



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**CITY OF AVON LAKE
LORAIN COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS

City of Avon Lake
Lorain County
150 Avon Belden Road
Avon Lake, Ohio 44012-1699

To the City Council:

We have audited the accompanying general-purpose financial statements of the City of Avon Lake (the City) as of and for the year ended December 31, 2001, as listed in the table of contents. These general-purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general-purpose 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 that our audit provides a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Avon Lake, as of December 31, 2001, and the results of its operations and the cash flows of its proprietary fund type for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2002, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink, appearing to read "Jim Petro".

Jim Petro
Auditor of State

November 12, 2002

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**CITY OF AVON LAKE
LORAIN COUNTY**

**Combined Balance Sheet
All Fund Types and Account Groups
December 31, 2001**

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
ASSETS AND OTHER DEBITS				
Assets				
Cash and Cash Equivalents	\$4,415,717	\$4,946,454	\$566,284	\$2,448,853
Cash and Cash Equivalents with Fiscal and Escrow Agents			1,029	41,411
Receivables:				
Taxes	3,072,753	2,894,399		
Accounts	12,983	56,522		
Special Assessments			4,715,519	
Interfund	471,598	100,000		
Intergovernmental	89,751	55,422		160,229
Materials and Supplies Inventory	24,815	63,561		
Unamortized Bond Issue Costs and Discounts				
Restricted Assets:				
Cash and Cash Equivalents				
Fixed Assets (Net of Accumulated Depreciation In Enterprise Funds)				
Investment in Joint Venture				
Other Debits:				
Amount To Be Provided for Benefits				
Amount Available in Debt Service Fund for Retirement of General Obligation Debt				
Amount to be Provided for General Long-Term Debt				
Total Assets and Other Debits	\$8,087,617	\$8,116,358	\$5,282,832	\$2,650,493

Proprietary Fund Type	Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
		General Fixed Assets	General Long-Term Debt	
Enterprise	Trust and Agency			
\$7,854,656	\$335,458			\$20,567,422
	539,355			581,795
				5,967,152
738,395				807,900
				4,715,519
				571,598
1,238,000				1,543,402
63,243				151,619
299,405				299,405
1,347,290				1,347,290
59,774,708		\$17,821,016		77,595,724
1,544,432				1,544,432
			\$1,104,847	1,104,847
			566,284	566,284
			10,812,770	10,812,770
\$72,860,129	\$874,813	\$17,821,016	\$12,483,901	\$128,177,159

(Continued)

**CITY OF AVON LAKE
LORAIN COUNTY**

**Combined Balance Sheet
All Fund Types and Account Groups
December 31, 2001
(Continued)**

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
LIABILITIES, EQUITY AND OTHER CREDITS				
Liabilities				
Accounts and Contracts Payable	\$67,625	\$66,530		\$341,269
Retainage Payable				41,411
Accrued Wages and Benefits	204,929	46,145		
Deferred Revenue	3,150,819	2,389,249	4,715,519	160,229
Deposits Held and Due to Others				
Intergovernmental Payable	36,338	14,083		
Interfund Payables		251,368		320,229
Matured Bonds and Interest Payable			1,029	
Interest Payable				
Police and Fire Pension Liability				
Landfill Postclosure Costs				
Capital Leases Payable				
General Obligation Bonds Payable				
Seller-Financed Mortgages				
OWDA General Obligation Debt				
Revenue Bonds Payable				
Total Liabilities	3,459,711	2,767,375	4,716,548	863,138
Equity and Other Credits				
Investment in General Fixed Assets				
Contributed Capital				
Unreserved Retained Earnings				
Fund Balance:				
Reserved for Encumbrances	40,243	839,182		1,027,611
Reserved for Inventory	24,815	63,561		
Unreserved, Undesignated	4,562,848	4,446,240	566,284	759,744
Total Fund Equity and Other Credits	4,627,906	5,348,983	566,284	1,787,355
Total Liabilities, Equity and Other Credits	\$8,087,617	\$8,116,358	\$5,282,832	\$2,650,493

See Notes to the General-Purpose Financial Statements

Proprietary Fund Type	Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
		General Fixed Assets	General Long-Term Debt	
Enterprise	Trust and Agency			
\$185,207				\$660,631
412,365			\$1,104,847	41,411
				1,768,286
	\$631,210			10,415,816
234,034				631,210
				284,455
				571,597
				1,029
216,381				216,381
			116,681	116,681
			1,006,333	1,006,333
			74,030	74,030
7,761,289			9,623,929	17,385,218
			31,754	31,754
9,231,332			526,327	9,757,659
14,943,943				14,943,943
<u>32,984,551</u>	<u>631,210</u>		<u>12,483,901</u>	<u>57,906,434</u>
		\$17,821,016		17,821,016
28,838,977				28,838,977
11,036,601				11,036,601
				1,907,036
				88,376
	243,603			10,578,719
<u>39,875,578</u>	<u>243,603</u>	<u>17,821,016</u>		<u>70,270,725</u>
<u>\$72,860,129</u>	<u>\$874,813</u>	<u>\$17,821,016</u>	<u>\$12,483,901</u>	<u>\$128,177,159</u>

**CITY OF AVON LAKE
LORAIN COUNTY**

**Combined Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental Fund Types and Expendable Trust Fund
For the Year Ended December 31, 2001**

	Governmental Fund Types	
	General	Special Revenue
Revenues		
Municipal Income Tax		\$6,830,374
Property and Other Taxes	\$2,935,536	833,535
Charges for Services	165,624	181,341
Licenses and Permits	463,383	17,035
Fines and Forfeits	141,018	13,803
Intergovernmental	1,483,840	1,404,439
Special Assessments		
Interest		1,221,120
Other	202,104	13,243
Total Revenues	5,391,505	10,514,890
Expenditures		
Current:		
General Government	2,126,011	119,415
Security of Persons and Property	4,330,969	775,186
Public Health and Welfare	60,500	20,760
Transportation	1,066,782	895,832
Community Environment	304,634	2,250
Basic Utility Services	720,388	33,493
Leisure Time Activities	521,636	637,989
Capital Outlay		1,148,693
Debt Service:		
Principal Retirement		
Interest and Fiscal Charges		
Total Expenditures	9,130,920	3,633,618
Excess Revenues Over (Under) Expenditures	(3,739,415)	6,881,272
Other Financing Sources (Uses)		
Bond Proceeds		
Contributions from Developers		
Operating Transfers In	4,725,000	2,025,236
Operating Transfers Out	(627,530)	(7,461,800)
Total Other Financing Sources (Uses)	4,097,470	(5,436,564)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	358,055	1,444,708
Fund Balances Beginning of Year (Restated See Note 2)	4,267,157	3,895,223
Increase in Reserve of Inventory	2,694	9,052
Fund Balances End of Year	\$4,627,906	\$5,348,983

See Notes to General-Purpose Financial Statements

<u>Governmental Fund Types</u>		<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
<u>Debt Service</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>	
			\$6,830,374
			3,769,071
	\$11,732	\$16,626	375,323
		106,505	586,923
			154,821
	125,840		3,014,119
\$267,872	2,792		270,664
2,973	16,931	8,137	1,249,161
			215,347
<u>270,845</u>	<u>157,295</u>	<u>131,268</u>	<u>16,465,803</u>
10,428		30	2,255,884
			5,106,155
			81,260
		20,478	1,983,092
			306,884
			753,881
			1,159,625
	1,091,053		2,239,746
841,538	10,000,000	114,425	10,955,963
<u>365,255</u>	<u>455,078</u>	<u>14,589</u>	<u>834,922</u>
<u>1,217,221</u>	<u>11,546,131</u>	<u>149,522</u>	<u>25,677,412</u>
(946,376)	(11,388,836)	(18,254)	(9,211,609)
523,573	10,436,526		10,960,099
	50,000		50,000
368,698	1,633,396		8,752,330
			(8,089,330)
<u>892,271</u>	<u>12,119,922</u>		<u>11,673,099</u>
(54,105)	731,086	(18,254)	2,461,490
620,389	1,056,269	261,857	10,100,895
			11,746
<u>\$566,284</u>	<u>\$1,787,355</u>	<u>\$243,603</u>	<u>\$12,574,131</u>

