u>\$ 20,701,892</u>	

D. Interest Rate Risk

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

City of Avon Lake, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011
(Continued)

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

E. **Credit Risk**

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

The City has no investment policy that addresses credit risk.

F. **Concentration of Credit Risk**

The following is the City's allocation as of December 31, 2011:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment</u>
Federal Home Loan Bank	\$ 2,311,889	11.17%
Federal Farm Credit Bank	302,382	1.46%
Federal Home Loan Mortgage Corp.	821,891	3.97%
Federal Nation Mtg Assn.	313,644	1.52%
Freddie Mac	2,940,231	14.20%
Fannie Mae	3,335,747	16.11%
United States Treasury Notes	2,971,703	14.35%
Money Market Mutual Funds	2,672,116	12.91%
Repurchase Agreement	675,000	3.26%
STAR Ohio	4,357,289	21.05%
Total Investments	<u>\$ 20,701,892</u>	<u>100.00%</u>

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

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

City of Avon Lake, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011
(Continued)

NOTE 6: **RECEIVABLES**

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

No allowances for doubtful accounts have been recorded because uncollectible amounts are expected to be insignificant.

A. **Property Taxes**

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

Real property taxes collected were based on assessed value equal to thirty-five percent (35%) of appraised value. The Lorain County Auditor reappraises real property every six years, with a triennial update, which was last completed for 2009. Real property taxes are levied on assessed valuations as of December 31, which is the lien date. Real property taxes, billed one year in arrears, are payable annually or semiannually. The first payment is due January 20, and the remainder is payable by June 20.

Tangible personal property tax revenues received in calendar year 2011 (other than public utility property) represent the collection of calendar year 2011 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. The October 2010 tangible personal property tax settlement was the last property tax settlement for general personal property taxes. Tangible personal property taxes received from telephone companies in calendar year 2011 were levied after October 1, 2010, on the value as of December 31, 2010.

Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the City prior to June 30.

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

City of Avon Lake, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011
(Continued)

NOTE 6: **RECEIVABLES** (Continued)

A. **Property Taxes** (Continued)

The full tax rate for all City operations for the year ended December 31, 2011 was \$7.34 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2011 property tax receipts were based are as follows:

Real Property - 2011:	
Residential/Agriculture	\$ 679,942,600
Other Real Estate	88,859,130
Tangible Personal Property - 2011:	
Public Utilities	<u>57,136,730</u>
Total Valuation	<u><u>\$ 825,938,460</u></u>

B. **Income Taxes**

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

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

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

City of Avon Lake, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011
(Continued)

NOTE 6: **RECEIVABLES** (Continued)

C. Intergovernmental Revenues

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
Governmental Activities	
Homestead and Rollback	\$ 323,938
Gasoline Tax	383,646
Local Government	321,570
Motor Vehicle	54,936
Auto Registration	50,914
Estate Tax	150,429
Avon Lake City School District	50,000
Miscellaneous	46,283
Total Governmental Activities	1,381,716
Business-Type Activities	
Water	1,804,754
Sewer	775,000
Total Business-Type Activities	2,579,754
Total Intergovernmental Receivable	\$ 3,961,470

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

City of Avon Lake, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011
(Continued)

NOTE 7: CAPITAL ASSETS

	Balances 12/31/2010	Additions	Disposals	Balances 12/31/2011
Governmental Activities				
Nondepreciable Assets:				
Land	\$ 5,469,373	\$ -	\$ -	\$ 5,469,373
Construction in progress	-	805,378		805,378
Total Nondepreciable Assets	<u>5,469,373</u>	<u>805,378</u>	<u>-</u>	<u>6,274,751</u>
Depreciable Assets:				
Buildings and Improvements	21,168,568	20,814	(3,771)	21,185,611
Machinery and Equipment	5,948,965	415,460	(275,858)	6,088,567
Vehicles	4,394,917	70,362	(279,842)	4,185,437
Infrastructure	63,024,392	2,162,346	-	65,186,738
Total Depreciable Assets	<u>94,536,842</u>	<u>2,668,982</u>	<u>(559,471)</u>	<u>96,646,353</u>
Less Accumulated Depreciation				
Buildings and Improvements	(4,098,241)	(547,295)	3,583	(4,641,953)
Machinery and Equipment	(4,342,730)	(325,693)	248,669	(4,419,754)
Vehicles	(2,740,986)	(238,215)	279,842	(2,699,359)
Infrastructure	(30,019,437)	(2,258,688)	-	(32,278,125)
Total Accumulated Depreciation	<u>(41,201,394)</u>	<u>(3,369,891)</u>	<u>532,094</u>	<u>(44,039,191)</u>
Total Depreciable Assets, Net	<u>53,335,448</u>	<u>(700,909)</u>	<u>(27,377)</u>	<u>52,607,162</u>
Governmental Activities Capital Assets, Net	<u>\$ 58,804,821</u>	<u>\$ 104,469</u>	<u>\$ (27,377)</u>	<u>\$ 58,881,913</u>
Business-Type Activities				
Nondepreciable Assets:				
Land	\$ 1,665,385	\$ -	\$ -	\$ 1,665,385
Construction in progress	25,987,249	9,873,680	(8,018,029)	27,842,900
Total Nondepreciable Assets	<u>27,652,634</u>	<u>9,873,680</u>	<u>(8,018,029)</u>	<u>29,508,285</u>
Depreciable Assets:				
Buildings and Improvements	37,450,188	159,554	-	37,609,742
Machinery and Equipment	4,091,524	156,108	-	4,247,632
Vehicles	783,245	-	-	783,245
Infrastructure	43,935,114	8,650,191	-	52,585,305
Total Depreciable Assets	<u>86,260,071</u>	<u>8,965,853</u>	<u>-</u>	<u>95,225,924</u>
Less Accumulated Depreciation				
Buildings and Improvements	(17,475,369)	(632,399)	-	(18,107,768)
Machinery and Equipment	(1,938,868)	(190,966)	-	(2,129,834)
Vehicles	(435,308)	(33,537)	-	(468,845)
Infrastructure	(15,471,483)	(1,078,328)	-	(16,549,811)
Total Accumulated Depreciation	<u>(35,321,028)</u>	<u>(1,935,230)</u>	<u>-</u>	<u>(37,256,258)</u>
Total Depreciable Assets, Net	<u>50,939,043</u>	<u>7,030,623</u>	<u>-</u>	<u>57,969,666</u>
Business-Type Activities Capital Assets, Net	<u>\$ 78,591,677</u>	<u>\$ 16,904,303</u>	<u>\$ (8,018,029)</u>	<u>\$ 87,477,951</u>

