



**CITY OF EASTLAKE
LAKE COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2003



**Auditor of State
Betty Montgomery**

**CITY OF EASTLAKE
LAKE COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Eastlake, Lake County, Ohio, (the City) as of and for the year ended December 31, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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.

The Auditor of State served during the year ended December 31, 2003 as the City's financial supervisor in accordance with procedures established under Ohio Revised Code §118.05 (G). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to conduct the audit of the City because the Auditor of State may assume broad management powers, duties, and functions in accordance with Ohio Revised Code §118.04. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 118.05 (G) requires the Auditor of State to provide these supervisory services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments.

We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Eastlake, Lake County, Ohio, as of December 31, 2003, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the general fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended December 31, 2003, the City implemented GASB Statement No. 34, *Basic Financial Statements – Management Discussion and Analysis – for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2004 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.

Management Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to form opinions on the financial statements that collectively comprise the City's basic financial statements. The federal awards expenditure schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Betty Montgomery
Auditor of State

October 14, 2004

CITY OF EASTLAKE, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2003***

Unaudited

The discussion and analysis of the City of Eastlake's financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2003. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the transmittal letter, notes to the basic financial statements and financial statements to enhance their understanding of the City's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2003 are as follows:

In total, net assets decreased \$1,137,052. Net assets of governmental activities decreased \$999,501, which represents a 8.6% decrease from 2002. Net assets of business-type activities decreased \$137,551 or 4.8% from 2002.

General revenues accounted for \$14,618,215 in revenue or 77.0% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$4,342,104, 23.0% of total revenues of \$18,960,319.

The City had \$18,363,972 in expenses related to governmental activities; only \$2,838,956 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$14,618,215 were not adequate to provide for these programs.

Among major funds, the general fund had \$12,230,688 in revenues and \$13,537,746 in expenditures. The general fund's fund balance declined from a deficit of \$675,323 to a deficit of \$2,261,588.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – *management's discussion and analysis*, the *basic financial statements*, and notes to the basic financial statements. The basic financial statements include two types of statements that present different views of the City:

These statements are as follows:

The Government-Wide Financial Statements – These statements provide both long-term and short-term information about the City's overall financial status.

The Fund Financial Statements – These statements focus on individual parts of the City, reporting the City's operations in more detail than the government-wide statements.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

CITY OF EASTLAKE, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2003***

Unaudited

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities, with the difference between the two reported as net assets. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net-assets (the difference between the City's assets and liabilities) is one way to measure the City's financial health or position.

Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.

To assess the overall health of the City you need to consider additional nonfinancial factors such as the City's tax base and the condition of the City's capital assets

The government-wide financial statements of the City are divided into two categories:

Governmental Activities – Most of the City's program's and services are reported here including security of persons and property, public health and welfare services, leisure time activities, community environment, transportation and general government.

Business-Type Activities – These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The City's sewer service is reported as business-type activities.

Fund Financial Statements

Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes. The fund financial statements provide more detailed information about the City's most significant funds, not the City as a whole.

Governmental Funds – Most of the City's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance programs. The City's major funds are the General, General Obligation Bond Retirement, Road Capital Improvement and Economic Development. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

CITY OF EASTLAKE, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2003***

Unaudited

Proprietary Funds – Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City's own programs. All of the City's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

This is the first year for government-wide financial statements using the full accrual basis of accounting, therefore a comparison with prior year's information is not available. A comparative analysis will be provided in future years when prior year's information is available.

	Governmental Activities	Business-type Activities	Total
	2003	2003	2003
Current and other assets	\$11,261,418	\$599,620	\$11,861,038
Capital assets, Net	39,496,928	2,187,005	41,683,933
Total assets	50,758,346	2,786,625	53,544,971
Long-term debt outstanding	19,262,204	31,137	19,293,341
Other liabilities	20,878,012	18,468	20,896,480
Total liabilities	40,140,216	49,605	40,189,821
Net assets			
Invested in capital assets, net of related debt	8,936,436	2,187,005	11,123,441
Restricted	894,542	0	894,542
Unrestricted	787,152	550,015	1,337,167
Total net assets	<u>\$10,618,130</u>	<u>\$2,737,020</u>	<u>\$13,355,150</u>

CITY OF EASTLAKE, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2003**

Unaudited

Changes in Net Assets – The following table shows the changes in net assets for the fiscal year 2003:

	Governmental Activities	Business-type Activities	Total
	2003	2003	2003
Revenues			
Program revenues:			
Charges for Services and Sales	\$1,387,947	\$1,503,148	\$2,891,095
Operating Grants and Contributions	404,942		404,942
Capital Grants and Contributions	1,046,067	0	1,046,067
General revenues:			
Property Taxes	4,838,472	0	4,838,472
Income Taxes	6,985,148	0	6,985,148
State Levied Shared Taxes	1,490,217	0	1,490,217
Other Local Taxes	249,643	0	249,643
Investment Earnings	74,275	0	74,275
Miscellaneous	980,460	0	980,460
Total revenues	<u>17,457,171</u>	<u>1,503,148</u>	<u>18,960,319</u>
Program Expenses			
Security of Persons and Property	8,020,648	0	8,020,648
Public Health and Welfare Services	143,982	0	143,982
Leisure Time Activities	1,999,358	0	1,999,358
Community Environment	417,649	0	417,649
Basic Utility Services	1,294,183		1,294,183
Transportation	1,573,095	0	1,573,095
General Government	3,736,285	0	3,736,285
Interest and Fiscal Charges	1,178,772	0	1,178,772
Sewer	0	1,733,399	1,733,399
Total expenses	<u>18,363,972</u>	<u>1,733,399</u>	<u>20,097,371</u>
Change in Net Assets before transfers	<u>(906,801)</u>	<u>(230,251)</u>	<u>(1,137,052)</u>
Transfers	<u>(92,700)</u>	<u>92,700</u>	<u>0</u>
Total Change in Net Assets	<u>(999,501)</u>	<u>(137,551)</u>	<u>(1,137,052)</u>
Beginning Net Assets	<u>11,617,631</u>	<u>2,874,571</u>	<u>14,492,202</u>
Ending Net Assets	<u>\$10,618,130</u>	<u>\$2,737,020</u>	<u>\$13,355,150</u>

Governmental Activities

Net assets of the City's governmental activities decreased \$999,501. Overall, revenues and expenses remained very stable. The decrease in net assets is the result of the City's expenses continuing to exceed revenues.

The City receives an income tax, which is based on 2.0% of all salaries, wages, commissions and other compensation and on net profits earned from residents living within the City.

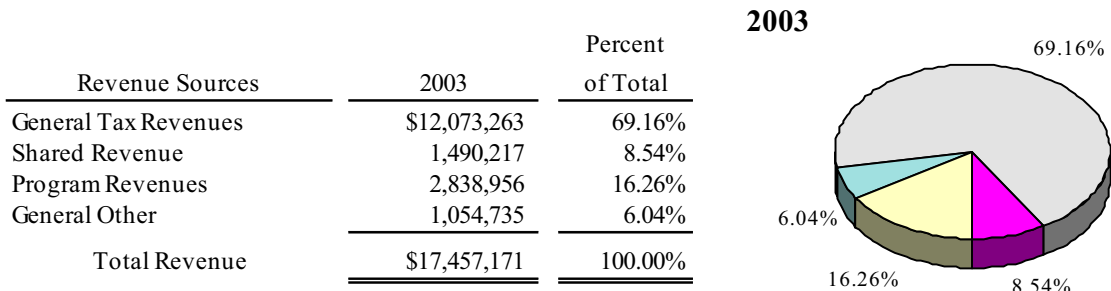
CITY OF EASTLAKE, OHIO

**Management's Discussion and Analysis
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Unaudited

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. In general, the overall revenue generated by the levy will not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

Income taxes and property taxes made up 40% and 27.7% respectively of revenues for governmental activities for the City in fiscal year 2003. The City's reliance upon tax revenues is demonstrated by the following graph indicating 69.16% of total revenues from general tax revenues:



Business-Type Activities

Net assets of the business-type activities decreased \$137,551. Revenues and expenses remained very stable, with expenses again exceeding revenues.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The City's governmental funds reported a combined fund deficit of \$11,303,681, which is a decrease in fund balance from last year's deficit of \$4,367,666. The schedule below indicates the fund balance and the total change in fund balance by fund type as of December 31, 2003 and 2002:

	Fund Balance (Deficit) December 31, 2003	Fund Balance (Deficit) December 31, 2002	Increase (Decrease)
General	(\$2,261,588)	(\$675,323)	(\$1,586,265)
GO Bond Retirement	59,874	57,340	2,534
Road Capital Improvement	1,007,318	738,629	268,689
Economic Development	(11,973,066)	(5,722,224)	(6,250,842)
Other Governmental	1,863,781	1,233,912	629,869
Total	(\$11,303,681)	(\$4,367,666)	(\$6,936,015)