**CITY OF AVON LAKE
LORAIN COUNTY**

**Combined Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual Comparison (Non-GAAP Basis)
All Governmental Fund Types
For the Year Ended December 31, 2001**

	General Fund				
	Revised Budget	Actual	Encumbrances	Actual Plus Encumbrances	Variance
Revenues					
Property and Other Taxes	\$3,161,903	\$2,935,536		\$2,935,536	(\$226,367)
Charges for Services	190,000	163,647		163,647	(26,353)
Licenses and Permits	560,170	456,943		456,943	(103,227)
Fines and Forfeits	142,700	148,195		148,195	5,495
Intergovernmental	959,435	1,554,425		1,554,425	594,990
Other	34,400	203,698		203,698	169,298
Total Revenues	5,048,608	5,462,444		5,462,444	413,836
Expenditures					
Current:					
General Government	2,498,762	2,299,658	\$53,284	2,352,942	145,820
Security of Persons and Property	4,505,055	4,305,937	8,080	4,314,017	191,038
Public Health and Welfare	70,583	60,500		60,500	10,083
Transportation	1,100,322	1,036,424	4,211	1,040,635	59,687
Community Environment	306,090	303,363		303,363	2,727
Basic Utility Services	828,600	741,637		741,637	86,963
Leisure Time Activities	554,772	519,970	1,049	521,019	33,753
Total Expenditures	9,864,184	9,267,489	66,624	9,334,113	530,071
Excess of Revenues Over (Under) Expenditures	(4,815,576)	(3,805,045)	(66,624)	(3,871,669)	943,907
Other Financing Sources (Uses)					
Transfers-In	4,725,000	4,725,000		4,725,000	
Advances-In	520,866	520,866		520,866	
Transfers-Out	(608,030)	(436,496)		(436,496)	171,534
Advances-Out	(992,464)	(992,464)		(992,464)	
Total Other Financing Sources	3,645,372	3,816,906		3,816,906	171,534
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(1,170,204)	11,861	(\$66,624)	(\$54,763)	\$1,115,441
Fund Balance Beginning of Year	4,403,855	4,403,855			
Fund Balance End of Year	\$3,233,651	\$4,415,716			

(Continued)

**CITY OF AVON LAKE
LORAIN COUNTY**

**Combined Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual Comparison (Non-GAAP Basis)
All Governmental Fund Types
For the Year Ended December 31, 2001
(Continued)**

	Special Revenue Funds				
	Revised Budget	Actual	Encumbrances	Actual Plus Encumbrances	Variance
Revenues					
Municipal Income Tax	\$6,400,000	\$6,729,832		\$6,729,832	\$329,832
Property and Other Taxes	1,944,746	833,535		833,535	(1,111,211)
Charges for Services	2,000	176,140		176,140	174,140
Licenses and Permits	142,000	17,035		17,035	(124,965)
Fines and Forfeits	31,600	14,281		14,281	(17,319)
Intergovernmental	665,000	1,412,079		1,412,079	747,079
Interest	600,000	891,874		891,874	291,874
Other	13,300	3,992		3,992	(9,308)
Total Revenues	9,798,646	10,078,768		10,078,768	280,122
Expenditures					
Current:					
General Government	372,666	113,331		113,331	259,335
Security of Persons and Property	988,129	943,480	\$2,487	945,967	42,162
Public Health and Welfare	21,400	20,760		20,760	640
Transportation	1,163,941	901,422	56,950	958,372	205,569
Community Environment	3,200	2,250		2,250	950
Basic Utility Services	52,000	33,667	19,539	53,206	(1,206)
Leisure Time Activities	1,407,719	619,768	573,013	1,192,781	214,938
Capital Outlay	1,678,304	1,148,693	248,716	1,397,409	280,895
Debt Service:					
Principal Retirement	65,900				65,900
Interest and Fiscal Charges	3,900				3,900
Total Expenditures	5,757,159	3,783,371	900,705	4,684,076	1,073,083
Excess of Revenues Over (Under) Expenditures	4,041,487	6,295,397	(900,705)	5,394,692	1,353,205
Other Financing Sources (Uses)					
Transfers-In	2,025,236	2,025,236		2,025,236	
Advances-In	542,464	542,464		542,464	
Transfers-Out	(7,461,800)	(7,887,497)		(7,887,497)	(425,697)
Total Other Financing (Uses)	(4,894,100)	(5,319,797)		(5,319,797)	(425,697)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(852,613)	975,600	(\$900,705)	\$74,895	\$927,508
Fund Balance Beginning of Year	3,641,608	3,641,608			
Fund Balance End of Year	\$2,788,995	\$4,617,208			

(Continued)

**CITY OF AVON LAKE
LORAIN COUNTY**

**Combined Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual Comparison (Non-GAAP Basis)
All Governmental Fund Types
For the Year Ended December 31, 2001
(Continued)**

	Capital Projects Funds				
	Revised Budget	Actual	Encumbrances	Actual Plus Encumbrances	Variance
Revenues					
Special Assessments	\$561,000	\$2,792		\$2,792	(\$558,208)
Charges for Services		11,732		11,732	11,732
Intergovernmental	340,400	183,667		183,667	(156,733)
Interest	10,000	16,931		16,931	6,931
Total Revenues	911,400	215,122		215,122	(696,278)
Expenditures					
Capital Outlay	4,744,848	1,245,400	\$1,368,165	2,613,565	2,131,283
Debt Service:					
Principal Retirement	10,000,000	10,000,000		10,000,000	
Interest and Fiscal Charges	450,213	455,078		455,078	(4,865)
Total Expenditures	15,195,061	11,700,478	1,368,165	13,068,643	2,126,418
Excess of Revenues (Under) Expenditures	(14,283,661)	(11,485,356)	(1,368,165)	(12,853,521)	1,430,140
Other Financing Sources (Uses)					
Note Proceeds	1,000,000	1,000,610		1,000,610	610
Bond Proceeds	9,400,000	9,435,916		9,435,916	35,916
OWDA Loan Proceeds	1,000,000				(1,000,000)
Transfers-In	1,680,396	1,633,396		1,633,396	(47,000)
Advances-In	450,000	450,000		450,000	
Advances-Out	(229,771)	(229,771)		(229,771)	
Contributions from Developers	110,000	50,000		50,000	(60,000)
Total Other Financing Sources/(Uses)	13,410,625	12,340,151		12,340,151	(1,070,474)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(873,036)	854,795	(\$1,368,165)	(\$513,370)	\$359,666
Fund Balance Beginning of Year	1,635,467	1,635,467			
Fund Balance End of Year	\$762,431	\$2,490,262			

(Continued)

**CITY OF AVON LAKE
LORAIN COUNTY**

**Combined Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual Comparison (Non-GAAP Basis)
All Governmental Fund Types
For the Year Ended December 31, 2001
(Continued)**