City of Avon Lake, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011
(Continued)

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

Depreciation expense was charged to governmental functions as follows:

Security of Persons and Property	\$ 286,096
Leisure Time Activities	353,096
Community Environment	1,274
Basic Utility Services	17,531
Transportation	2,211,468
General Government	<u>500,426</u>
Total Depreciation Expense	<u><u>\$3,369,891</u></u>

NOTE 8: **LONG-TERM OBLIGATIONS**

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

	Original Issue Date	Maturity Date	Interest Rate	Original Issue Amount
Governmental Activities				
General Obligation Bonds				
Refunding	2001	2020	3.3% - 5.5%	\$ 525,160
Safety Center	2001	2020	3.3% - 5.5%	4,994,101
Recreational Facility	2003	2028	3.0% - 5.0%	1,000,000
Pin Oak Parkway	2001	2020	2.75% - 4.75%	498,659
LTGO Various Purpose	2009	2017	2.0% - 3.5%	1,430,000
Recreational Facility	2009	2028	3.0% - 5.0%	4,500,000
Refunding	2010	2020	2.0% - 3.75%	3,110,000
Special Assessment Bonds				
CALDP	2001	2020	3.3% - 5.5%	2,999,996
Pin Oak Parkway	2001	2020	2.75% - 4.75%	886,341
Refunding	2010	2020	2.0% - 3.75%	1,870,000
Street Improvement Notes				
Canterbury Road	2011	2016	2.95%	925,000
Webber Road	2011	2016	2.95%	146,000
Ohio Water Development Authority Loan				
Walker Road	1990	2012	7.76%	700,698
Ohio Public Works Commission Loan				
Walker Road/Bike Lane	2009	2024	0.00%	100,000
Business-Type Activities				
General Obligation Bonds				
Refunding	2001	2020	3.3% - 5.5%	6,499,726
Refunding	2001	2020	3.3% - 5.5%	1,727,775
Wastewater Collection System	2003	2028	3.0% - 5.0%	4,500,000
Refunding	2010	2020	2.0% - 2.35%	425,000
Mortgage Revenue Bonds				
Water System Refunding	2005	2026	3.0% - 5.0%	14,075,000
Ohio Water Development Authority Loans				
Walker Road	1990	2012	7.76%	1,348,577
Water Plant Expansion	1991	2017	7.84%	9,084,095
Wastewater Improvements	1998	2018	5.76%	638,031
Water System Improvements	2003	2025	4.51%	4,764,656
Fay/Vineyard Sanitary Sewer	2008	2029	4.15%	1,548,287
Center Road Pump Station	2008	2029	4.28%	1,356,266
LORCO Force Main (*)	2009	2041	3.68%	9,589,777
LORCO Collection Systems (*)	2009	2041	4.08%	16,013,214
Sewer Separation	2010	2041	3.27%	3,018,029

* - OWDA project remains open as of December 31, 2011

City of Avon Lake, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011
(Continued)

NOTE 8: LONG-TERM OBLIGATIONS (Continued)

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

	Outstanding 12/31/2010	Additions	Reductions	Outstanding 12/31/2011	Amount Due in One Year
Governmental activities					
General obligation bonds					
Refunding bonds (2001)					
various % through 2014 Safety center (2001)	\$ 180,748	\$ -	\$ 41,464	\$ 139,284	\$ 43,800
various % through 2020 Pin Oak Parkway (2001)	245,000	-	245,000	-	-
various % through 2020 Recreational facility (2003)	234,059	-	36,000	198,059	36,000
various % through 2028 Various purpose (2009)	805,000	-	30,000	775,000	30,000
various % through 2017 Recreational facility (2009)	1,265,000	-	165,000	1,100,000	170,000
various % through 2028 Refunding bonds (2010)	4,155,000	-	130,000	4,025,000	140,000
various through 2020 Unamortized premium	3,025,000	-	45,000	2,980,000	305,000
Unamortized loss on refunding	63,312	-	10,426	52,886	-
Unamortized loss on refunding	(247,349)	-	(40,732)	(206,617)	-
Total general obligation bonds	<u>9,725,770</u>	<u>-</u>	<u>662,158</u>	<u>9,063,612</u>	<u>724,800</u>
Special assessment bonds					
Pin Oak Parkway (2001)					
various % through 2020 CALDP (2001)	415,941	-	64,000	351,941	64,000
various % through 2020 Refunding bonds (2010)	145,000	-	145,000	-	-
various % through 2020 Unamortized premium	1,820,000	-	25,000	1,795,000	180,000
Unamortized loss on refunding	38,098	-	6,214	31,884	-
Unamortized loss on refunding	(147,616)	-	(24,074)	(123,542)	-
Total special assessment bonds	<u>2,271,423</u>	<u>-</u>	<u>216,140</u>	<u>2,055,283</u>	<u>244,000</u>
Notes Payable					
Street Improvement Notes (2011)					
2.95 % through 2016 Unamortized premium	-	1,071,000	-	1,071,000	134,058
Unamortized premium	-	2,900	290	2,610	-
Total Notes Payable	<u>-</u>	<u>1,073,900</u>	<u>290</u>	<u>1,073,610</u>	<u>134,058</u>
OWDA loan - Walker Road (1990)					
7.76% through 2012	65,835	-	65,835	-	-
OPWC loan- Walker Rd/Bike Lane					
0.0% through 2024	90,000	-	6,667	83,333	6,667
Total loans	<u>155,835</u>	<u>-</u>	<u>72,502</u>	<u>83,333</u>	<u>6,667</u>
Capital lease obligations	38,046	-	30,225	7,821	2,386
Landfill postclosure costs	745,425	14,349	62,119	697,655	63,423
Police and fire pension	99,270	-	4,852	94,418	2,412
Promissory note	64,500	-	24,500	40,000	20,000
Compensated absences	1,495,087	87,999	16,944	1,566,142	512,693
Total Governmental activities	<u>\$ 14,595,356</u>	<u>\$ 1,176,248</u>	<u>\$ 1,089,730</u>	<u>\$ 14,681,874</u>	<u>\$ 1,710,439</u>