CITY OF EASTLAKE, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2003**

Unaudited

General Fund – The City's General Fund balance decrease is due to several factors. The tables that follow assist in illustrating the financial activities of the General Fund:

	2003 Revenues	2002 Revenues	Increase (Decrease)
Property Taxes	\$1,853,317	\$1,804,178	\$49,139
Municipal Income Taxes	6,630,774	6,557,267	73,507
State Levied Shared Taxes	2,268,131	2,446,258	(178,127)
Other Local Taxes	173,245	139,089	34,156
Intergovernmental Revenue	378,745	677,304	(298,559)
Charges for Services	93,420	110,876	(17,456)
Licenses and Permits	251,226	242,006	9,220
Investment Earnings	16,980	18,769	(1,789)
Fines and Forfeitures	228,722	227,708	1,014
All Other Revenue	336,128	63,390	272,738
Total	\$12,230,688	\$12,286,845	(\$56,157)

Overall, General Fund revenues in 2003 remained relatively stable, decreasing approximately 0.5% compared to revenues in fiscal year 2002. Intergovernmental revenues decreased 44% due to reductions in revenues from electric deregulation and miscellaneous grant revenues. Revenues from state levied shared taxes decreased approximately 7% as a result of reductions in local government sales tax as well as estate and inheritance tax. All other revenues increased significantly as a result of medical insurance reimbursements.

	2003 Expenditures	2002 Expenditures	Increase (Decrease)
Security of Persons and Property	\$6,459,852	\$6,332,476	\$127,376
Public Health and Welfare Services	143,982	154,103	(10,121)
Leisure Time Activities	1,438,816	1,628,469	(189,653)
Community Environment	419,238	410,993	8,245
Basic Utility Services	774,969	667,194	107,775
Transportation	770,379	996,732	(226,353)
General Government	3,421,991	3,146,377	275,614
Capital Outlay	108,519	60,813	47,706
Total	\$13,537,746	\$13,397,157	\$140,589

Overall, General Fund expenditures also remained relatively stable, increasing by \$140,589 or 1.0% over the prior year. Security of persons and property increased 2% due to increases in payments for retirement payoffs. Leisure time activities decreased 12% due to reductions in the part time employee work force as well as reductions in overtime pay. Basic utility services increased 16% as a result of increases in the cost of natural gas and electric. Transportation decreased 23% due to reductions in the part time employee work force as well as reductions in overtime pay. Expenditures for general government increased 9% due to increases in workers compensation, unemployment compensation, pension payments, special legal services, court costs and engineering.

CITY OF EASTLAKE, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2003**

Unaudited

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund.

During the course of fiscal year 2003 the City amended its General Fund budget several times, none significant.

For the General Fund, final budget basis revenue of \$13,058,757 was slightly lower than original budget estimates of \$13,297,675. This was due to lower amounts received for property and income taxes. The General Fund did not have an adequate fund balance to cover expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2003 the City had a total of \$41,683,933 net of accumulated depreciation invested in buildings and improvements, infrastructure, and machinery and equipment. Of this total, \$39,496,928 was related to governmental activities and \$2,187,005 to the business-type activities. The following table shows fiscal year 2003 and 2002 balances:

	Governmental Activities		Increase (Decrease)
	2003	2002	
Land	\$7,061,528	\$6,393,347	\$668,181
Buildings	17,229,924	17,988,263	(758,339)
Improvements Other than Buildings	7,507,739	0	7,507,739
Infrastructure	17,928,542	17,011,639	916,903
Machinery, Vehicles and Equipment	5,324,622	5,344,368	(19,746)
Less: Accumulated Depreciation	(15,555,427)	(14,109,792)	(1,445,635)
Totals	\$39,496,928	\$32,627,825	\$6,869,103

The primary increases occurred in land and improvements, which was the result of the construction of a new baseball stadium.

	Business-Type Activities		Increase (Decrease)
	2003	2002	
Land	\$75,556	\$75,556	\$0
Buildings and Improvements	768,000	768,000	0
Infrastructure	8,290,122	8,290,122	0
Machinery, Vehicles and Equipment	517,604	517,604	0
Less: Accumulated Depreciation	(7,464,277)	(7,269,141)	(195,136)
Totals	\$2,187,005	\$2,382,141	(\$195,136)

The City reported no additions or disposals for business-type capital assets. Additional information on the City's capital assets can be found in Note 8.

CITY OF EASTLAKE, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2003**

Unaudited

Debt

At December 31, 2003, the City had \$16,685,000 in General Obligation bonds outstanding, \$1,085,000 due within one year. The following table summarizes the City's debt outstanding as of December 31, 2003 and 2002:

	<u>2003</u>	<u>2002</u>
Governmental Activities:		
General Obligation Bonds	\$16,685,000	\$17,590,000
Special Assessment Bonds	5,000	11,000
Ohio Public Works Commission Loans	219,693	228,343
Honeywell Project Loan	210,490	307,178
Pension Liability	306,546	404,602
Compensated Absences	1,740,473	1,490,396
Capital Leases	95,002	23,964
Total Governmental Activities	<u>19,262,204</u>	<u>20,055,483</u>
Business-Type Activities:		
Compensated Absences	\$31,137	\$27,374
Totals	<u>\$19,293,341</u>	<u>\$20,082,857</u>

Additional information on the City's long-term debt can be found in Note 12.

ECONOMIC FACTORS

Eastlake covers 6.9 square miles and is located 17 miles east of Cleveland, Ohio in the heart of Lake County.

For the past few years, the city of Eastlake has been aggressively pursuing a major revitalization of its main corridor – Vine Street. The development plans for the area are anchored by a minor league baseball stadium, with a 7,200 seating capacity and 70 home games.

There are a total of over 800 businesses in the City of Eastlake employing nearly 15,000 employees, with a median household of just under \$40,000.

In 2003, three new restaurants opened within the City. In 2004, construction will be completed on a 15,000 square foot retail building. The building was constructed at a cost of \$2.4 million and includes 8 units. Two of the units are currently leased, one of which is to a bank and the other is leased to a restaurant. In addition, six new retail suites, as well as a motorcycle dealership and boat dealership are scheduled to open in 2004.

REQUESTS FOR INFORMATION

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

CITY OF EASTLAKE, OHIO

Statement of Net Assets
December 31, 2003

	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and Cash Equivalents	\$ 2,366,595	\$ 54	\$ 2,366,649
Investments	5,000	0	5,000
Receivables:			
Taxes	6,561,456	0	6,561,456
Accounts	260,419	599,566	859,985
Intergovernmental	1,543,535	0	1,543,535
Special Assessments	339,589	0	339,589
Inventory of Supplies at Cost	75,705	0	75,705
Prepaid Items	109,119	0	109,119
Non-Depreciable Capital Assets	7,061,528	75,556	7,137,084
Depreciable Capital Assets, Net	32,435,400	2,111,449	34,546,849
Total Assets	50,758,346	2,786,625	53,544,971
Liabilities:			
Accounts Payable	983,204	0	983,204
Accrued Wages and Benefits	482,562	13,052	495,614
Intergovernmental Payable	383,394	5,416	388,810
Deferred Revenue - Taxes	5,282,998	0	5,282,998
Deferred Revenue	39,256	0	39,256
Accrued Interest Payable	141,598	0	141,598
General Obligation Notes Payable	13,565,000	0	13,565,000
Noncurrent Liabilities:			
Due within one year	1,977,720	0	1,977,720
Due in more than one year	17,284,484	31,137	17,315,621
Total Liabilities	40,140,216	49,605	40,189,821
Net Assets:			
Invested in Capital Assets, Net of Related Debt	8,936,436	2,187,005	11,123,441
Restricted For:			
Debt Service	381,411	0	381,411
Other Purposes	513,131	0	513,131
Unrestricted	787,152	550,015	1,337,167
Total Net Assets	\$ 10,618,130	\$ 2,737,020	\$ 13,355,150

See accompanying notes to the basic financial statements

CITY OF EASTLAKE, OHIO

Statement of Activities

For the Year Ended December 31, 2003

	Program Revenues			
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:				
Security of Persons and Property	\$ 8,020,648	\$ 251,668	\$ 133,259	\$ 0
Public Health and Welfare Services	143,982	0	0	0
Leisure Time Activities	1,999,358	768,902	0	619,789
Community Environment	417,649	180,196	0	0
Basic Utility Services	1,294,183	2,006	0	0
Transportation	1,573,095	140	0	202,521
General Government	3,736,285	185,035	271,683	223,757
Interest and Fiscal Charges	1,178,772	0	0	0
Total Governmental Activities	18,363,972	1,387,947	404,942	1,046,067
Business-Type Activities:				
Sewer	1,733,399	1,503,148	0	0
Total Business-Type Activities	1,733,399	1,503,148	0	0
Totals	\$ 20,097,371	\$ 2,891,095	\$ 404,942	\$ 1,046,067