	Debt Service Funds				
	Revised Budget	Actual	Encumbrances	Actual Plus Encumbrances	Variance
Revenues					
Special Assessments	\$264,064	\$267,872		\$267,872	\$3,808
Interest	6,000	2,973		2,973	(3,027)
Total Revenues	<u>270,064</u>	<u>270,845</u>		<u>270,845</u>	<u>781</u>
Expenditures					
Debt Service:					
Principal	865,519	864,607		864,607	912
Interest and Fiscal Charges	381,769	362,372		362,372	19,397
Total Expenditures	<u>1,247,288</u>	<u>1,226,979</u>		<u>1,226,979</u>	<u>20,309</u>
Excess of Revenues Over (Under) Expenditures	(977,224)	(956,134)		(956,134)	21,090
Other Financing Sources					
Transfers-In	368,698	368,698		368,698	
Bond Proceeds	533,331	533,331		533,331	
Total Other Financing Sources	<u>902,029</u>	<u>902,029</u>		<u>902,029</u>	
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	(75,195)	(54,105)		<u>(\$54,105)</u>	<u>\$21,090</u>
Fund Balance Beginning of Year	<u>620,389</u>	<u>620,389</u>			
Fund Balance End of Year	<u>\$545,194</u>	<u>\$566,284</u>			

See Notes to General-Purpose Financial Statements

**CITY OF AVON LAKE
LORAIN COUNTY**

**Combined Statement of Revenues, Expenses and Changes in Fund Equity
Proprietary Fund Type
For the Year Ended December 31, 2001**

	Enterprise
Operating Revenues	
Charges for Services	\$9,501,708
Other	661
	9,502,369
Operating Expenses	
Personal Services	2,299,441
Contractual Services	1,824,511
Materials and Supplies	439,892
Depreciation	1,242,044
	5,805,888
Total Operating Expenses	5,805,888
Operating Income	3,696,481
Non-Operating Revenues (Expenses)	
Contributions from Contractors	1,021,918
Earnings on Investments	448,228
Interest and Fiscal Charges	(2,102,344)
	(632,198)
Total Non-Operating (Expenses)	(632,198)
Income Before Operating Transfers	3,064,283
Operating Transfers	
Operating Transfers-In	3,581,001
Operating Transfers-Out	(4,244,001)
	(663,000)
Total Operating Transfers	(663,000)
Net Income	2,401,283
Retained Earnings Beginning of Year Restated - See Note 2	8,635,318
	8,635,318
Retained Earnings End of Year	11,036,601
Contributed Capital Beginning of Year	28,838,977
	28,838,977
Total Fund Equity End of Year	\$39,875,578

See Notes to General-Purpose Financial Statements

**CITY OF AVON LAKE
LORAIN COUNTY**

**Combined Statement of Cash Flows
Proprietary Fund Type
For the Year Ended December 31, 2001**

	<u>Enterprise</u>
DECREASE IN CASH AND CASH EQUIVALENTS	
Cash Flows From Operating Activities	
Cash Received from Customers and Users	\$9,851,206
Cash Paid to Suppliers	(3,342,773)
Cash Paid to Employees	<u>(2,256,370)</u>
Net Cash Provided By Operating Activities	<u>4,252,062</u>
Cash Flows From Noncapital Financing Activities	
Transfers-In	3,581,001
Transfers-Out	<u>(4,244,001)</u>
Net Cash Used For Noncapital Financing Activities	<u>(663,000)</u>
Cash Flows From Capital and Related Financing Activities	
Purchase of Fixed Assets	(5,856,832)
Principal Collected on Intergovernmental Loan	62,000
Proceeds from Capital Debt	8,241,505
Principal Repaid on Capital Debt	(9,262,753)
Interest Paid on Capital Debt	<u>(2,065,495)</u>
Net Cash Used For Capital Financing Activities	<u>(8,881,575)</u>
Cash Flows From Investing Activities	
Interest Received	<u>336,967</u>
Net Cash Provided By Investing Activities	<u>336,967</u>
Net Decrease in Cash and Cash Equivalents	(4,955,545)
Cash and Cash Equivalents, Beginning of Year	<u>14,157,491</u>
Cash and Cash Equivalents, End of Year	<u><u>\$9,201,946</u></u>

(Continued)

**CITY OF AVON LAKE
LORAIN COUNTY**

**Combined Statement of Cash Flows
Proprietary Fund Type
For the Year Ended December 31, 2001
(Continued)**

	<u>Enterprise</u>
Reconciliation of Operating Income to Net Cash Provided By Operating Activities	
Operating Income	\$3,696,481
Adjustments:	
Depreciation Expense	1,242,044
Changes in Assets and Liabilities:	
Increase in Accounts Receivable	(352,243)
Decrease in Intergovernmental Receivable	212,000
Decrease in Accounts and Contracts Payable	(874,064)
Increase in Accrued Wages and Benefits Payable	168,068
Increase in Intergovernmental Payable	159,776
	<hr/>
Net Cash Provided By Operating Activities	<u><u>\$4,252,062</u></u>

See Notes to General-Purpose Financial Statements

**CITY OF AVON LAKE
LORAIN COUNTY**

**Notes to the General-Purpose Financial Statements
December 31, 2001**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity: The reporting entity is composed of the primary government, component units, and other organizations that are included to ensure that the financial statements of the City of Avon Lake, Ohio (City) are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the City. The City provides various services including police protection, fire fighting and prevention, street maintenance and repairs, sanitation services, building inspection services, parks and recreation, and water and sewer services. The operation of each of these activities is directly controlled by City Council through the budgetary process. None of these services are provided by a legally separate organization; therefore, these operations are included in the primary government.

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 that are fiscally dependent on the City in that the City approves the budget, the issuance of debt or the levying of taxes. Based on the foregoing criteria, the City has no component units.

The City is associated with the Lorain County Community Alliance Council of Governments and the Northeast Lorain County Social Services Consortium as jointly governed organizations. The City is also a member of the Medina-Lorain Water Consortium, a joint venture. (See Note 10.)

Measurement Focus, Basis of Accounting and Basis of Presentation: The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All enterprise funds are accounted for using a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Operating statements of these funds present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for the governmental fund types, expendable trust funds, and agency funds. The full accrual basis of accounting is followed for the enterprise funds.

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 the modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available. Available means the resources will be collected within the current year or are expected to be collected soon enough

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thereafter to be used to pay liabilities of the current year. For the City, available means expected to be received within thirty days of year end.

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

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

Deferred revenues arise when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there was an enforceable legal claim as of December 31, 2001, but which were levied to finance 2002 operations, are recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On the modified accrual basis, revenues that are not collected within the available period are recorded as deferred revenue.

On the accrual basis, 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.

Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Fund Types and Account Groups: The City has the following fund types and account groups:

Governmental funds are those through which most governmental functions of the City are financed. The acquisition, use, and balances of the City's expendable financial resources and the related current liabilities (except those accounted for in the enterprise funds) are accounted for through governmental funds. The measurement focus is upon determination of financial position and changes in financial position. The following are the City's governmental fund types:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Special Revenue Funds account for revenue sources that are legally restricted to expenditure for specific purposes (not including expendable trusts or major capital projects).

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The Debt Service Funds account for the servicing of general long-term debt not being financed by proprietary funds.

The Capital Projects Funds account for the acquisition of fixed assets or construction of major capital projects not being financed by proprietary funds.

Proprietary funds are used to account for the City's ongoing activities which are similar to those found in the private sector. The measurement focus is upon determination of net income, financial position, and cash flows. The City applies applicable FASB pronouncements issued on or before November 30, 1989, providing they do not conflict with or contradict GASB pronouncements. The following is the City's proprietary fund type:

The Enterprise Funds account for those operations that are financed and operated in a manner similar to private business or where the City has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Trust funds account for assets held by the City under the terms of a formal trust agreement. Agency funds account assets held by the City in a trustee capacity or as an agent on behalf of others.

The Expendable Trust Fund is accounted for in essentially the same manner as the governmental fund types, using the same measurement focus and basis of accounting. Expendable trust funds account for assets where both the principal and interest may be expended.