City of Avon Lake, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011
(Continued)

NOTE 8: LONG-TERM OBLIGATIONS (Continued)

	Outstanding 12/31/2010	Additions	Reductions	Outstanding 12/31/2011	Amount Due in One Year
Business-type activities					
General obligation bonds					
Refunding bonds (2001)					
various % through 2020	\$ 2,524,252	\$ -	\$ 668,536	\$ 1,855,716	\$ 706,200
Wastewater collection system (2003)					
various % through 2028	3,620,000	-	140,000	3,480,000	145,000
Refunding bonds (2010)					
various % through 2020	415,000	-	5,000	410,000	5,000
Unamortized premium	7,934	-	2,020	5,914	-
Unamortized loss on refunding	(31,965)	-	(8,138)	(23,827)	-
Total general obligation bonds	<u>6,535,221</u>	<u>-</u>	<u>807,418</u>	<u>5,727,803</u>	<u>856,200</u>
Mortgage revenue bonds					
Water system refunding (2005)					
various % through 2026	<u>9,340,000</u>	<u>-</u>	<u>880,000</u>	<u>8,460,000</u>	<u>915,000</u>
OWDA					
Walker Road (1990)					
7.76% through 2012	124,551	-	124,551	-	-
Water plant expansion (1991)					
7.84% through 2017	3,899,210	-	533,690	3,365,520	575,532
Wastewater improvements (1998)					
5.76% through 2018	324,545	-	35,854	288,691	37,919
Water system improvements (2003)					
4.51% through 2025	3,844,792	-	192,867	3,651,925	201,663
Fay/Vineyard sanitary sewer (2008)					
4.15% through 2029	1,431,162	-	42,259	1,388,903	57,644
Center Road pump station (2008)					
4.28% through 2029	1,247,070	-	28,682	1,218,388	49,992
LORCO force main (2009)					
3.68% through 2041	7,370,682	2,219,095	-	9,589,777	-
LORCO collection system (2009)					
4.08% through 2041	12,887,859	3,125,355	-	16,013,214	-
Sewer separation (2010)					
3.27% through 2041	2,769,650	248,379	62,018	2,956,011	64,062
Total OWDA	<u>33,899,521</u>	<u>5,592,829</u>	<u>1,019,921</u>	<u>38,472,429</u>	<u>986,812</u>
Capital lease obligations					
ETL1 Loan Payable	60,534	-	55,823	4,711	3,548
2.202% through 2021	-	585,327	337,689	247,638	142,124
Compensated absences	512,512	16,130	49,120	479,522	141,630
Total business-type activities	<u>\$ 50,347,788</u>	<u>\$ 6,194,286</u>	<u>\$ 3,149,971</u>	<u>\$ 53,392,103</u>	<u>\$ 3,045,314</u>

City of Avon Lake, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011
(Continued)

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

General obligation bonds, other than the enterprise general obligation and mortgage revenue bonds, will be paid from the General Bond Retirement Debt Service Fund from income taxes. Ohio Water Development Authority loans other than those paid from the enterprise funds will be paid from the General Bond Retirement Debt Service Fund from special assessments. Special assessment bonds will be paid from the proceeds of special assessments levied against benefited property owners. In the event that a property owner would fail to pay the assessment, payment would be made by the City. The police and fire pension liability will be paid from taxes receipted in the police and fire pension special revenue funds. Landfill post-closure costs are based on estimates as of December 31, 2011. The actual costs may be higher due to inflation, changes in technology, or changes in regulations and they will be paid from the General Fund. Compensated absences will be paid from the fund which the employees' salaries are paid.

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

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

City of Avon Lake, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011
(Continued)

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

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

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

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

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

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

Proceeds were deposited in an irrevocable trust with an escrow agent to provide for future debt payments on the refunded 2001 Various Improvement Bonds. As a result, \$4,955,000 of these bonds was considered defeased and the liability for the refunded bonds has been removed from the City's financial statements. The amount still outstanding as December 31, 2011 is \$4,955,000.

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

City of Avon Lake, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011
(Continued)

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

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

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

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

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

On June 28, 1990, the City entered into a loan agreement with OWDA for \$8,810,070 (capitalized interest of \$274,025 was added at the end of the construction period for a total of \$9,084,095). These funds were used to expand the existing Avon Lake Water Treatment Plant from 9,000,000 gallons per day designed plant to 22,000,000 gallons per day. This debt has a fixed rate of 7.84 percent interest over a twenty-five year period beginning July 1, 1992 through January 1, 2017.