General Revenues

Property Taxes Levied for:

General Purposes

Debt Service

Capital Outlay

Municipal Income Tax

State Levied Shared Taxes

Other Local Taxes

Investment Earnings

Miscellaneous

Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets Beginning of Year - (Restated) See Note 2C

Net Assets End of Year

See accompanying notes to the basic financial statements

CITY OF EASTLAKE, OHIO

Net (Expense) Revenue
and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
\$ (7,635,721)	\$ 0	\$ (7,635,721)
(143,982)	0	(143,982)
(610,667)	0	(610,667)
(237,453)	0	(237,453)
(1,292,177)	0	(1,292,177)
(1,370,434)	0	(1,370,434)
(3,055,810)	0	(3,055,810)
<u>(1,178,772)</u>	<u>0</u>	<u>(1,178,772)</u>
<u>(15,525,016)</u>	<u>0</u>	<u>(15,525,016)</u>
<u>0</u>	<u>(230,251)</u>	<u>(230,251)</u>
<u>0</u>	<u>(230,251)</u>	<u>(230,251)</u>
<u>(15,525,016)</u>	<u>(230,251)</u>	<u>(15,755,267)</u>
1,832,568	0	1,832,568
1,435,631	0	1,435,631
1,570,273	0	1,570,273
6,985,148	0	6,985,148
1,490,217	0	1,490,217
249,643	0	249,643
74,275	0	74,275
980,460	0	980,460
<u>(92,700)</u>	<u>92,700</u>	<u>0</u>
<u>14,525,515</u>	<u>92,700</u>	<u>14,618,215</u>
(999,501)	(137,551)	(1,137,052)
<u>11,617,631</u>	<u>2,874,571</u>	<u>14,492,202</u>
<u>\$ 10,618,130</u>	<u>\$ 2,737,020</u>	<u>\$ 13,355,150</u>

CITY OF EASTLAKE, OHIO

Balance Sheet Governmental Funds December 31, 2003

	General	GO Bond Retirement	Road Capital Improvement	Economic Development	Other Governmental Funds	Total Governmental Funds
Assets:						
Cash and Cash Equivalents	\$ 0	\$ 59,874	\$ 749,695	\$ 0	\$ 1,557,026	\$ 2,366,595
Investments	0	0	5,000	0	0	5,000
Taxes	3,020,746	1,624,440	1,319,317	0	596,953	6,561,456
Accounts	180,520	0	0	0	79,899	260,419
Intergovernmental	1,145,349	0	0	0	398,186	1,543,535
Special Assessments	0	0	0	0	339,589	339,589
Interfund Loans Receivables	0	0	518,421	1,137,590	1,326,258	2,982,269
Inventory of Supplies, at Cost	23,491	0	0	0	52,214	75,705
Prepaid Items	51,142	0	26,518	0	31,459	109,119
Total Assets	\$ 4,421,248	\$ 1,684,314	\$ 2,618,951	\$ 1,137,590	\$ 4,381,584	\$ 14,243,687
Liabilities:						
Accounts Payable	\$ 285,643	\$ 0	\$ 9,891	\$ 646,505	\$ 41,165	\$ 983,204
Accrued Wages and Benefits Payable	435,214	0	38,755	0	8,593	482,562
Intergovernmental Payable	76,035	0	4,922	0	302,437	383,394
Interfund Loans Payable	2,982,269	0	0	0	0	2,982,269
Deferred Revenue - Taxes	2,903,675	1,624,440	1,319,317	0	1,196,181	7,043,613
Deferred Revenue	0	0	0	0	39,256	39,256
Accrued Interest Payable	0	0	46,898	11,001	10,171	68,070
General Obligation Notes Payable	0	0	191,850	12,453,150	920,000	13,565,000
Total Liabilities	6,682,836	1,624,440	1,611,633	13,110,656	2,517,803	25,547,368
Fund Balances:						
Reserved for Encumbrances	3,240	0	2,489	1,135,063	0	1,140,792
Reserved for Prepaid Items	51,142	0	26,518	0	31,533	109,193
Reserved for Supplies Inventory	23,491	0	0	0	52,214	75,705
Reserved for Debt Service	0	59,874	0	0	9,141	69,015
Undesignated, Unreserved in:						
General Fund (Deficit)	(2,339,461)	0	0	0	0	(2,339,461)
Special Revenue Funds	0	0	0	0	120,957	120,957
Capital Projects Funds (Deficit)	0	0	978,311	(13,108,129)	1,649,936	(10,479,882)
Total Fund Balances	(2,261,588)	59,874	1,007,318	(11,973,066)	1,863,781	(11,303,681)
Total Liabilities and Fund Balances	\$ 4,421,248	\$ 1,684,314	\$ 2,618,951	\$ 1,137,590	\$ 4,381,584	\$ 14,243,687

See accompanying notes to the basic financial statements

CITY OF EASTLAKE, OHIO

***Reconciliation Of Total Governmental Fund Balances
To Net Assets Of Governmental Activities
December 31, 2003***

Total Governmental Fund Balances \$ (11,303,681)

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

Capital Assets used in governmental activities are not
resources and therefore are not reported in the funds. 39,496,928

Other long-term assets are not available to pay for current-
period expenditures and therefore are deferred in the funds. 1,760,615

In the statement of net assets, interest is accrued on debt,
whereas in governmental funds a liability is not reported (73,528)

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

General Obligation Bonds	(16,685,000)	
Special Assessment Bonds Payable	(5,000)	
OPWC Loan Payable	(219,693)	
Honeywell Project Loan	(210,490)	
Pension Liability	(306,546)	
Compensated Absences Payable	(1,740,473)	
Capital Leases	(95,002)	
		(19,262,204)

Net Assets of Governmental Activities **\$ 10,618,130**

See accompanying notes to the basic financial statements

CITY OF EASTLAKE, OHIO

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds For the Year Ended December 31, 2003

	General	GO Bond Retirement	Road Capital Improvement	Economic Development	Other Governmental Funds	Total Governmental Funds
Revenues:						
Property Taxes	\$ 1,853,317	\$ 1,435,631	\$ 1,331,318	\$ 0	\$ 563,495	\$ 5,183,761
Municipal Income Taxes	6,630,774	0	0	0	0	6,630,774
State Levied Shared Taxes	2,268,131	118,419	82,718	0	723,078	3,192,346
Other Local Taxes	173,245	0	0	0	76,398	249,643
Intergovernmental Revenues	378,745	0	202,521	0	1,011,644	1,592,910
Charges for Services	93,420	0	0	0	140,316	233,736
Rental Revenue	0	0	0	19,921	495,588	515,509
Licenses, Permits and Fees	251,226	0	0	0	0	251,226
Investment Earnings	16,980	35,474	0	21,027	794	74,275
Special Assessments	0	0	0	0	34,810	34,810
Fines and Forfeitures	228,722	0	0	0	19,239	247,961
All Other Revenue	336,128	0	0	17,995	581,290	935,413
Total Revenue	12,230,688	1,589,524	1,616,557	58,943	3,646,652	19,142,364
Expenditures:						
Current:						
Security of Persons and Property	6,459,852	0	0	0	1,250,258	7,710,110
Public Health and Welfare Services	143,982	0	0	0	0	143,982
Leisure Time Activities	1,438,816	0	0	0	107,898	1,546,714
Community Environment	419,238	0	0	0	0	419,238
Basic Utility Services	774,969	0	0	0	0	774,969
Transportation	770,379	0	0	0	653,204	1,423,583
General Government	3,421,991	0	0	0	701,332	4,123,323
Capital Outlay	108,519	15,952	1,170,408	6,298,784	831,399	8,425,062
Debt Service:						
Principal Retirement	0	1,001,688	11,864	0	29,040	1,042,592
Interest & Fiscal Charges	0	921,460	239,740	11,001	10,943	1,183,144
Total Expenditures	13,537,746	1,939,100	1,422,012	6,309,785	3,584,074	26,792,717
Excess (Deficiency) of Revenues Over Expenditures	(1,307,058)	(349,576)	194,545	(6,250,842)	62,578	(7,650,353)
Other Financing Sources (Uses):						
Sale of Capital Assets	220,557	0	0	0	446,085	666,642
OPWC Loan Proceeds	0	0	26,254	0	0	26,254
Transfers In	0	400,000	47,890	0	582,495	1,030,385
Transfers Out	(580,195)	(47,890)	0	0	(495,000)	(1,123,085)
Other Financing Sources	8,925	0	0	0	43,351	52,276
Other Financing Uses	(7,229)	0	0	0	0	(7,229)
Other Financing Sources - Capital Lease	85,041	0	0	0	0	85,041
Total Other Financing Sources (Uses)	(272,901)	352,110	74,144	0	576,931	730,284
Net Change in Fund Balances	(1,579,959)	2,534	268,689	(6,250,842)	639,509	(6,920,069)
Fund Balances at Beginning of Year						
(Restated) See Note 2C	(675,323)	57,340	738,629	(5,722,224)	1,233,912	(4,367,666)
Decrease in Inventory Reserve	(6,306)	0	0	0	(9,640)	(15,946)
Fund Balances End of Year	\$ (2,261,588)	\$ 59,874	\$ 1,007,318	\$ (11,973,066)	\$ 1,863,781	\$ (11,303,681)