The Agency Funds are custodial in nature and do not present results of operations or have a measurement focus. Agency Funds are accounted for using the modified accrual basis of accounting. These funds are used to account for assets that the City holds for others in an agency capacity.

Account groups. To make a clear distinction between fixed assets related to a specific fund and those of general government, and between long-term liabilities related to a specific fund and those of a general nature, the following account groups are used:

General Fixed Assets Account Group: The general fixed assets account group is used to account for all fixed assets of the City, except those accounted for in the enterprise funds. These assets do not represent financial resources available for expenditure.

General Long-Term Obligations Account Group: The general long-term obligations account group is used to account for all unmatured long-term obligations of the City, except those accounted for in the enterprise funds.

Cash and Cash Equivalents

Cash received by the City is deposited into several bank accounts. Monies for all funds, including enterprise funds, are maintained in these accounts or temporarily used to purchase short-term investments. Individual fund integrity is maintained through the City's records. During 2001, investments were limited to money market accounts, manuscript debt, repurchase agreements, investments in U.S. agencies and instrumentalities, and STAR Ohio. Investments are reported at fair value. Repurchase agreements are reported at cost.

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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, 2001.

The City utilizes a financial institution to service bonded debt as principal and interest come due. The balances of these accounts are presented on the combined balance sheet as "Cash and Cash Equivalents with Fiscal and Escrow Agents" and represent deposits or short-term investments in certificates of deposit or money market accounts.

The City also utilizes a trustee to retire principal and interest of its revenue bonds. This account is presented on the combined balance sheet under the heading restricted assets as "Cash and Cash Equivalents."

Following Ohio statutes, the City has, by ordinance, specified the fund to receive an allocation of interest earnings. Interest revenue credited to the special revenue improvement fund during 2001 amounted to \$891,874, which includes \$867,972 assigned from other City funds.

For purposes of the combined statement of cash flows, investments of the cash management pool and investments with an original maturity of three months or less are considered to be cash equivalents. Investments with an original maturity of more than three months are reported as investments. (See Note 3.)

Receivables

Receivables primarily consist of income taxes, property taxes and special assessments which are levied and assessed on a calendar year basis. Property taxes include amounts levied against real, public utility, and tangible personal property located in the City.

Intergovernmental Revenues

For governmental funds, intergovernmental revenues, such as grants awarded on a non-reimbursement basis, shared revenues, and entitlements are recorded as intergovernmental receivables and revenues when measurable and available. Federal reimbursement-type grants are recorded as receivables and revenues when the related expenditures are incurred. Grants, entitlements or shared revenues received for proprietary fund operating purposes are recognized as non-operating revenues in the accounting period in which they are earned and become measurable.

Interfund Assets and Liabilities

Short-term interfund loans are classified as "Interfund Receivables" and "Interfund Payables."

Inventory

Inventories are valued at cost using the first in/first out method. The costs of governmental fund type inventories are recorded as expenditures when purchased. Governmental fund type inventories, on hand at year end, are offset by a fund balance reserve which indicates they do not constitute available expendable resources even though they are a component of assets.

Proprietary fund type inventory costs are charged to operations when consumed.

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(Continued)**

Restricted Assets

Amounts held in trust which are legally restricted for use in paying current and future debt service on revenue bonds in the proprietary funds are classified as restricted assets.

Fixed Assets and Depreciation

Property, plant, and equipment items are stated on the basis of cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of donation. Infrastructure such as streets, storm sewers and drains, and traffic signals and signs are not capitalized. Assets costing less than five hundred dollars (\$500) are not normally capitalized. The cost of normal maintenance and repairs is charged to operations as incurred. Assets in the general fixed assets account group are not depreciated. (See Note 4.)

Depreciation for the proprietary funds is determined by allocating the cost of fixed assets over the estimated useful lives of the assets on a straight-line basis. The estimated useful lives are as follows:

Buildings and Improvements	15 – 70 Years
Water and Sewer Lines	25 – 75 Years
Machinery and Equipment	3 – 20 Years
Vehicles	3 – 20 Years

Capitalization of Interest

The City's policy is to delay capitalizing net interest on 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 2001, interest costs incurred on construction projects in proprietary funds were not material.

Bond Discounts and Issuance Costs

Bond discounts and issuance costs for enterprise funds are deferred and amortized over the term of the bonds using the straight-line method.

Contributed Capital

Contributed capital, received prior to fiscal year 2001, represents donations by developers, contributions made by the City, capital grants, and assets whose construction was financed by special assessments. These assets were recorded at their fair market value on the date contributed and are not subject to repayment. Depreciation on those assets acquired or constructed with contributed resources is expensed and closed to unreserved retained earnings at year end. Donations of contributed capital received during fiscal year 2001 are recorded as non-operating revenue as required by GASBS no. 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures/expenses. Transactions that constitute reimbursements to a fund for expenditures or expenses made from it that are properly

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applicable to another fund are recorded as expenditures/expenses in the reimbursing fund, and as a reduction of expenditures/expenses in the fund that is reimbursed.

Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, claims and judgments, compensated absences, landfill closure and post closure, unfunded pension contributions and special termination benefits are reported as a liability in the general long-term debt account group to the extent that they will not be paid with current expendable available financial resources. Bonds and long-term loans are recognized as a liability of a governmental fund when due.

Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation, sick leave, or sabbatical leave. A liability for compensated absences that is attributable to services already rendered and that is not contingent on a specific event that is outside the control of the City and its employees is accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the City and its employees are accounted for in the period in which such services are rendered or such events take place.

Sick leave benefits are accrued as a liability using the vesting method. An accrual for sick leave is made to the extent that it is probable that benefits will result in separation payments. The liability is based upon sick leave accumulation at December 31, 2001 for those employees who are currently eligible to receive separation benefits and those employees who the City has identified as probable to receive separation benefit payments in the future.

Employees earn vacation and sick leave at different rates, which are also affected by length of service.

In the governmental funds, compensated absences that are expected to be liquidated with expendable available financial resources are reported as an expenditure and a fund liability in the fund that will pay for them. The remainder of the compensated absences liability is reported in the general long-term debt account group.

In the proprietary funds, compensated absences are recorded as an expense and liability of the fund that will pay for them.

Fund Balance Reserves

Reservations of fund balances are established to identify the existence of assets that, because of their non-monetary nature or lack of liquidity, represent financial resources not available for current appropriations or expenditures including amounts that are legally segregated for a specific future use. Fund balances are reserved for encumbrances and inventories of supplies and materials.

Memorandum Only – Total Columns

Total columns on the general purpose financial statements are captioned as “memorandum only” because they do not represent consolidated financial information and are presented only to facilitate

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financial analysis. The columns do not present information that reflects financial position, results of operations or cash flows in accordance with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data.

New Accounting Pronouncements

In June of 1999 GASBS no. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, was issued. GASBS no. 34 establishes financial reporting standards for state and local governments and is effective, in three phases based on a government's total annual revenues, beginning with periods beginning after June 15, 2001 and continuing through periods beginning after June 15, 2003. Management is currently evaluating the overall presentation required by GASBS no. 34 and believes the effect will be material.

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The City Council is required, by The Avon Lake City Charter, to adopt an annual budget for all funds, other than agency, in accordance with the following:

Budget: A budget of estimated cash receipts and disbursements is adopted at the first Council meeting in July and submitted to the County Auditor, as secretary of the County Budget Commission, by July 20 of each year for the ensuing January 1 to December 31 calendar year.

Estimated Resources: The County Budget Commission certifies its actions to the City. As part of this certification, the City receives the Official Certificate of Estimated Resources which states the projected receipts of each fund. On or about January 1, this Certificate is amended to include any unencumbered balances from the preceding year. Prior to year end, the City must revise its budget so that the total contemplated expenditures from a fund during the year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as the basis for the annual appropriation measure. On or about January 1, the Certificate of Estimated Resources is amended to include unencumbered cash balances at December 31 of the preceding year. The amounts reported in the budgetary statements reflect the final budget figures.