On August 24, 1990, the City entered into a loan agreement with OWDA for \$1,950,000 (capitalized interest of \$99,278 was added at the end of the construction period for a total of \$2,049,275). These funds were used to install approximately 15,427 feet of sanitary sewers and related laterals along Walker Rd. providing sanitary sewer service to the southern half of the City. This debt has a fixed rate of 7.76 percent interest over a twenty-year period beginning July 1, 1992 through January 1, 2012.

On March 26, 1998, the City entered into a loan agreement with OWDA for \$638,031. These funds were used to repair 2 digesters at the Wastewater facility. This debt has a fixed rate of 5.76 percent interest over a twenty-year period beginning January 1, 1999 through July 1, 2018.

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

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

City of Avon Lake, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011
(Continued)

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

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

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

The City entered into a loan agreement with OWDA for the LORCO force main project. The loan has a fixed rate of 3.68 percent interest over a thirty year period beginning July 1, 2011 through January 1, 2041. As of December 2011, the loan balance for the portion of the project completed was \$ 9,589,777.

The City entered into a loan agreement with OWDA for the LORCO collection system. The loan has a fixed rate of 4.08 percent interest over a twenty-nine year period beginning January 1, 2012 through January 1, 2041. As of December 2011, the loan balance for the portion of the project completed was \$16,013,214.

The City entered into a loan agreement with OWDA for the Sewer separation project. The loan has a fixed rate of 3.27 percent interest over a thirty year period beginning January 1, 2011 through January 1, 2041. As of December 2011, the loan balance for the portion of the project completed was \$3,018,029.

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

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

The serial bonds maturing on or after October 1, 2016 are subject to early redemption, by and at the option of the City in whole at any time or in part on any interest payment date on or after April 1, 2015 in multiples of \$5,000 at the redemption price of 100 percent of the principal amount redeemed plus accrued interest to the redemption date.

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

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

City of Avon Lake, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011
(Continued)

NOTE 8: LONG-TERM OBLIGATIONS (Continued)

The restricted assets balance in the water fund segregates funds held by the City from funds held by the trustees in accordance with the trust agreement. Restricted assets relating to the water system mortgage revenue refunding bonds consisted of the following at December 31, 2011:

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

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

Principal and interest requirements to retire long-term obligations, except landfill post-closure costs, promissory note, compensated absences, police and fire pension, and capital leases at December 31, 2011 are as follows:

Year Ended	Governmental Activities			
	General Obligation Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2012	724,800	334,886	244,000	69,019
2013	769,228	316,149	247,200	62,666
2014	778,656	294,629	255,400	55,807
2015	766,400	271,603	263,600	48,255
2016	793,259	248,236	276,741	39,798
2017-2021	2,950,000	743,137	860,000	78,212
2022-2026	1,670,000	503,072	-	-
2027-2030	765,000	52,261	-	-
	<u>\$ 9,217,343</u>	<u>\$ 2,763,973</u>	<u>\$ 2,146,941</u>	<u>\$ 353,757</u>

Year Ended	Governmental Activities				
	Notes		OPWC Loan	Total	Total
	Principal	Interest	Principal	Principal	Interest
2012	\$ 134,058	\$ 30,980	\$ 6,667	\$ 1,109,525	\$ 434,885
2013	134,058	27,640	6,667	1,157,153	406,455
2014	134,058	23,685	6,667	1,174,781	374,121
2015	134,058	19,730	6,667	1,170,725	339,588
2016	534,768	15,776	6,667	1,611,435	303,810
2017-2021	-	-	33,335	3,843,335	821,349
2022-2026	-	-	16,663	1,686,663	503,072
2027-2030	-	-	-	765,000	52,261
	<u>\$ 1,071,000</u>	<u>\$ 117,811</u>	<u>\$ 83,333</u>	<u>\$ 12,518,617</u>	<u>\$ 3,235,541</u>

City of Avon Lake, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011
(Continued)

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

Year Ended	Business-Type Activities			
	General Obligation Bonds		Mortgage Revenue Bond	
	Principal	Interest	Principal	Interest
2012	856,200	267,077	915,000	389,490
2013	903,572	222,916	950,000	352,890
2014	955,944	175,472	385,000	314,890
2015	165,000	138,593	395,000	299,490
2016	170,000	131,993	415,000	283,690
2017-2021	955,000	548,608	2,370,000	1,107,625
2022-2026	1,180,000	313,842	3,030,000	452,375
2027-2031	560,000	41,975	-	-
	<u>\$ 5,745,716</u>	<u>\$ 1,840,476</u>	<u>\$ 8,460,000</u>	<u>\$ 3,200,450</u>

Year Ended	Business-Type Activities					
	OWDA Loans		ETL1 Loan		Total Principal	Total Interest
	Principal	Interest	Principal	Interest		
2012	922,750	698,378	142,124	8,701	\$ 2,836,074	\$ 1,363,646
2013	983,832	632,376	10,729	13,053	2,848,133	1,221,235
2014	1,049,194	562,033	10,965	13,053	2,401,103	1,065,448
2015	1,119,145	487,050	11,206	13,052	1,690,351	938,185
2016	1,193,880	231,548	11,453	13,052	1,790,333	660,283
2017-2021	2,178,180	805,730	61,161	65,259	5,564,341	2,527,222
2022-2026	2,150,048	308,176	-	-	6,360,048	1,074,393
2027-2031	316,398	14,594	-	-	876,398	56,569
	<u>\$ 9,913,427</u>	<u>\$ 3,739,885</u>	<u>\$ 247,638</u>	<u>\$ 126,170</u>	<u>\$ 24,366,781</u>	<u>\$ 8,906,981</u>

There are three OWDA loans that are still in construction phase and final amortization schedules have not been completed as of December 31, 2011. Therefore, the previous table does not include outstanding principal and interest payments for the three OWDA loans. This information will be provided once final amortization schedules are available.