See accompanying notes to the basic financial statements

CITY OF EASTLAKE, OHIO

***Reconciliation Of The Statement Of Revenues, Expenditures
And Changes In Fund Balances Of Governmental Funds
To The Statement Of Activities
For The Fiscal Year Ended December 31, 2003***

Net Change in Fund Balances - Total Governmental Funds \$ (6,920,069)

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

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

Capital Outlay	9,132,715	
Depreciation Expense	(1,576,204)	
	7,556,511	7,556,511

Governmental Funds only report the disposal of assets to the extent proceeds are received from sale. In the statement of activities, a gain or loss is reported for each disposal.

This is the amount of the loss on the disposal of capital assets net of proceeds received.		(687,408)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (1,730,240)

The issuance of long-term debt provides current financial resources to governmental funds, but has no effect on net assets. In addition, the payment of debt principal is an expenditure in the governmental funds, but reduces long-term liabilities in the statement of net assets.

General Obligation Bond Principal Payment	905,000	
Special Assessment Bond Principal Payment	6,000	
OPWC Loan Principal Payment	34,904	
New OPWC Loan	(26,254)	
Honeywell Project Loan Principal Payment	96,688	
Pension Liability	98,056	
Capital Leases	14,003	
New Capital Lease	(85,041)	
	1,043,356	1,043,356

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. 4,372

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

Compensated Absences	(250,077)	
Change in Inventory	(15,946)	
	(266,023)	(266,023)

Change in Net Assets of Governmental Activities **\$ (999,501)**

See accompanying notes to the basic financial statements

CITY OF EASTLAKE, OHIO

**Statement of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For the Year Ended December 31, 2003**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Revenues:				
Property Taxes	\$ 1,800,265	\$ 1,947,580	\$ 1,853,317	\$ (94,263)
Municipal Income Taxes	7,460,000	6,900,000	6,598,947	(301,053)
State Levied Shared Taxes	2,744,400	2,639,200	2,366,072	(273,128)
Other Local Taxes	163,500	182,400	166,994	(15,406)
Intergovernmental Revenue	56,300	417,220	378,745	(38,475)
Charges for Services	98,900	119,700	93,409	(26,291)
Licenses and Permits	265,335	289,790	248,476	(41,314)
Investment Earnings	65,000	30,000	16,980	(13,020)
Fines and Forfeitures	392,020	254,200	226,729	(27,471)
All Other Revenues	<u>251,955</u>	<u>278,667</u>	<u>314,261</u>	<u>35,594</u>
Total Revenues	<u>13,297,675</u>	<u>13,058,757</u>	<u>12,263,930</u>	<u>(794,827)</u>
Expenditures:				
Current:				
Security of Persons and Property	6,106,281	6,615,482	6,436,282	179,200
Public Health and Welfare	158,000	145,000	143,982	1,018
Leisure Time Activities	1,414,751	1,462,360	1,444,905	17,455
Community Environment	389,388	420,365	416,978	3,387
Basic Utility Services	643,500	800,500	800,379	121
Transportation	574,610	863,069	859,131	3,938
General Government	3,365,609	3,413,100	3,346,635	66,465
Capital Outlay	<u>37,300</u>	<u>25,878</u>	<u>23,342</u>	<u>2,536</u>
Total Expenditures	<u>12,689,439</u>	<u>13,745,754</u>	<u>13,471,634</u>	<u>274,120</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	608,236	(686,997)	(1,207,704)	(520,707)
Other Financing Sources (Uses):				
Proceeds from the Sale of Capital Assets	0	240,000	220,557	(19,443)
Transfers Out	(415,000)	(581,995)	(581,995)	0
Other Financing Sources	13,000	13,000	8,925	(4,075)
Other Financing Uses	<u>(2,025)</u>	<u>(8,095)</u>	<u>(7,229)</u>	<u>866</u>
Total Other Financing Sources (Uses):	<u>(404,025)</u>	<u>(337,090)</u>	<u>(359,742)</u>	<u>(22,652)</u>
Net Change in Fund Balance	204,211	(1,024,087)	(1,567,446)	(543,359)
Fund Balance at Beginning of Year (Restated)	(1,750,699)	(1,750,699)	(1,750,699)	0
Prior Year Encumbrances Appropriated	<u>332,635</u>	<u>332,635</u>	<u>332,635</u>	<u>0</u>
Fund Balance at End of Year	<u>\$ (1,213,853)</u>	<u>\$ (2,442,151)</u>	<u>\$ (2,985,510)</u>	<u>\$ (543,359)</u>

See accompanying notes to the basic financial statements

CITY OF EASTLAKE, OHIO

***Statement of Net Assets
Proprietary Fund
December 31, 2003***

	<u>Enterprise Fund</u> <u>Sanitary Sewer</u>
ASSETS	
Current assets:	
Cash and Cash Equivalents	\$ 54
Receivables:	
Accounts	<u>599,566</u>
Total current assets	<u>599,620</u>
Noncurrent assets:	
Capital Assets, Net	<u>2,187,005</u>
Total assets	<u>2,786,625</u>
LIABILITIES	
Current liabilities:	
Accrued Wages and Benefits	13,052
Intergovernmental Payable	<u>5,416</u>
Total Current Liabilities	<u>18,468</u>
Noncurrent Liabilities:	
Compensated Absences Payable	<u>31,137</u>
Total noncurrent liabilities	<u>31,137</u>
Total Liabilities	<u>49,605</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	2,187,005
Unrestricted	<u>550,015</u>
Total Net Assets	<u>\$ 2,737,020</u>

See accompanying notes to the basic financial statements

CITY OF EASTLAKE, OHIO

Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund
For the Year Ended December 31, 2003

	<u>Enterprise Fund</u> <u>Sanitary Sewer</u>
Operating Revenues:	
Charges for Services	\$ 1,503,148
Total Operating Revenues	<u>1,503,148</u>
Operating Expenses:	
Personal Services	462,633
Contractual Services	1,074,819
Depreciation	195,136
Other Operating Expenses	<u>811</u>
Total Operating Expenses	<u>1,733,399</u>
Loss Before Transfers	<u>(230,251)</u>
Transfers:	
Transfers-In	92,700
Change in Net Assets	(137,551)
Net Assets Beginning of Year	<u>2,874,571</u>
Net Assets End of Year	<u><u>\$ 2,737,020</u></u>

See accompanying notes to the basic financial statements

CITY OF EASTLAKE, OHIO

Statement of Cash Flows

Proprietary Fund

For the Year Ended December 31, 2003

	<u>Enterprise Fund</u> <u>Sanitary Sewer</u>
Cash Flows from Operating Activities:	
Cash Received from Customers	\$1,459,171
Cash Payments for Goods and Services	(1,080,477)
Cash Payments to Employees	<u>(471,340)</u>
Net Cash Used by Operating Activities	<u>(92,646)</u>
Cash Flows from Noncapital Financing Activities:	
Transfers In from Other Funds	<u>92,700</u>
Net Cash Provided by Noncapital Financing Activities	<u>92,700</u>
Net Increase in Cash and Cash Equivalents	54
Cash and Cash Equivalents at Beginning of Year	<u>0</u>
Cash and Cash Equivalents at End of Year	<u><u>\$54</u></u>
Reconciliation of Operating Income to Net Cash Used by Operating Activities:	
Operating Income	(\$230,251)
Adjustments to Reconcile Operating Income to Net Cash Used by Operating Activities:	
Depreciation and Amortization Expense	195,136
Changes in Assets and Liabilities:	
Increase in Accounts Receivable	(43,977)
Decrease in Inventory	2,162
Decrease in Prepaid Items	30
Decrease in Accounts Payable	(7,039)
Decrease in Accrued Wages and Benefits	(770)
Decrease in Intergovernmental Payable	(11,700)
Increase in Compensated Absences	<u>3,763</u>
Total Adjustments	<u>137,605</u>
Net Cash Used by Operating Activities	<u><u>(\$92,646)</u></u>

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

CITY OF EASTLAKE, OHIO

***Statement of Net Assets
Fiduciary Funds
December 31, 2003***

	<u>Agency Funds</u>
Assets:	
Cash and Cash Equivalents	\$ 216,596
Total Assets	<u>216,596</u>
Liabilities:	
Due to Others	<u>216,596</u>
Total Liabilities	<u>216,596</u>
Total Net Assets	<u>\$ 0</u>

See accompanying notes to the basic financial statements

CITY OF EASTLAKE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Eastlake, Ohio (the City) is a home-rule municipal corporation created under the laws of the State of Ohio. The current City Charter, which provides for a Mayor-Council form of government, was adopted on November 3, 1953 and has subsequently been amended.