Appropriations: Appropriations may be defined as expenditure authorization and are synonymous with budget within the Budget and Actual presentations. A temporary appropriation measure to control the cash disbursements may be passed prior to passage of the annual appropriation measure. An annual appropriation measure must be passed by April 1 for the current year. The appropriation measure may be amended or supplemented during the year as new information becomes available. The appropriated budget is prepared by fund, department and object. The allocation of appropriations among departments and objects within a fund may be modified during the year by an ordinance of Council. Several amendments and supplements were enacted during the year. The amounts reported in the budgetary statements reflect final amended appropriations. Appropriations may not exceed estimated resources, and expenditures plus encumbrances may not exceed appropriations at the object level.

Encumbrances: The City is required to use, by Ohio law, the encumbrance method of accounting. Under this system, purchase orders, contracts, and other commitments for the expenditure of funds are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation. On the GAAP basis, encumbrances outstanding at year end are reported as reservations of fund balance for subsequent-year expenditures for governmental fund types and reported in the notes to the financial statements for the enterprise funds.

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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 need not be reappropriated. Encumbrances at year end have been presented as reserves of fund balances.

Budgetary Basis of Accounting: The City's budgetary process is based upon accounting for transactions on the budget basis. The difference between budget basis and the accrual and modified accrual (GAAP) basis is that revenues are recorded when received in budget as opposed to when susceptible to accrual (GAAP) and expenditures are recorded when paid or encumbered (budget) as opposed to when incurred (GAAP). Adjustments necessary to convert the results of operations at the end of the year on the budget basis to the GAAP basis are as follows:

Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses Governmental Fund Types				
	General	Special Revenue	Debt Service	Capital Projects
GAAP Basis	\$358,055	\$1,444,708	(\$54,105)	\$731,086
Net Adjustments for Revenue Accruals	591,805	106,342	(9,758)	507,827
Net Adjustments for Expenditure Accruals	(937,999)	(575,450)	9,758	(384,118)
Net Adjustments for Encumbrances	(66,624)	(900,705)		(1,368,165)
Budget Basis	(\$54,763)	\$74,895	(\$54,105)	(\$513,370)

Change in Accounting Principle

As of December 31, 2001, the City has adopted GASBS no. 33, *Accounting and Financial Reporting for Nonexchange Transactions* and GASBS no. 36, *Recipient Reporting for Certain Shared Nonexchange Revenues*. GASBS no. 36 modified the provisions of GASBS no. 33 for certain specific nonexchange revenues.

These required statements clarify the timing requirements for recognizing assets, liabilities, revenues, and expenditures/expenses associated with nonexchange transactions. As a result of implementation of these statements, a restatement of prior year fund balances is necessary as described below.

Due to implementation of GASBS no. 33 and 36 prior year fund balances were restated for the following fund type:

Special Revenue Fund

Fund Balance as of December 31, 2000	\$3,887,723
Grant Revenue	7,500
Restated Fund Balance, January 1, 2001	\$3,895,223

Capital Projects Fund

Fund Balance as of December 31, 2000	\$998,442
Grant Revenue	57,827
Restated Fund Balance, January 1, 2001	\$1,056,269

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Prior Period Adjustment

Prior year retained earnings in the enterprise fund, general long-term debt account group – amounts to be provided for benefits and the general fixed assets account group – investment in general fixed assets were restated due to additional work performed by the City. In an effort to improve the fixed asset records certain changes to the ledger, such as better categories, additions, and deletions of old obsolete items, were necessary to adjust the financials to match the improved fixed asset ledger. (See note 4). Compensated absences were understated for the enterprise fund type and the general long-term debt account group for the year ended December 31, 2000, due to an error in applying the criteria established to estimate this liability. The effect on prior year net income reported for the enterprise fund type was immaterial.

Enterprise Fund

Retained Earnings as of December 31, 2000	\$8,598,185
Restatement to Compensated Absences Payable	(167,604)
Restatement to Fixed Assets – net	<u>204,737</u>
Restated Retained Earnings, January 1, 2001	<u><u>\$8,635,318</u></u>

General Long-Term Debt Account Group

Amounts to be Provided for Benefits, December 31, 2000	\$662,782
Restatement to Compensated Absences Payable	<u>416,451</u>
Amounts to be Provided for Benefits, January 1, 2001	<u><u>\$1,079,233</u></u>

General Fixed Asset Account Group

Investment in General Fixed Assets, December 31, 2000	\$17,231,674
Restatement to Fixed Assets – net	<u>140,613</u>
Investment in General Fixed Assets, January 1, 2001	<u><u>\$17,372,287</u></u>

NOTE 3: DEPOSITS AND INVESTMENTS

Cash and Cash Equivalents and Investments: The City maintains a cash and investment pool used by all funds. Each fund type's portion is displayed on the combined balance sheet – all fund types and account groups as “Cash and Cash Equivalents.”

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

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evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts. Interim monies may be invested in the following obligations provided they mature or are redeemable within five years from the date of purchase:

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

Deposits: At year end, the carrying amount of the City's cash and deposits was \$707,418 including \$1,595 of petty cash and the bank balance was \$802,125. Of the bank balance, \$235,192 was covered by federal depository insurance, and \$566,933 was uncollateralized and uninsured. Although the securities serving as collateral were held by the pledging financial institutions trust department or agent in the City's name and all state statutory requirements for the investment of money had been followed, noncompliance with federal requirements would potentially subject the City to a successful claim by the FDIC.

Investments: The City's investments are categorized below to give an indication of the level of risk assumed by the City at year-end.

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Category 1 includes investments that are insured or registered or for which the securities are held by the City.

Category 2 includes uninsured and unregistered investments for which securities are held by the financial institution's trust department or agent in the City's name.

Category 3 includes uninsured and unregistered investments for which securities are held by the financial institution or by its trust department but not in the City's name.

The City invests in STAR Ohio, the State Treasurer's investment pool, which is not classified by degree of credit risk since it is not evidenced by securities that exist in physical or book entry form.

	Category			Carrying Value	Fair Value
	1	2	3		
Money Market			\$4,910,106	\$4,910,106	\$4,910,106
Manuscript Debt	\$40,272			40,272	40,272
Investments in State Treasurer's Investment Pool				2,499,989	2,499,989
Repurchase Agreement		\$605,000		605,000	605,000
Investments in U.S. Agencies and Instrumentalities		13,733,772		13,733,722	13,733,722
Total Investments	\$40,272	\$14,338,772	\$4,910,106	\$21,789,089	\$21,789,089

NOTE 4: FIXED ASSETS

A summary of changes in general fixed assets is as follows:

Asset Category	Balance at	Restated Balance at	Additions	Deletions	Balance at
	12/31/2000	1/1/2001			12/31/2001
Land	\$2,486,771	\$3,020,016			\$3,020,016
Buildings	8,727,344	8,623,058			8,623,058
Other Improvements	370,364	330,823			330,823
Equipment	3,113,478	3,536,768	\$475,038	\$114,758	3,897,048
Furniture	2,533,717				
Vehicles		1,861,622	106,436	17,987	1,950,071
Total	\$17,231,674	\$17,372,287	\$581,474	\$132,745	\$17,821,016

Proprietary fund fixed assets at December 31, 2001 were as follows:

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Asset Category	Enterprise Funds		
	Balance at 12/31/2000	Restated Balance at 1/1/2001	Balance at 12/31/2001
Land	\$1,041,285	\$1,070,369	\$1,258,085
Buildings and Improvements	13,002,646	29,992,602	29,992,602
Water and Sewer Lines	36,111,553	37,313,367	38,336,275
Machinery and Equipment	18,407,167	2,675,996	2,635,257
Vehicles		397,754	354,745
Construction-in-Progress	2,682,700		3,828,105
Total Fixed Assets	71,245,351	71,450,088	76,405,069
Less Accumulated Depreciation	15,570,641	15,570,641	16,630,361
Net Fixed Assets	<u>\$55,674,710</u>	<u>\$55,879,447</u>	<u>\$59,774,708</u>

NOTE 5: LONG-TERM OBLIGATIONS

Changes in long-term obligations were as follows:

	Outstanding at 1/1/2001	Additions	Reductions	Outstanding at 12/31/2001
GENERAL LONG-TERM OBLIGATIONS				
GENERAL OBLIGATION NOTES				
2000 Various Purpose Notes 4.75%	\$9,000,000		\$9,000,000	
GENERAL OBLIGATION BONDS				
1994 Various Purpose 4% - 6%	494,356		494,356	
1994 Series Refinanced 3.3-5.5%		\$511,155	29,784	\$481,371
2001 Pin Oak Parkway		498,659		498,659
2001 Safety Center 3.3-5.5%		4,994,101	170,000	4,824,101
Total	494,356	6,003,915	694,140	5,804,131
SELLER-FINANCED MORTGAGES				
1997 Park Lane 3.75%-4.75%	\$90,000		\$90,000	
1997 Park Lane 6%	61,336		29,582	\$31,754
Total	151,336		119,582	31,754
SPECIAL ASSESSMENT BONDS				
2001 Pin Oak Parkway		\$886,341		886,341
CALDP 2001		2,999,996	100,000	2,899,996
1990 Pin Oak Parkway II 8.35% Manuscript	23,679		4,736	18,943
1993 Redwood Curbs 6.0% Manuscript	16,592		2,074	14,518
Total	40,271	3,886,337	106,810	3,819,798

(Continued)

**CITY OF AVON LAKE
LORAIN COUNTY**

**Notes to the General-Purpose Financial Statements
December 31, 2001
(Continued)**

OHIO WATER DEVELOPMENT				
AUTHORITY LOANS				
1986 Walker Road 7.76%	511,791		31,149	480,642
Avon Point/Armour Sewer	55,124		9,439	45,685
Total	<u>566,915</u>		<u>40,588</u>	<u>526,327</u>
LANDFILL POSTCLOSURE COSTS	1,040,000		33,667	1,006,333
COMPENSATED ABSENCES	1,079,233	25,614		1,104,847
POLICE AND FIRE PENSION	118,239		1,558	116,681
CAPITAL LEASE PAYABLE	95,646		21,616	74,030
TOTAL GENERAL LONG-TERM OBLIGATIONS	12,585,996	9,915,866	10,017,961	12,483,901
ENTERPRISE FUNDS:				
GENERAL OBLIGATION BONDS				
1994 Various Purpose 4.0-6.0%	7,970,614		7,970,614	
1994 Series Refinanced 3.3-5.5%		8,241,505	480,216	7,761,289
Total	<u>7,970,614</u>	<u>8,241,505</u>	<u>8,450,830</u>	<u>7,761,289</u>
OHIO WATER DEVELOPMENT				
AUTHORITY LOANS				
1986 Walker Road 7.76%	969,355		58,929	910,426
1983 Wastewater Expansion 9.98%	652,174		165,396	486,778
1990 Water Plant Expansion 7.84%	7,506,305		250,894	7,255,411
1998 Wastewater Improvement 5.76%	600,421		21,704	578,717
Total	<u>9,728,255</u>		<u>496,923</u>	<u>9,231,332</u>
MORTGAGE REVENUE BONDS				
1993 Water System Revenue				
Refunding Bonds 2.5 - 5.5%	5,600,000		315,000	5,285,000
2000A Water System 4.7 -5.6%	9,658,943			9,658,943
Total	<u>15,258,943</u>		<u>315,000</u>	<u>14,943,943</u>
TOTAL ENTERPRISE FUNDS	32,957,812	8,241,505	9,262,753	31,936,564
TOTAL	<u>\$45,543,808</u>	<u>\$18,157,371</u>	<u>\$19,280,714</u>	<u>\$44,420,465</u>

The ambulance general obligation notes were retired this year with special revenue paramedic levy fund money. General obligation bonds, other than the enterprise general obligation bonds and mortgage revenue, will be paid from the general bond retirement debt service fund from special assessments. Seller-financed mortgages will be paid from the recreation trust expendable trust fund. 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.

**CITY OF AVON LAKE
LORAIN COUNTY**

**Notes to the General-Purpose Financial Statements
December 31, 2001
(Continued)**

Landfill postclosure costs are based on estimates as of December 31, 2001. 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 reported in the "Accrued Wages and Benefits" account will be paid from the fund which the employees' salaries are paid.

The principal and interest requirements to retire Seller Financed Mortgages is \$32,824 and will be retired in 2002; other long-term obligations, except landfill post-closure costs and compensated absences, outstanding at December 31, 2001 are as follows:

	1994 Series Refinanced GO Bonds	2001 Series Pin Oak Parkway Bonds	Manuscript Bonds	2001 CALDP Special Assessment Bonds	1993 Mortgage Revenue Bonds
2002	\$883,538	\$134,416	\$9,263	\$238,205	\$607,500
2003	884,988	128,745	8,743	239,530	607,320
2004	885,188	126,420	8,223	240,570	607,760
2005	884,098	128,983	7,703	241,315	605,760
2006	881,973	126,183	2,447	241,815	608,380
2007-2011	4,385,670	643,015		1,197,240	3,046,600
2012-2016	2,652,300	628,550		1,207,675	1,211,530
2017-2021				970,000	
	<u>\$11,457,755</u>	<u>\$1,916,312</u>	<u>\$36,379</u>	<u>\$4,576,350</u>	<u>\$7,294,850</u>

	2000A Mortgage Revenue Bonds	OWDA	Police and Fire Pension	Capital Lease Payable	2001 Safety Center GO Bonds
2002	\$1,344,993	\$582,047	\$6,567	\$23,439	\$396,568
2003	1,344,993	631,033	6,567	23,415	400,443
2004	1,229,751	569,011	6,567	25,176	398,783
2005	1,114,509	499,978	6,567		401,752
2006	1,100,787	524,810	6,567		399,253
2007-2011	5,503,933	3,297,565	32,835		1,997,010
2012-2016	4,478,116	3,584,832	32,835		2,010,750
2017-2021	84,352	78,301	32,835		1,607,250
2022-2026			32,835		
2027			55,460		
	<u>\$16,201,434</u>	<u>\$9,767,577</u>	<u>\$219,635</u>	<u>\$72,030</u>	<u>\$7,611,809</u>

Mortgage Revenue Bonds

The water system mortgage revenue refunding bonds series 1993A include serial and term bonds. 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 October 1, 2013 in the amount of \$3,470,000, at a redemption price equal to 100% of the principal plus accrued interest to the redemption date. The serial bonds maturing on or after October 1, 2004 are subject to early redemption, by and at

**CITY OF AVON LAKE
LORAIN COUNTY**

**Notes to the General-Purpose Financial Statements
December 31, 2001
(Continued)**

the option of the City in whole at any time or in part on any interest payment date on or after October 1, 2003 in multiples of \$5,000 at the following redemption prices plus accrued interest:

Redemption Dates (Dates Inclusive)	Redemption Prices
October 1, 2003 through September 30, 2004	101%
October 1, 2004 and thereafter	100%

Mandatory Sinking Fund Redemption. The bonds maturing on October 1, 2013 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 October 1 in each of the years and in the principal amounts set forth below:

Year	Principal Amount to be Redeemed
2007	\$420,000
2008	445,000
2009	470,000
2010	495,000
2011	520,000
2012	545,000

The water system mortgage revenue bonds series 2000A include serial and term bonds. 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 October 1, 2026 in the amount of \$4,120,000, at a redemption price equal to 100% of the principal plus accrued interest to the redemption date. The serial bonds maturing on or after October 1, 2011 are 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 October 1, 2010 in multiples of \$5,000 at the redemption price or 100% of the principal amount to be redeemed plus accrued interest to the date of redemption.