In 2011, an agency fund within the City provided a loan to the City in the amount of \$585,327 for the purpose of paying a portion of the cost of realigning a segment of the water main known as the Eastern Transmission Line 1 (ETL1) to accommodate construction of a new interchange on interstate highway I-90. This loan carries an interest rate of 2.202 percent and will mature on October 1, 2021. The City will repay the loan with resources provided by the Cities of Avon and North Ridgeville.

City of Avon Lake, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011
(Continued)

NOTE 9: CAPITAL LEASES

In prior years, the City entered into capital leases for a cargo van, fire turn-out gear, a Vactor sewer cleaning truck, three copiers, and a check scanner. These leases meet the criteria of a capital lease pursuant to generally accepted accounting principles. Capital lease payments are reflected as debt service expenditures in the governmental fund statements and as a reduction of the liability in the entity wide statements and enterprise fund statements. Capital assets were recorded in the amount of \$39,250 for the cargo van, \$59,291 for the fire turn-out gear, \$251,010 for the Vactor sewer cleaning truck, \$5,021 for the Mayor's office copier, \$2,856 for the finance department copier, \$4,370 for the police department copier and \$10,241 for the utilities department check scanner. These amounts represent the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded in the long-term liabilities section of the entity wide statements and enterprise fund statements. Principal payments in 2011 totaled \$30,225 in the governmental activities and \$55,823 in the business-type activities. Capital lease payments in the governmental funds are reflected as program expenditures.

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

	Governmental Activities	Business-Type Activities
Equipment	\$ 110,788	\$ 261,251
Less:		
Accumulated Depreciation	(102,967)	(256,540)
	\$ 7,821	\$ 4,711

The following is a schedule of future minimum lease payments under capital leases together with the net present value of the minimum lease payments as of December 31, 2011.

Year Ending December 31,	Governmental Activities	Business-Type Activities
2012	\$ 2,906	\$ 3,720
2013	2,772	1,175
2014	2,481	-
2015	402	-
Total Minimum Lease Payments	8,561	4,895
Less Amount Representing Interest	(740)	(184)
Net Present Value of Minimum Lease Payments	\$ 7,821	\$ 4,711

City of Avon Lake, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011
(Continued)

NOTE 10: OPERATING LEASES

The City is obligated under leases accounted for as operating leases. Total lease expense for the year ended December 31, 2011 was \$19,895 for Governmental Activities and \$6,076 for Business-type Activities. The following is a schedule of future minimum lease payments required under operating leases that have initial or remaining noncancellable lease terms in excess of one year as of December 31, 2011.

Year Ending December 31,	Governmental Activities	Business-Type Activities
2012	\$ 16,675	\$ 6,076
2013	13,091	6,076
2014	13,091	6,076
2015	8,812	5,557
2016	5,132	4,000
thereafter	681	364,000
Total Minimum Lease Payments	\$ 57,482	\$ 391,785

NOTE 11: DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

Plan Description - The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed Plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings. The Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the Combined Plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan. While members in the State and local divisions may participate in all three plans, law enforcement (generally sheriffs, deputy sheriffs and township police) and public safety divisions exist only within the traditional pension plan.

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

City of Avon Lake, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011
(Continued)

NOTE 11: **DEFINED BENEFIT PENSION PLANS**

A. Ohio Public Employees Retirement System (Continued)

Funding Policy - The Ohio Revised Code provides statutory authority for member and employer contributions. For the year ended December 31, 2011, the members in State and local classifications contributed 10.00 percent of covered payroll and public safety and law enforcement members contributed 11.00 percent and 11.60 percent, respectively. Employer contribution rates are actuarially determined. State statute sets a maximum contribution rate for the City at 14.00 percent, except for public safety and law enforcement, where the maximum employer contribution rate is 18.10 percent.

The City's contribution rate for 2011 was 14.00 percent, except for those plan members in law enforcement or public safety, for whom the City's contribution was 18.10 percent of covered payroll. For 2011, a portion of the City's contribution of covered payroll was allocated to fund the post-employment health care plan. The portion of employer contributions allocated to health care for members in the Traditional and Combined Plan was 4.00 percent and 6.05 percent, respectively.

The City's required contributions for pension obligations to the Traditional and Combined Plans for years ended December 31, 2011, 2010, and 2009 were \$702,002, \$602,542, and \$473,603, respectively; 75.08 percent has been contributed for 2011 and 100 percent has been contributed for 2010 and 2009. Contributions to the Member-Directed Plan for 2011 were \$26,532 made by the City and \$18,951 made by the plan members.

B. Ohio Police and Fire Pension Fund

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

Funding Policy - Plan members are required to contribute 10.00 percent of their annual covered salary to fund pension obligations, while the City is required to contribute 19.50 percent and 24.0 percent for police officers and firefighters, respectively. Contributions are authorized by State statute. For 2011, a portion of the City's contribution equal to 6.75 percent of covered payroll was allocated to fund the post-employment health care plan. For 2010, this allocation was also 6.75 percent. The City's contributions for pension obligations to OP&F for police and firefighters were \$296,600 and \$410,338 for the year ended December 31, 2011, \$276,708 and \$264,793 for the year ended December 31, 2010, \$288,064 and \$404,045 for the year ended December 31, 2009, respectively. For 2011, 76.48 percent for police and 74.96 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.

City of Avon Lake, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011
(Continued)

NOTE 11: **DEFINED BENEFIT PENSION PLANS**

B. Ohio Police and Fire Pension (Continued)

In addition to the current contributions, the City pays installments on the accrued liability incurred within the State of Ohio established pension system for police and firefighters in 1967. As of December 31, 2011, the liability of the City was \$94,418 payable in semi-annual payments through the year 2035. This is an accounting liability of the City which will not vary. The liability is reported as “long-term liabilities” in the governmental activities column on the statement of net assets.