The financial statements are presented as of December 31, 2003 and for the year then ended, and have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to local governments. The Governmental Accounting Standards Board (the "GASB") is the standard-setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification).

On May 18, 2004, the Auditor of State's office declared the City to be in a state of fiscal emergency in accordance with Section 118.03, Ohio Revised Code. The declaration resulted in the establishment of a Financial Planning and Supervision Commission. The Commission is comprised of the Mayor of the City, Council President, three residents of the City and two representatives from the State of Ohio. The City Council submitted to the Commission a Five Year Financial Recovery Plan on September 29, 2004. The Commission accepted the plan with additional assurances on October 20, 2004.

A. Reporting Entity

The accompanying basic financial statements comply with the provisions of the GASB Statement No. 14, *"The Financial Reporting Entity,"* in that the financial statements include all organizations, activities, functions and component units for which the City (the primary government) is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing body and either (1) the City's ability to impose its will over the organization, or (2) the potential that the organization will provide a financial benefit to or impose a financial burden on the City.

Based on the foregoing, the City's financial reporting entity has no component units but includes all funds, agencies, boards and commissions that are part of the primary government, including the following services: police and fire protection, emergency medical response, parks and recreation, planning, zoning, street maintenance, and other governmental services. In addition, the City owns and maintains the wastewater collection system (sewer lines), which is reported as an enterprise fund. Wastewater treatment services are provided by the City of Willoughby, which owns and operates the wastewater treatment facilities. The Lake County Department of Utilities is responsible for supplying all water to the City of Eastlake and for billing both water and sewerage services. The reporting entity of the City does not include any component units.

Based on the foregoing criteria, the following separate legal organizations are not part of the City of Eastlake reporting entity. The City has no ability to significantly influence operations and no financial accountability for these organizations and therefore, they are excluded from the City's financial statements: Willoughby-Eastlake City School District and Willoughby-Eastlake Public Library.

CITY OF EASTLAKE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

The following entity is a related organization to the City of Eastlake but the City's accountability does not extend beyond appointing board members:

Eastlake Port Authority – Created under the Ohio Revised Code, the Eastlake Port Authority conducts port development and operations. The seven member Board of Directors consists of five appointed by the Mayor and two appointed by Eastlake City Council.

The City participates in a Shared Risk Pool and is associated with a Jointly Governed Organization. The shared risk pool is the Northern Ohio Risk Management Association (NORMA), which is presented in Note 14. The jointly governed organization is the Northeast Ohio Public Energy Council (NOPEC), which is presented in Note 16.

B. Basis of Presentation - Fund Accounting

The accounting system is organized and operated on the basis of funds each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses. The various funds are summarized by type in the basic financial statements. The following fund types are used by the City:

Governmental Funds

Governmental funds are those funds through which most governmental functions typically 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 proprietary fund) are accounted for through governmental funds. The measurement focus is on determination of "financial flow" (sources and use and balances of financial resources). The following are the City's major governmental funds:

General Fund - This fund is used to account for all financial resources except those accounted for in another fund. The general fund balance is available to the City for any purpose provided it is expended or transferred according to the general laws of Ohio and the limitations of the City Charter.

General Bond Retirement Fund – This fund is used for the accumulation of resources for, and the payment of, principal and interest on general obligation debt other than those accounted for in the proprietary funds.

Road Capital Improvement Fund – This fund is used to account for levy proceeds which are restricted for road construction and improvements.

Economic Development Fund – This fund is used to account for debt proceeds which were used for the construction of a baseball stadium.

CITY OF EASTLAKE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

Proprietary Fund

The proprietary fund is accounted for on an "economic resources" measurement focus. This measurement focus provides that all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Enterprise Fund - This fund is used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The City's only major enterprise fund is:

Sanitary Sewer Fund - This fund is used to account for the operation of the City's sanitary sewer service.

Fiduciary Funds

Agency Funds - These funds are used to account for assets held by a governmental unit as an agent for individuals, private organizations or other governmental units. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

C. Basis of Presentation - Financial Statements

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

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

CITY OF EASTLAKE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation – Financial Statements (Continued)

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function or program of the City's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program.

Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

Fund Financial Statements – Fund financial statements report detailed information about the City. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

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

D. Basis of Accounting

Basis of accounting represents the methodology utilized in the recognition of revenues and expenditures or expenses reported in the financial statements. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

CITY OF EASTLAKE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting (Continued)

The modified accrual basis of accounting is followed by the governmental funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. The term "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, which the City considers to be 60 days after year-end. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt, which is recognized when due.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. Revenue from income taxes is recognized in the period in which the income is earned and is available. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied and the revenue is available. 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 specific purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. Revenues considered susceptible to accrual at year-end include income taxes, interest on investments, and state levied locally shared taxes, including motor vehicle license fees and local government assistance. Other revenues, including licenses, permits, certain charges for services, and miscellaneous revenues are recorded when received in cash, because generally these revenues are not measurable until received.

Special assessment installments and related accrued interest, which are measurable but not available at December 31, are recorded as deferred revenues. Property taxes measurable as of December 31, 2003 but which are not intended to finance 2003 operations and delinquent property taxes, whose availability is indeterminate, are recorded as deferred revenues.

The accrual basis of accounting is utilized for reporting purposes by the proprietary funds and fiduciary funds. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

Pursuant to GASB Statement No. 20, *"Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting,"* the City follows GASB guidance as applicable to proprietary funds and FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

CITY OF EASTLAKE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriation ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation ordinance are subject to amendment throughout the year.

1. Tax Budget

All funds, other than agency funds, are legally required to be budgeted and appropriated; however, only governmental funds are required to be reported. The legal level of budgetary control is by fund at the major object level (i.e., personal services, materials and supplies, contractual services) by department. Budgetary modifications may only be made by ordinance of the City Council.

By July 15, the Mayor submits an annual tax budget for the following fiscal year to City Council for consideration and passage. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year for the period January 1 to December 31 of the following year.

2. Estimated Resources

The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes, and reviews estimated revenue. The Budget Commission then certifies its actions to the City by September 1 of each year. As part of the certification process, the City receives an official certificate of estimated resources stating the projected receipts by fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year do not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include any unencumbered fund balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 2003.

CITY OF EASTLAKE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

3. Appropriations

A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 through March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 through December 31. The appropriation ordinance establishes spending controls at the fund, department and object level and may be modified during the year by Ordinance of City Council. Total fund appropriations may not exceed the current estimated resources certified by the County Budget Commission. Expenditures may not legally exceed budgeted appropriations at the object level. During 2003, several supplemental appropriations were necessary to budget for major capital improvement projects that were not originally appropriated. Administrative control is maintained through the establishment of more detailed line-item budgets. Funds may be moved from one line-item account to another within the same object without approval of City Council. The City Auditor maintains an accounting of the line-item expenditures to insure that the total expenditures within a department by object do not exceed approved appropriations. The allocation of appropriations among departments and objects within a fund may be modified during the year by an ordinance of City Council. The budgetary figures which appear on the "Combined Statement of Revenues, Expenditures, and Changes in Fund Balances--Budget and Actual--All Governmental Fund Types" are presented on a budgetary basis to provide a comparison of actual results to the final budget, including all amendments and modifications.

4. Lapsing of Appropriations

At the close of each fiscal 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 subsequent fiscal year and needs not be reappropriated.

5. Budgetary Basis of Accounting

The City's budgetary process accounts for certain transactions on a basis other than generally accepted accounting principles (GAAP). The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recorded. Under the budgetary basis, revenues and expenditures are recognized on the cash basis. Utilizing the cash basis, revenues are recorded when received in cash and expenditures recorded when paid. In addition, encumbrances are recorded as the equivalent of expenditures on the budgetary basis as opposed to reservation of fund balance on the GAAP basis. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting. On the budgetary basis investment earnings are recognized when realized, whereas on a GAAP basis unrealized gains and losses are recognized when investments are adjusted to fair value.