Mandatory Sinking Fund Redemption. The bonds maturing on October 1, 2026 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 October 1 in each of the years and in the principal amounts set forth below:

Year	Principal Amount to be Redeemed
2020	\$495,000
2021	520,000
2022	555,000
2023	585,000
2024	620,000
2025	655,000

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.

**CITY OF AVON LAKE
LORAIN COUNTY**

**Notes to the General-Purpose Financial Statements
December 31, 2001
(Continued)**

The debt covenant requires that the City establish various funds for the construction, replacement, and the repayment of debt relating to the construction and improvement of the waterworks system.

The restricted assets balance in the water fund segregates funds held by the City from funds held by the trustees in accordance with the trust agreement. Restricted assets relating to the water system mortgage revenue refunding bonds consisted of the following at December 31, 2001:

Revenue Bond Future Debt Service	\$1,347,290
----------------------------------	-------------

General Obligation Bonds

On March 28, 2001, the City issued \$16,746,758 in Various Purpose Improvement and Refunding Bonds, Series 2001. These bonds are unvoted General Obligations of the City, issued to finance the permanent improvements described in the Bonds, and to advance refund existing 1994 Various Purpose General Obligation Bonds debt at a more favorable borrowing rate. The difference between the cash flows required to service the old debt and the cash flows required to service the new debt and complete the refunding is \$34,630 for the General Long-Term Debt Account Group, \$442,838 for the water fund, and \$115,513 for the sewer fund for a total of \$592,981. The economic gain (present value amount) is \$25,422 for the General Long-Term Debt Account Group, \$325,081 for the water fund, and \$84,796 for the sewer fund for a total of \$435,299.

\$8,752,661 of the proceeds will be 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 general long-term obligations account group. The original bonds were issued for the purpose of paying the costs of (a) constructing improvements, additions or extensions to the City's water distribution system within and without the City, including acquiring real estate and easements therefore; (b) construction improvements to the City's sewerage system; (c) widening and resurfacing portions of Walker Road; and (d) issuing the bonds. All the reissued debt consists of serial bonds with final maturity in 2014, with the exception of 2010 which are capital appreciation bonds in the amount of \$695,000.

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

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

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

**CITY OF AVON LAKE
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**Notes to the General-Purpose Financial Statements
December 31, 2001
(Continued)**

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

In anticipation of Bonds, \$2,000,000 in notes were originally issued in 1999 to pay for property owners' portion of the construction cost to extend Pin Oak Parkway approximately 5,000 feet easterly paving, storm and sanitary sewers along with waterlines. The City anticipates debt service of \$886,341 to be paid through special assessments levied to the property owners. The Bonds are not subject to redemption prior to their stated maturities. As of December 31, 2001, the water enterprise fund has recorded \$1,238,000 as an Intergovernmental Receivable for the City of Avon's share of the waterline construction costs.

Note Activity

	Balance 1/01/2001	Additions	Reductions	Balance 12/31/2001
2001 Oak Parkway Imp. 3.75%		\$1,000,000	\$1,000,000	

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.

NOTE 6: CONTRACTUAL COMMITMENTS

During 2001, the City entered into various contracts for building and construction projects. Outstanding contractual commitments of \$1,628,719 existed as of the year ended December 31, 2001.

NOTE 7: TAXES

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 2000. Real property taxes are levied on assessed valuations as of December 31, which is the lien date. Real property taxes, billed one year in arrears, are payable annually or semiannually. The first payment is due January 20, and the remainder is payable by June 20.

Taxpayers (other than public utilities) become liable for tangible personal property taxes on January 1 of the current calendar year based on tax rates determined in the preceding year and assessed values determined at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of that calendar year. Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25% of its true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid

**CITY OF AVON LAKE
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**Notes to the General-Purpose Financial Statements
December 31, 2001
(Continued)**

annually, payment is due April 30; if paid semiannually, the first payment is due April 30 with the remainder payable by September 20. Under Ohio law, personal property taxes do not attach as a lien on the personal property.

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

The full tax rate for all City operations for the year ended December 31, 2001 was \$7.24 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2000 property tax receipts were based are as follows:

Real Property	\$409,994,430
Tangible Personal Property	<u>260,779,330</u>
Total	<u><u>\$670,773,760</u></u>

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.

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

Income tax proceeds are received by the Income Tax Transfer Fund which is a Special Revenue Fund.

NOTE 8: PENSION PLAN

Public Employees Retirement System of Ohio (PERS)

Plan Description. All City full-time employees, other than police and firemen, participate in the Public Employees Retirement System of Ohio (PERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees Retirement System of Ohio. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. The Public Employees Retirement System issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642.

Funding Policy. The Ohio Revised Code provides statutory authority for employee and employer contributions with contribution rates determined actuarially. The employee contributions rates are 8.5% of covered salary, other than law enforcement. In January 2001, House Bill 416 divided the PERS law enforcement program into two separate divisions with separate employee contribution rates and benefits. The law enforcement classification does not affect the City. All other members of the PERS law enforcement classification were placed in a newly named public safety division and continued to contribute at 9%. The 2001 employer pension contribution rate for the City was 13.55% of covered payroll, 9.25% was the portion used to fund pension obligations for 2001, an increase from 6.54% in

**CITY OF AVON LAKE
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**Notes to the General-Purpose Financial Statements
December 31, 2001
(Continued)**

2000. The 2001 employer contribution rate for public safety divisions was 16.70% of covered payroll. Contributions are authorized by State statute. The contribution rates are determined actuarially. The City's required contributions to PERS for the years ending December 31, 2001, 2000, and 1999 were \$546,507, \$532,406, and \$575,539, respectively. The full amount has been contributed for 2000 and 1999, and 73 percent has been contributed for 2001 with the remainder being reported as a liability within the funds and the general long-term obligations account group.

Ohio Police and Fire Pension Fund (OP&F)

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

Plan members are required to contribute 10 percent of their annual covered salary, while employers are required to contribute 19.5 percent for police (12% was the portion used to fund pension obligations for 2001, an increase from 12.25% for 2000); and 24 percent for firefighters (16.5% was the portion used to fund pension obligations for 2001, a decrease from 16.75 from 2000), respectively, for police officers and firefighters. The City's contributions to OP&F for the years ending December 31, 2001, 2000, and 1999 were \$684,014, \$676,158, and \$648,016, respectively. The full amount has been contributed for 2000 and 1999, and 72 percent has been contributed for 2001 with the remainder being reported as a liability within the general long-term obligations account group.

NOTE 9: POST EMPLOYMENT BENEFITS

Public Employees Retirement System

The Public Employees Retirement System of Ohio (PERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for the funding of postretirement health care based on authority granted by State statute. The 2001 employer contribution rate was 13.55 percent of covered payroll; 4.30 percent was the portion that was used to fund health care. The 2001 employer rate was 16.70 percent and 4.30 percent was used to fund health care for both the law enforcement and public safety divisions. The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to PERS.

Benefits are advance-funded using the entry age normal actuarial cost method of valuation. Significant actuarial assumptions, based on PERS's latest actuarial review performed as of December 31, 2000, include a rate of return on investments of 7.75 percent, an annual base pay increase in active employee total payroll of 4.75 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .54 percent to 5.1 percent over and above the base pay increases. Health care premiums were assumed to increase 4.75 percent annually.