NOTE 12: **POST-EMPLOYMENT BENEFITS**

A. Ohio Public Employees Retirement System

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

In order to qualify for post-employment health care coverage, age and service retirees under the Traditional Pension and Combined plans must have ten or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

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

The health care coverage provided by OPERS meets the definition of an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 45.

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

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2011, local government employers contributed at a rate of 14.00 percent of covered payroll. Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding post-employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional and Combined Plan was 4.00 percent and 6.05 percent, respectively.

City of Avon Lake, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011
(Continued)

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

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

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

The City's contributions allocated to fund post-employment health care benefits for local government employees for the years ended December 31, 2011, 2010, and 2009 were \$280,801, \$343,151 and \$345,320, respectively. For 2011, 75.08 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. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs. 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 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.

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

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

OP&F provides access to post-employment health care coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check or is a spouse or eligible dependent child of such person.

The 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.

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.

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

City of Avon Lake, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011
(Continued)

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

B. Ohio Police and Fire Pension Fund (Continued)

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

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 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 the Sections 115 and 401(h).

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

The City's contributions to OP&F which were allocated to fund post-employment health care benefits for police and firefighters were \$157,023 and \$160,567 for the year ended December 31, 2011, \$146,492 and \$103,615 for the year ended December 31, 2010, and \$152,401 and \$157,909 for the year ended December 31, 2009, respectively. For 2011, 76.48 percent has been contributed for police and 74.96 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.

City of Avon Lake, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011
(Continued)

NOTE 13: RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City, during 2011, contracted with U.S. Specialty Insurance Company for the following types of insurance:

<u>Company</u>	<u>Type</u>	<u>Coverage</u>
U.S. Specialty Insurance Company	Blanket Building and Content Replacement	\$ 55,346,760
	Miscellaneous Equipment	5,130,738
	Earthquake Coverage	1,000,000
	Flood Coverage	1,000,000
	Hazardous Substance	250,000
	Public Employee Dishonesty	100,000
	Faithful Performance of Duty	100,000
	Money and Securities In/Out Coverage	100,000
	Forgery and Alteration	25,000
	General Liability - Each Occurrence	1,000,000
	Employee Benefits Liability	1,000,000
	Law Enforcement Liability - Each Occurrence	1,000,000
	Public Official Liability - Each Occurrence	1,000,000
	Employment Practice - Each Occurrence	1,000,000
	Automobile Liability	1,000,000
	Excess Liability - Each Occurrence	5,000,000
Arlington/Roe Insurance Company	Terrorism Insurance	2,000,000

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

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

NOTE 14: JOINTLY GOVERNED ORGANIZATIONS/JOINT VENTURES

A. Lorain County Community Alliance Council of Governments

The City is a member of the Lorain County Community Alliance (Alliance) which is a council of governments formed under Ohio Revised Code Section 167. The Alliance is comprised of public members that have voting privileges and other citizen, business, and agency members that have no voting privileges. The Alliance includes nine city, four village, and nine township members along with 38 associate members.

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

City of Avon Lake, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011
(Continued)

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

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

Member cities, villages, and townships are eligible to cast votes equivalent to the total population of the member jurisdictions which they represent and Lorain County members are eligible to cast votes equivalent to twenty-five percent of the total population of Lorain County. Financial information can be obtained by contacting Virginia Haynes, 226 Middle Avenue, 5th Floor, Elyria, Ohio 44035, who serves as fiscal agent.

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

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

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each community then elect one person to serve on the eight-member NOPEC Board of Directors. In 2011, the City made no contributions to NOPEC. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. Financial information can be obtained by contacting Joseph Migliorini, Board Chairman, at 31320 Solon Road, Suite 20, Solon, Ohio 44139 or at the website www.nopecinfo.org.

C. **Medina-Lorain Water Consortium**

The City is a member of the Medina-Lorain Water Consortium (the Consortium), which is a joint venture between the City of Avon Lake, the Rural Lorain County Water Authority, Medina County, and the City of Medina. The Consortium was created in 1999 for the purpose of construction, operation and maintenance of a water transmission line to serve the members of the Consortium, and for the purpose of bulk water delivery from the City of Avon Lake. There is an ongoing financial responsibility for all parties for the maintenance and repair of the project. The Consortium is governed by representatives of the member parties. The City of Avon Lake serves as the fiscal agent for the Consortium. As of December 31, 2011, the City's equity interest in the Consortium was \$2,228,771. Financial information can be obtained from the City of Avon Lake Finance Director, 150 Avon Belden Road, Avon Lake, Ohio 44012.

City of Avon Lake, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011
(Continued)

NOTE 15: CONTINGENT LIABILITIES

A. Grants

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

B. Litigation

The City is party to legal proceedings. The City management is of the opinion that the ultimate disposition of claims and legal proceedings will not have a material effect, if any, on the financial condition of the City.

NOTE 16: INTERFUND BALANCES AND TRANSFERS

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

Interfund transfers for the year ended December 31, 2011 consisted of the following:

<u>Transfer To</u>	<u>Transfer From</u>				<u>Total</u>
	<u>General Fund</u>	<u>Capital Improvements</u>	<u>Nonmajor Governmental Funds</u>	<u>Sewer Fund</u>	
Governmental Funds:					
Capital Improvements	\$ 968,000	\$ -	\$ -	\$ -	\$ 968,000
Non-Major Governmental Funds	462,419	784,044	51,994	25,060	1,323,517
Enterprise Funds:					
Water Fund	9,240	-	-	-	9,240
Sewer Fund	-	-	11,683	-	11,683
Total Enterprise Funds	<u>9,240</u>	<u>-</u>	<u>11,683</u>	<u>-</u>	<u>20,923</u>
Total	<u>\$ 1,439,659</u>	<u>\$ 784,044</u>	<u>\$ 63,677</u>	<u>\$ 25,060</u>	<u>\$ 2,312,440</u>