CITY OF EASTLAKE, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2003**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

5. Budgetary Basis of Accounting (Continued)

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund:

Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	General Fund
GAAP Basis (as reported)	(\$1,579,959)
Increase (Decrease):	
Accrued Revenues at December 31, 2003 received during 2004	(1,442,940)
Accrued Revenues at December 31, 2002 received during 2003	1,476,182
Accrued Expenditures at December 31, 2003 paid during 2004	3,779,160
Accrued Expenditures at December 31, 2002 paid during 2003	(816,727)
2002 Prepays for 2003	53,489
2003 Prepays for 2004	(51,142)
Outstanding Encumbrances	(3,240)
Budget Basis	<u>\$1,414,823</u>

F. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits, a money market account, the State Treasury Asset Reserve (STAR Ohio) and repurchase agreements,

The City pools its cash for investment and resource management purposes. Each fund's equity in pooled cash and investments represents the balance on hand as if each fund maintains its own cash and investment account. See Note 4, "Cash, Cash Equivalents and Investments." For the purposes of the statement of cash flows, the proprietary fund considers its share of equity in pooled money market account, STAR Ohio and repurchase agreements to be cash equivalents.

CITY OF EASTLAKE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Investments

Investment procedures and interest allocations are restricted by provisions of the Ohio Constitution and the Ohio Revised Code. In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", the City reports its investments at fair value, except for nonparticipating investment contracts (certificates of deposit and repurchase agreements) which are reported at cost, which approximates fair value. All investment income, including changes in the fair value of investments, are recognized as revenue in the operating statements. Fair value is determined by quoted market prices. The City allocates all interest on pooled investments the general fund. Interest on investments held by specific funds is credited to the specific fund.

The City has invested funds in the STAR Ohio during 2003. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 2003. See Note 4, "Cash, Cash Equivalents and Investments."

H. Inventory

Inventory is stated at cost (first-in, first-out) basis. The costs of inventory items are recorded as expenditures in the governmental funds when purchased and as expenses in the proprietary funds when used.

I. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2003, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

J. Capital Assets and Depreciation

Capital assets are defined by the City as assets with an initial, individual cost of more than \$2,500.

1. Property, Plant and Equipment - Governmental Activities

Governmental activities capital assets are those not directly related to the business type funds. These generally are acquired or constructed for governmental activities and are recorded as expenditures in the governmental funds and are capitalized at cost (or estimated historical cost for assets not purchased in recent years). These assets are reported in the Governmental Activities column of the Government-wide Statement of Net Assets, but they are not reported in the Fund Financial Statements.

CITY OF EASTLAKE, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2003***

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Capital Assets and Depreciation (Continued)

2. Property, Plant and Equipment – Business Type Activities

Contributed capital assets are recorded at fair market value at the date received. Capital assets include land, buildings, building improvements, machinery, equipment and infrastructure. Infrastructure is defined as long-lived capital assets that normally are stationary in nature and normally can be preserved for a significant number of years. Examples of infrastructure include roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems. Estimated historical costs for governmental activities capital asset values were initially determined by identifying historical costs when such information was available. In cases where information supporting original cost was not obtainable, estimated historical costs were developed. For certain capital assets, the estimates were arrived at by indexing estimated current costs back to the estimated year of acquisition.

Property, plant and equipment acquired by the proprietary funds are stated at cost (or estimated historical cost), including interest capitalized during construction and architectural and engineering fees where applicable. Contributed capital assets are recorded at fair market value at the date received. These assets are reported in both the Business-Type Activities column of the Government-wide Statement of Net Assets and in the respective funds.

3. Depreciation

All capital assets are depreciated, excluding land. Depreciation has been provided using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Governmental and Business-Type Activities Estimated Lives (in years)</u>
Buildings	40
Machinery, Equipment, Furniture, Fixtures and Vehicles	5-15
Infrastructure	10-25
Sewer Lines	50

CITY OF EASTLAKE, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2003***

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Long-Term Obligations

Long-term liabilities are being repaid from the following funds:

<u>Obligation</u>	<u>Fund</u>
General Obligation Bonds	General Obligation Bond Retirement Fund
Special Assessment Bond	Special Assessment Bond Retirement Fund
Ohio Public Works	Road Capital Improvement Fund,
Commission Loans	Sewer Rehabilitation Fund
Compensated Absences	General Fund
Honeywell Project Loan Payable	General Obligation Bond Retirement Fund
Capital Leases	General Fund

L. Compensated Absences

In accordance with GASB Statement No. 16, "*Accounting for Compensated Absences*," compensated absences are accrued as liabilities when an employee's right to receive compensation is attributable to services already rendered and it is probable that the employee will be compensated through paid time off or some other means, such as cash payments at termination or retirement. Vacation benefits are accrued as a liability as the benefits are earned, if the employee's right to receive compensation is attributable to service already rendered and that the employer will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the termination method. An accrual for sick leave is made to the extent that it is probable that benefits will result in termination payments.

Compensated absences accumulated by governmental fund type and proprietary fund type employees are reported as an expense when earned in the government-wide financial statements. For governmental fund financial statements, that portion of unpaid compensated absences expected to be paid using expendable, available resources is reported as an expenditure in the fund from which the individual earning the leave is paid. The noncurrent portion of the liability is reported in the Government-wide Statement of Net Assets.

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction of improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net Assets restricted for Other Purposes include programs for street and highway improvements, federal grants for security of persons and property and mandatory fines for various court programs.

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

CITY OF EASTLAKE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Pensions

The provision for pension costs is recorded when the related payroll is accrued and the obligation is incurred.

O. Interfund Activity

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

P. Reservations of Fund Balance

Reserves indicate that a portion of fund balance is not available for expenditure or is legally segregated for a specific future use. Fund balances are reserved for inventories of supplies, prepaid items, debt service and encumbrances (excluding encumbered amounts reflected as payables).

Q. Operating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for water treatment and distribution, wastewater collection and treatment, maintenance of storm water collection systems and collection of solid waste refuse. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

NOTE 2 – CHANGES IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND BALANCE

A. Changes in Accounting Principles

For fiscal year 2003, the City has implemented GASB Statement No. 34, “*Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*”; GASB Statement No. 37, “*Basic Financial Statements for State and Local Governments: Omnibus*”; GASB Statement No. 38, “*Certain Financial Statement Note Disclosures*”; GASB Statement No. 41, “*Budgetary Comparison Schedules-Perspective Differences-an Amendment to GASB Statement No. 34 and GASB Interpretation No. 6, “Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statement.”*” There was no effect on fund balance as a result of implementing GASB Statements 37, 38, 41 or Interpretation No. 6.

CITY OF EASTLAKE, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2003**

NOTE 2 – CHANGES IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND BALANCE (Continued)

A. Changes in Accounting Principles (Continued)

GASB 34 creates new basic financial statements for reporting on the City's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements split the City's programs between business-type and governmental activities. Except for the restatement explained below, the beginning net asset amount for the business-type activities equals fund equity of the enterprise funds from last year. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at December 31, 2002, caused by the conversion to the accrual basis of accounting.

B. Prior Period Adjustments

During the year ended December 31, 2003, the City completed a physical inventory and revaluation of all capital assets based on a capitalization threshold of \$2,500. The inventory and revaluation resulted in the restatement of the net assets at December 31, 2002 for the enterprise funds as presented in item C of this note.

C. Restatement of Fund Balance/Retained Earnings

The changes to the beginning fund balance/retained earnings, as well as the transition from fund balance/retained earnings to net assets of the governmental activities and the business-type activities are as follows:

	General	Road	Economic	Other	Total	
	General	Obligation	Capital	Governmental	Governmental	
	General	Bond Retirement	Improvement	Funds	Activities	
Governmental Activities						
Fund Balance December 31, 2002	(\$684,880)	\$61,504	\$738,629	(\$5,722,224)	\$1,246,533	(\$4,360,438)
Adjustments to Fund Structure:						
Fund Reclassification	9,557	(4,164)	0	0	(12,621)	(7,228)
Adjusted Fund Balance	(\$675,323)	\$57,340	\$738,629	(\$5,722,224)	\$1,233,912	(4,367,666)
GASB 34 Adjustments:						
Capital Assets					32,627,825	
Long-Term Liabilities					(20,133,383)	
Long-Term (Deferred) Assets					3,490,855	
Net Assets, December 31, 2002					<u>\$11,617,631</u>	
Business-Type Activities						
Fund Balance December 31, 2002		\$2,899,476				
Restate Fixed Assets		(24,905)				
Net Assets, December 31, 2002		<u>\$2,874,571</u>				

CITY OF EASTLAKE, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2003***

NOTE 3 - COMPLIANCE AND ACCOUNTABILITY

A. Fund Deficits

The fund deficits at December 31, 2003 of \$2,261,588 in the General Fund, \$171,053 in the Police Pension Fund, and \$128,489 in the Fire Pension Fund (special revenue funds) arise from the recognition of expenditures on the modified accrual basis which are greater than expenditures recognized on the budgetary basis. The fund deficits at December 31, 2003 of \$297,186 in the Recreation and Land Acquisition Fund (special revenue fund), \$249,749 in the Pedestrian Bridge Improvements Fund, and \$11,973,066 in the Economic Development Fund (capital projects funds) arises from the recognition of notes payable on the modified accrual basis which are not recorded on the budgetary basis, and from the recognition of expenditures on the modified accrual basis which are greater than expenditures recognized on the budgetary basis. The General Fund provides operating transfers when cash is required, not when accruals occur.