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**Notes to the General-Purpose Financial Statements
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(Continued)**

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets.

The number of active contributing participants was 411,076. The City's actual employer contributions for 2001, which were used to fund postemployment benefits were \$217,038. The actual contribution and the actuarially required contribution amounts are the same. PERS's actuarially valued net assets available for payment of benefits at December 31, 2000, (the latest information available) were \$11,735.9 million. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$14,364.6 million and \$2,628.7 million, respectively.

For 2001, PERS elected to return to an actuarially pre-funded type of disclosure because it is a better presentation of PERS's actual funding methodology. Since 1997, disclosures had been based on a pay-as-you-go funding basis.

In January 2001, House Bill 416 divided the PERS law enforcement program into two separated divisions with separate employee contribution rates and benefits. Law enforcement benefits permit age and service retirement at an earlier age with a different formula than for PERS members not covered under this division.

Ohio Police and Fire Pension Fund

The Ohio Police and Fire Pension Fund (OP&F) provides postretirement health care coverage to any person who receives or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22 if attending school full-time or on a 2/3 basis.

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the Ohio Police and Fire Pension Fund shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.25 percent and 7.5 percent of covered payroll, respectively, was applied to the postemployment health care program during 2000 and 2001. The allocation is 7.75 percent in 2002. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment.

The City's actual contributions for 2001 that were used to fund postemployment benefits for police and fire were \$111,458 and \$ 123,742. The OP&F's total health care expenses for the year ended December 31, 2000, (the latest information available) was \$106,160,054, which was net of member contributions of \$5,657,431. The number of OP&F participants eligible to receive health care benefits as of December 31, 2000, was 12,853 for police and 10,037 for firefighters.

NOTE 10: 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

**CITY OF AVON LAKE
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**Notes to the General-Purpose Financial Statements
December 31, 2001
(Continued)**

members that have voting privileges and other citizen, business, and agency members that have no voting privileges. While the agreement establishing the Alliance designates members, the Alliance has expanded membership to include the following public members and their respective Board representatives:

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

The Alliance currently has 21 other citizen, business, and agency members.

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

Member city, village, and township are eligible to cast votes equivalent to the total population of the member jurisdictions which they represent and Lorain County members are eligible to cast votes equivalent to twenty-five percent of the total population of Lorain County. The City of Avon Lake contributed \$250 to the Alliance during 2001. Financial information can be obtained by contacting Mark R. Stewart, Lorain County Auditor, at 226 Middle Avenue, Elyria, Ohio 44035, who serves as fiscal agent.

B. Northeast Lorain County Social Services Consortium

The City is a member of the Northeast Lorain County Social Services Consortium (Consortium). The Consortium is an agreement among the Cities of Avon Lake, Avon, Sheffield Lake, and the Village of Sheffield to provide social assistance for the needy and elderly residents of each of the member communities. Social assistance includes home delivered meals, emergency food, U.S. Department of Agriculture food distribution, and support services.

The Mayor of each member serves a representative in the Consortium. The Consortium receives advice and recommendations from the Northeast Lorain County Social Services Agency (Agency), an Ohio non-profit corporation. The Agency's Board consists of 12 members which includes an elected official appointed by each Consortium member and other members from Consortium members.

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**Notes to the General-Purpose Financial Statements
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(Continued)**

The Consortium established a disbursement office at the City of Avon Lake for the management of Consortium fiscal affairs. The City contributed \$20,760 to the Consortium during 2001. Financial information can be obtained by contacting Northeast Lorain County Social Services, Janet M. Strickland, Director, 4575 Lake Road, Sheffield Lake, Ohio 44054.

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 purchase of bulk water 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, 2001, the City's equity interest in the Consortium was \$1,544,432. Financial information can be obtained from Joe Newlin, City of Avon Lake Finance Director, 150 Avon Belden Road, Avon Lake, Ohio 44012.

NOTE 11: RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2001, the City contracted for various types of insurance as follows:

<u>Company</u>	<u>Type of Coverage</u>	<u>Deductible</u>
Great American Insurance Company	Property	\$ 5,000
	General Liability	5,000
	Valuable Papers	5,000
	Data Equipment	5,000
	Equipment, Machinery and Boilers	1,000
	Vehicles	1,000
	Public Officials Liability	25,000
	Police Liability	5,000
	Property and General Liability (for part-time firefighters)	5,000

Settled claims have not exceeded this commercial coverage in any of the past three years. The City pays the Ohio Bureau of Workers' Compensation a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

NOTE 12: SEGMENT INFORMATION FOR ENTERPRISE FUNDS

Segment information for Enterprise Funds is as follows:

**CITY OF AVON LAKE
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December 31, 2001
(Continued)**

	Water Fund	Sewer Fund	Total
Operating Revenues	\$7,017,606	\$2,484,763	\$9,502,369
Operating Expenses			
Before Depreciation	2,982,521	1,581,323	4,563,844
Depreciation Expense	702,785	539,259	1,242,044
Operating Gain	3,332,300	364,181	3,696,481
Net Nonoperating			
Revenue/(Expense)	(1,101,580)	469,382	(632,198)
Net Transfers		(663,000)	(663,000)
Net Income (Loss)	2,230,720	170,563	2,401,283
Plant, Property and			
Equipment Additions	5,353,764	1,145,649	6,499,413
Net Working Capital	5,290,161	2,318,146	7,608,307
Total Assets	45,605,388	27,254,741	72,860,129
Long-Term Liabilities	28,238,052	3,698,512	31,936,564
Total Equity	16,622,244	23,253,334	39,875,578

NOTE 13: 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 30, 1990. The Landfill postclosure costs liability reflects an estimate of the remaining costs to perform the required maintenance and monitoring functions for approximately 18 years. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

NOTE 14: CONTINGENCIES

Litigation

As of December 31, 2001, the City was a party to a legal proceeding. The ultimate disposition of this proceeding is not presently determinable, but will not, in the opinion of management, have a material adverse effect on the continued operations of the City.

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STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

Lausche Building
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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON INTERNAL CONTROL
REQUIRED BY GOVERNMENT AUDITING STANDARDS**

City of Avon Lake
Lorain County
150 Avon Belden Road
Avon Lake, Ohio 44012-1699

To the City Council:

We have audited the financial statements of the City of Avon Lake (the City) as of and for the year ended December 31, 2002, and have issued our report thereon dated November 12, 2002. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated November 12, 2002.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the City in a separate letter dated November 12, 2002.

City of Avon Lake
Lorain County
Report of Independent Accountants on Compliance and on Internal Control
Required by *Government Auditing Standards*
Page 2

This report is intended for the information and use of management and the City Council, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a cursive "Petro".

Jim Petro
Auditor of State

November 12, 2002

**CITY OF AVON LAKE
LORAIN COUNTY**

**Schedule of Prior Audit Findings
December 31, 2001**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2000-20847-001	ORC § 5705.41 (D) failure to certify funds	No	We reported this matter in the management letter as noncompliance with City of Avon Charter Section 58.
2000-20847-002	City of Avon Lake, Codified Ord., Chapter 252.02 (b) failure to certify funds	No	We reported this finding in the management letter as noncompliance with City of Avon Charter Section 58.
2000-20847-003	ORC § 5705.41 (B) failure to appropriate	Yes	
2000-20847-004	ORC § 5705.39 appropriations exceed estimated resources	No	We reported this finding in the management letter.
2000-20847-005	Bank reconciliations	No	Some improvement noted. Matter reported as a management letter comment.
2000-20847-006	Updating of fixed asset records	Yes	



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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
JANUARY 7, 2003**