City of Avon Lake, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011
(Continued)

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

Interfund balances for the year ended December 31, 2011 consisted of the following:

	Interfund Receivable	Interfund Payable
Governmental Funds:		
General Fund	\$ 133,126	\$ -
Capital Improvements Fund	-	44,000
Non-Major Governmental Funds	234,336	323,462
Total Governmental Funds	\$ 367,462	\$ 367,462

Interfund balances at December 31, 2011 consisted of \$133,126 due to the General Fund from the Capital Improvements Fund and other non-major governmental funds, and \$234,336 due to the Debt Service Fund from the Cove Avenue Improvement Fund. The General Fund advanced monies to the various non-major governmental funds to cover project expenditures until repaid by grant proceeds or other anticipated revenues. The Debt Service Fund issued manuscript debt for Cove Avenue improvements in anticipation of the collection of special assessments. For 2011, \$9,151 in principal payments were paid back to reduce the manuscript debt.

NOTE 17: **LANDFILL POSTCLOSURE COSTS**

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

City of Avon Lake, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011
(Continued)

NOTE 18: CONSTRUCTION COMMITMENTS

As of December 31, 2011, the City had the following significant contractual commitments:

Contractor	Total Contractor Amount	Amount Paid as of 12/31/2011	Remaining on the Contract
<i>LORCO Force Main & Pump Stations Construction Project:</i>			
Mr. Excavator, Inc.	\$ 1,552,872	\$ 1,405,369	\$ 147,503
Underground Utilities, Inc.	1,805,153	1,785,221	19,932
<i>Total Project</i>	<u>3,358,025</u>	<u>3,190,590</u>	<u>167,435</u>
<i>Canterbury Road Improvement Project:</i>			
Terminal Ready Mix, Inc.	\$ 929,841	\$ 805,379	\$ 124,462
<i>Total Project</i>	<u>929,841</u>	<u>805,379</u>	<u>124,462</u>
<i>LORCO Collection System Construction Project:</i>			
DiGioia-Suburban Excavating, LLC	\$ 1,709,301	\$ 1,334,267	\$ 375,034
Underground Utilities, Inc.	3,489,578	3,354,098	135,480
Elite Excavating Company of Ohio, Inc.	2,953,390	2,778,609	174,781
Fabrizi Trucking & Paving Company, Inc.	2,445,601	2,196,656	248,945
<i>Total Project</i>	<u>10,597,870</u>	<u>9,663,630</u>	<u>934,240</u>
Totals	<u>14,885,736</u>	<u>13,659,599</u>	<u>1,226,137</u>

NOTE 19: CHANGES IN ACCOUNTING PRINCIPLES

For fiscal year 2011, the City has implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* and GASB 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. The implementation of this Statement resulted in the reclassification of fund balances on the City's governmental fund financial statements.

GASB Statement No. 59 updates and improves guidance for financial reporting and disclosure requirements of certain financial instruments and external investment pools. The implementation of this Statement did not have an effect on the City's financial statements.

City of Avon Lake, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011
(Continued)

NOTE 20: FUND BALANCES

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

Fund Balances	General	Capital Improvements	Other Governmental Funds	Total
<i>Nonspendable</i>				
Prepaid Items	\$ 33,299	\$ -	\$ 4,388	\$ 37,687
Inventories	68,782	-	85,785	154,567
Long-term Interfund Balances	45,000	-	-	45,000
<i>Total Nonspendable</i>	<u>147,081</u>	<u>-</u>	<u>90,173</u>	<u>237,254</u>
<i>Restricted for</i>				
Police Pension	-	-	8,856	8,856
Fire Pension	-	-	8,856	8,856
Paramedic Services	-	-	292,741	292,741
Other Law Enforcement	-	-	81,091	81,091
Streets and Highways	-	-	240,000	240,000
Courts	-	-	313,596	313,596
Debt Service - Voted	-	-	106,983	106,983
Debt Service - Special Assessments	-	-	434,364	434,364
Capital Projects	-	-	974,414	974,414
Other Purposes	-	-	2,297	2,297
<i>Total Restricted</i>	<u>-</u>	<u>-</u>	<u>2,463,198</u>	<u>2,463,198</u>
<i>Committed to</i>				
Termination Benefits	347,573	-	-	347,573
Dial-A-Bus Program	15,601	-	-	15,601
Cable TV	27,822	-	-	27,822
Income Tax Allocation	-	-	3,841,382	3,841,382
Street Trees	-	-	137,936	137,936
Recreation	-	-	104,516	104,516
Debt Service - Unvoted	-	-	12,217	12,217
Capital Improvements	-	1,148,995	-	1,148,995
Other Capital Improvements	-	-	498,755	498,755
<i>Total Committed</i>	<u>390,996</u>	<u>1,148,995</u>	<u>4,594,806</u>	<u>6,134,797</u>
<i>Assigned to</i>				
Fiscal Year 2012 Appropriations	1,949,805	-	-	1,949,805
Police/Court Facility	-	-	137,591	137,591
Other Capital Projects	-	-	7,924	7,924
Other Purposes	195,408	-	-	195,408
<i>Total Assigned</i>	<u>2,145,213</u>	<u>-</u>	<u>145,515</u>	<u>2,290,728</u>
<i>Unassigned (Deficit)</i>	<u>671,702</u>	<u>-</u>	<u>(302,207)</u>	<u>369,495</u>
Total Fund Balances	<u><u>\$ 3,354,992</u></u>	<u><u>\$ 1,148,995</u></u>	<u><u>\$ 6,991,485</u></u>	<u><u>\$ 11,495,472</u></u>

City of Avon Lake, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011
(Continued)