B. Expenditures Plus Encumbrances in Excess of Appropriations

Ohio Revised Code Section 5705.41(B), prohibits a subdivision from making an expenditure unless it has been appropriated. Ohio Revised Code Section 5705.41(D), provides that no subdivision shall make any contract or order any expenditure of money unless the certificate of the fiscal officer is attached. The fiscal officer must certify that the amount required to meet such a commitment has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Further, contracts and orders for expenditure lacking prior certification shall be void.

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CITY OF EASTLAKE, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2003**

NOTE 3 - COMPLIANCE AND ACCOUNTABILITY (Continued)

B. Expenditures Plus Encumbrances in Excess of Appropriations (Continued)

As of August 31, 2003 the following accounts had expenditures plus encumbrances in excess of appropriations. These accounts were corrected at year-end.

Fund / Program	Appropriations	Expenditures Plus Encumbrances	Excess
General Fund:			
Services and Supplies:			
Clerk of Council	\$13,920	\$15,364	\$1,444
City Income Tax	28,905	29,439	534
Legal Administration	35,550	65,362	29,812
Municipal court	42,450	61,885	19,435
City Hall	97,325	99,800	2,475
Engineering	49,000	63,073	14,073
Civil Service	3,350	4,053	703
Police Station	72,975	74,711	1,736
Police Substation	14,200	14,456	256
Community Education	2,700	11,660	8,960
Fire Communications	10,000	12,839	2,839
Surfside Pool	20,340	41,204	20,864
Recreation Garage	20,400	26,449	6,049
Recreation Program Contract	18,700	25,001	6,301
Park and Shade Tree	4,000	5,419	1,419
Solid Waste Collection	643,500	681,330	37,830
Service Garage	36,400	36,775	375
Public Service Benefits	60,250	110,963	50,713
Flag Trust	1,000	2,929	1,929
Personal Services:			
Dive Team	0	4,199	4,199
Service Garage	161,417	210,138	48,721
Public Safety Expense	156,500	160,627	4,127
Special Revenue Funds:			
State Grants	5,200	6,441	1,241
Senior Citizens Trust	43,000	45,002	2,002
Law Enforcement Trust	29,000	53,749	24,749
Recreation and Land Acquisition	0	888,737	888,737
Capital Project Funds:			
Fire Levy	98,500	113,671	15,171
Eastlake Economic Development	6,000,000	9,476,491	3,476,491
Stadium / Vine Project	0	11,425	11,425
Pedestrian Bridge Improvement	500,000	739,851	239,851
Agency Funds:			
Street Opening Deposits	3,000	6,700	3,700
Inspection Deposits	60,000	78,973	18,973
Lake County Water	260,000	260,233	233

CITY OF EASTLAKE, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2003***

NOTE 3 - COMPLIANCE AND ACCOUNTABILITY (Continued)

The items noted with an asterisk (*) do not include certain agency funds which are combined with the general fund for reporting purposes on page 18.

C. Negative Unencumbered Fund Balances

Ohio Revised Code Section 5705.10 provides that money paid into any fund shall be used only for the purposes for which such fund was established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund.

The following funds had negative unencumbered fund balances as of the month ended August 31, 2003.

General Fund	\$2,018,796
Special Revenue Funds:	
Federal Grant Fund	5,730
Police Pension Fund	101,713
Fire Pension Fund	48,209

The following fund had negative unencumbered fund balances as of the month ended December 31, 2003.

General Fund	\$3,192,421 *
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D. Appropriations Exceeding Estimated Resources

Ohio Revised Code Section 5705.39 states that the total appropriations made during the fiscal year from any fund must not exceed the amount contained in the certificate of estimated resources or the amended certificate of estimated resources, which was certified prior to making the appropriation from each fund, should not exceed the total estimated revenue.

At December 31, 2003, the City's General Fund had appropriations, which exceeded the Amended Certificate of Estimated Resources in the amount of \$1,020,804*.

E. Certificate of Estimated Resources Amendments

Ohio Revised Code Section 133.22 requires that when a subdivision issues notes, the financial officer of the subdivision must notify the county auditor that such notes have been sold and request an amended certificate of estimated resources.

The City did not obtain an amended certificate of estimated resources for the \$250,000 Pedestrian Bridge Improvement note, \$670,000 Recreation and Land Acquisition note, \$2,350,000 Municipal Stadium note, and \$980,000 Economic Development note issued in June 2003, until December 2003.

CITY OF EASTLAKE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Cash resources of several individual funds are combined to form a pool of cash and investments. In addition, investments are separately held by a number of individual funds.

Statutes require the classification of funds held by the City into three categories. Category 1 consists of "active" funds - those funds required to be kept in "cash" or "near cash" status for immediate use by the City. Such funds must be maintained either as cash in the City treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Category 2 consists of "inactive" funds - those funds not required for use within the current five year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing no later than the end of the current period of designation of depositories.

Category 3 consists of "interim" funds - those funds not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim funds may be invested or deposited in the following securities:

- United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
- Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
- Interim deposits in eligible institutions applying for interim funds;
- Bonds and other obligations of the State of Ohio;
- No-load money market mutual funds consisting exclusively of obligations described in the first two bullets 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
- The State Treasury Asset Reserve of Ohio (STAR Ohio).

Ohio Law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the City places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105% of the carrying value of all public deposits held by each institution.

CITY OF EASTLAKE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation or other legally constituted authority of any other state, or any instrumentality of such county, municipal corporation or other authority. Based upon criteria described in GASB Statement No. 3, "Deposits With Financial Institutions, Investments (including Repurchase Agreements and Reverse Repurchase Agreements)," collateral held in single financial collateral pools with securities being held by the pledging financial institutions' agents in the pool's name are classified as Category 3.

The GASB has established risk categories for deposits and investments, as follows:

Deposits:

- Category 1 Insured or collateralized with securities held by the City or by its agent in the City's name.
- Category 2 Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.
- Category 3 Collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name.

Investments:

- Category 1 Insured or registered, or securities held by the City or its agent in the City's name.
- Category 2 Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.
- Category 3 Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

A. Deposits

At year-end, the carrying amount of the City's deposits was \$206,943 (including \$1,825 in petty cash), and the bank balance \$313,497. Federal depository insurance covered \$155,518 of the bank balance. All \$157,979 of the remaining deposits were classified as Category 3.

B. Investments

The City's investments at December 31, 2003 are summarized below:

	<u>Category 1</u>	<u>Category 3</u>	<u>Fair Value</u>
<u>Categorized Investments</u>			
Breakwall Improvement Bonds	\$5,000		\$5,000
Sweep Agreement		979,465	979,465
Total Categorized	5,000	979,465	984,465
<u>Non-Categorized Investments</u>			
STAR Ohio	N/A	N/A	1,396,837
Total Investments	<u>\$5,000</u>	<u>\$979,465</u>	<u>\$2,381,302</u>

CITY OF EASTLAKE, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2003**

NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

C. Reconciliation of Cash, Cash Equivalents and Investments

The classification of cash, cash equivalents and investments on the combined financial statements were based on criteria set forth in GASB Statement No. 9. Repurchase agreements and certificates of deposit with an original maturity of three months or less were treated as cash equivalents. The classification of cash and cash equivalents (deposits) for purposes of this note were based on criteria set forth in GASB Statement No. 3.

A reconciliation between classifications of cash and investments on the combined financial statements and classifications per items A and B of this note are as follows:

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>
Per GASB Statement No. 9	\$2,583,245	\$5,000
Investments:		
Sweep Agreement	(979,465)	979,465
STAR Ohio	<u>(1,396,837)</u>	<u>1,396,837</u>
Per GASB Statement No. 3	<u>\$206,943</u>	<u>\$2,381,302</u>

NOTE 5 - TAXES

A. Property Taxes

Property taxes include amounts levied against all real estate and public utility property, and tangible personal property located in the City and used in business. Real property taxes (other than public utility) collected during 2003 were levied after October 1, 2002 on assessed values as of January 1, 2002, the lien date. Assessed values are established by the county auditor at 35 percent of appraised market value. All property is required to be reappraised every six years and equalization adjustments made in the third year following reappraisal. The last revaluation was completed in 1998. Real property taxes are paid annually or semi-annually. The first payment is due January 20; the remainder payable by June 20.