NOTE 21: PRIOR PERIOD ADJUSTMENTS TO NET ASSETS AND FUND BALANCES

Fund reclassifications are required in order to report funds in accordance with GASB Statement No. 54. In prior periods, the City had reported all income tax revenues in the Income Tax Transfer special revenue fund and transfer out those revenues to various funds according to Codified Ordinances and annual appropriation measure. As a result of the implementation of GASB Statement No. 54, the inflows previously reported as transfers are now recognized as revenue in the various funds according to the Codified Ordinances. The income tax revenues reclassifications along with the change in fund balance reclassifications had the following effect on the City's net assets of the governmental activities, the business-type activities, and the Sewer fund along with the fund balances of the governmental funds, as previously reported:

	<u>General</u>	<u>Capital Improvements</u>	<u>Other Governmental</u>	<u>Total Funds</u>
Fund Balance, December 31, 2010	\$ 3,187,616	\$ 910,303	\$ 7,787,714	\$ 11,885,633
Effects of GASB-S54:				
Inflows (transfers) converted to income tax revenues	558,878	151,818	(795,044)	(84,348)
Fund Reclassifications	485,663	-	(485,663)	-
Restated Fund Balance, December 31, 2010	<u>\$ 4,232,157</u>	<u>\$ 1,062,121</u>	<u>\$ 6,507,007</u>	<u>\$ 11,801,285</u>
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Sewer Fund</u>	
Net Assets, December 31, 2010	\$ 63,280,048	\$ 44,444,677	\$ 15,218,146	
Effects of GASB-S54:				
Inflows (transfers) converted to income tax revenues	(320,811)	320,811	320,811	
Restated Net Assets, December 31, 2010	<u>\$ 62,959,237</u>	<u>\$ 44,765,488</u>	<u>\$ 15,538,957</u>	

NOTE 22: SUBSEQUENT EVENT

In July 2012, the City issued general obligation bonds in the amount of \$4,195,000 to refund the Various Purpose General Obligation Bonds, Series 2003. The bonds consist of \$3,880,000 serial bonds with interest rates ranging from 2.00 percent to 2.75 percent and \$315,000 term bonds with an interest rate of 1.00 percent.

A new lease was entered into in January 2012, for spectrophotometer with a market value of \$51,027. The lease is for a term of 24 months with payments of \$2,255 per month.

Also in 2012, the City entered into a loan agreement with the Lorain County Commissioners for \$115,000 to obtain new 911 dispatch related equipment. The loan carries a zero percent interest rate and the principal must be paid in five years.

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Dave Yost • Auditor of State

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

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

To the City Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Avon Lake, Lorain County, Ohio (the City) as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 27, 2013, wherein we noted the City implemented Governmental Accounting Standard No. 54 and restated their December 31, 2010 Governmental Funds fund balances and the net assets of the Governmental and Business Type Activities. 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.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2011-01 described in the accompanying schedule of findings to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2011-02.

We also noted certain matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated June 27, 2013.

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

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

Dave Yost
Auditor of State
Columbus, Ohio

June 27, 2013

**CITY OF AVON LAKE
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2011**

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

FINDING NUMBER 2011-01

Material Weakness – Proper Reporting and Maintenance of Capital Assets

Sound financial reporting is the responsibility of the Finance Department and City Council and is essential to increase assurance that the information provided to the readers of the financial statements is complete and accurate.

We noted the following weaknesses and the Finance Director made subsequent adjustments to the financial statements and, where applicable, to the City's accounting capital asset records for 2011:

- The City failed to record and capitalize \$1,544,298 worth of capital assets in the Sewer Fund and Business Type Activities, and
- The City failed to record and capitalize \$141,284 worth of capital assets in the Water Fund and Business Type Activities.

These variances were the result of insufficient control procedures maintained by the City to determine whether transactions met the capitalization criteria as well as construction in progress reporting criteria with regards to ongoing projects and infrastructure additions.

The City's lack of controls over maintenance of sufficient supporting documentation of capital asset financial transactions and financial reporting can result in errors and irregularities that may go undetected and decreases the reliability of financial data throughout the year.

We recommend the City adopt policies and procedures for controls over the recording of capital asset financial transactions (including the use of project identification numbers and separate account codes for capital projects), and over financial reporting to help increase assurance that the information accurately reflects the activity of the City; thereby, increasing the reliability of the financial data throughout the year.

CITY OF AVON LAKE
LORAIN COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2011

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

FINDING NUMBER 2011-02

Material Noncompliance - Expenditures Plus Encumbrances Exceeding Appropriations

Ohio Revised Code Section 5705.41(B) states no subdivision or taxing unit is to expend money unless it has been appropriated.

The following fund had expenditures plus encumbrances in excess of appropriations plus prior year carryover of appropriation as of December 31, 2011:

<u>Fund</u>	<u>Appropriations Plus Prior Year Carry Over as of December 31, 2011</u>	<u>Expenditures Plus Encumbrances as of December 31, 2011</u>	<u>Variance</u>
Sewer Fund	\$14,831,471	\$18,530,512	(\$3,699,041)

The violation mentioned above may lead to deficit spending and negative fund balances.

We recommend the City compare appropriations to expenditures in all funds which are legally required to be budgeted, at the legal level of control, and make all necessary adjustments to the amounts appropriated to ensure compliance with the above requirements. This comparison, and amendment if necessary, should be completed on a monthly basis at a minimum.

Officials Response:

The City declined to respond to the findings reported.

**CITY OF AVON LAKE
LORAIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2011**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2010-01	Ohio Rev. Code Section 5705.41(D) – Proper Encumbering.	No	Moved to management letter
2010-02	Proper Reporting of Financial Statements.	No	Not Corrected; repeated as Finding Number 2011-001.



Dave Yost • Auditor of State

CITY OF AVON LAKE

LORAIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 11, 2013**