Taxes collected from tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer ending on or before March 31 of that calendar year, and at the tax rates determined in the preceding year. Except for public utilities, tangible personal property used in business is currently assessed for ad valorem taxation purposes at 25 percent of its true value. Amounts paid by multi-county taxpayers are due September 20 of the year assessed. Single county taxpayers may pay annually or semiannually: the first payment is due April 30; the remainder payable by September 20.

CITY OF EASTLAKE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 5 - TAXES (Continued)

A. Property Taxes (Continued)

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 is currently assessed at 88 percent of its true value. Public utility property taxes are payable on the same dates as the real property taxes described previously.

The County Treasurers collect property taxes on behalf of all taxing districts in the County including the City of Eastlake. The County Auditors periodically remit to the City its portion of the taxes collected. The full tax rate for all City operations for the year ended December 31, 2003 was \$10.8 per \$1,000 of assessed value. The assessed value upon which the 2003 tax receipts were based was \$539,369,245. This amount constitutes \$417,879,710 in real property assessed value, \$76,961,960 in public utility assessed value and \$44,527,575 in tangible personal property assessed value.

Ohio law prohibits taxation of property from all taxing authorities in excess of 1% of assessed value without a vote of the people. Under current procedures, the City's share is .108% (0.0 mills) of assessed value.

B. Income Tax

The City levies a tax of 2% on all salaries, wages, commissions and other compensation and on net profits earned within the City as well as on incomes of residents earned outside the City. In the latter case, the City allows a credit of 1.75% of the tax paid to another municipality.

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

NOTE 6 - RECEIVABLES

Receivables at December 31, 2003 consisted of taxes, interest, accounts receivable, special assessments, interfund receivables and intergovernmental receivables arising from shared revenues.

CITY OF EASTLAKE, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2003**

NOTE 7 - TRANSFERS

Following is a summary of transfers in and out for all funds for 2003:

Fund	Transfer In	Transfer Out
Governmental Funds:		
General Fund	\$0	\$580,195
General Bond Retirement Fund	400,000	47,890
Road Capital Improvement Fund	47,890	0
Other Governmental Funds	582,495	495,000
Total Governmental Funds	<u>1,030,385</u>	<u>1,123,085</u>
Proprietary Fund:		
Sewer Fund	92,700	0
Totals	<u>\$1,123,085</u>	<u>\$1,123,085</u>

NOTE 8 - CAPITAL ASSETS

A. Governmental Activities Capital Assets

Summary by category of changes in governmental activities capital assets at December 31, 2003:

<i>Historical Cost:</i>	Restated December 31, 2002	Additions	Deletions	December 31, 2003
Class	2002	Additions	Deletions	2003
<i>Capital assets not being depreciated:</i>				
Land	\$6,393,347	\$668,181	\$0	\$7,061,528
Subtotal	<u>6,393,347</u>	<u>668,181</u>	<u>0</u>	<u>7,061,528</u>
<i>Capital assets being depreciated:</i>				
Buildings	17,988,263	0	(758,339)	17,229,924
Improvements Other than Buildings	0	7,507,739	0	7,507,739
Infrastructure	17,011,639	916,903	0	17,928,542
Machinery, Vehicles and Equipment	5,344,368	39,892	(59,638)	5,324,622
Subtotal	<u>40,344,270</u>	<u>8,464,534</u>	<u>(817,977)</u>	<u>47,990,827</u>
Total Cost	<u>\$46,737,617</u>	<u>\$9,132,715</u>	<u>(\$817,977)</u>	<u>\$55,052,355</u>
<i>Accumulated Depreciation:</i>				
Class	Restated December 31, 2002	Additions	Deletions	December 31, 2003
Buildings	(\$3,878,939)	(\$345,909)	\$70,931	(\$4,153,917)
Improvements Other than Buildings	0	(150,155)	0	(150,155)
Infrastructure	(7,442,087)	(697,089)	0	(8,139,176)
Machinery, Vehicles and Equipment	(2,788,766)	(383,051)	59,638	(3,112,179)
Total Depreciation	<u>(\$14,109,792)</u>	<u>(\$1,576,204) *</u>	<u>\$130,569</u>	<u>(\$15,555,427)</u>
Net Value:	<u>\$32,627,825</u>			<u>\$39,496,928</u>

CITY OF EASTLAKE, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2003**

NOTE 8 – CAPITAL ASSETS (Continued)

A. Governmental Activities Capital Assets (Continued)

* Depreciation expenses were charged to governmental functions as follows:

Security of Persons and Property	\$266,976
Leisure Time Activities	421,501
Community Development	2,729
Basic Utility Services	687,184
Transportation	99,775
General Government	98,039
Total Depreciation Expense	\$1,576,204

B. Business-Type Activities Capital Assets

Summary by Category at December 31, 2003:

Historical Cost:

Class	Restated December 31, 2002	Additions	Deletions	December 31, 2003
<i>Capital assets not being depreciated:</i>				
Land	\$75,556	\$0	\$0	\$75,556
Subtotal	75,556	0	0	75,556
<i>Capital assets being depreciated:</i>				
Buildings and Improvements	768,000	0	0	768,000
Infrastructure	8,290,122	0	0	8,290,122
Machinery, Vehicles and Equipment	517,604	0	0	517,604
Subtotal	9,575,726	0	0	9,575,726
Total Cost	\$9,651,282	\$0	\$0	\$9,651,282

Accumulated Depreciation:

Class	Restated December 31, 2002	Additions	Deletions	December 31, 2003
Buildings and Improvements	(\$721,167)	(\$2,000)	\$0	(\$723,167)
Infrastructure	(6,314,291)	(165,883)	0	(6,480,174)
Machinery, Vehicles and Equipment	(233,683)	(27,253)	0	(260,936)
Total Depreciation	(\$7,269,141)	(\$195,136)	\$0	(\$7,464,277)
<i>Net Value:</i>	\$2,382,141	(\$195,136)	\$0	\$2,187,005

CITY OF EASTLAKE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 9 – DEFINED BENEFIT PENSION PLANS

All of the City's full-time employees participate in one of two separate retirement systems which are cost-sharing multiple employer defined benefit pension plans.

A. Ohio Public Employees Retirement System (the "Ohio PERS")

The following information was provided by the Ohio PERS to assist the City in complying with GASB Statement No. 27, "Accounting for Pensions by State and Local Government Employers."

All employees of the City, except full-time uniformed police officers and full-time firefighters, participate in one of the three pension plans administered by the Ohio PERS: the Traditional Pension Plan (TP), the Member-Directed Plan (MD), and the Combined Plan (CO). The TP Plan is a cost-sharing multiple employer defined benefit pension plan. The MD Plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the MD Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon. The CO Plan is a cost-sharing multiple-employer defined benefit pension plan. Under the CO Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the TP Plan. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the MD Plan.

The Ohio PERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the TP Plan and CO Plan. Members of the MD Plan do not qualify for ancillary benefits. Chapter 145 of the Ohio Revised Code provides statutory authority to establish and amend benefits. The Ohio Public Employees Retirement System issues a stand-alone financial report that includes financial statements and required supplementary information for the Ohio PERS. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-7377.

For the year ended December 31, 2003, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The City's contribution rate for pension benefits for 2003 was 8.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 11.7 percent of covered payroll. The Ohio Revised Code provides authority for member and employer contributions.

The City's required contributions to the Ohio PERS for the years ended December 31, 2003, 2002 and 2001 were \$418,226, \$446,545 and \$480,753, respectively, which were equal to required contributions for each year. No contributions have been made to the Member-Directed plan for 2003 by the City or by plan members.

CITY OF EASTLAKE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

A. Ohio Public Employees Retirement System (the “Ohio PERS”) (Continued)

The Ohio PERS provides postemployment health care benefits to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. 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 the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2003 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 5.00 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2002, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.00 percent annually.

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 annually.

The number of active contributing participants in the traditional and combined plans was 364,881. Actual employer contributions for 2003 which were used to fund postemployment benefits were \$246,014. The actual contribution and the actuarially required contribution amounts are the same. OPER'S net assets available for payment of benefits at December 31, 2002, (the latest information available) were \$10.0 billion. The actuarially accrued liability and the unfounded actuarial accrued liability were \$18.7 billion and \$8.7 billion, respectively.

In December 2001, the Board adopted the Health Care “Choices” Plan. The Choices Plan will be offered to all persons newly hired in an OPERS covered position after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices will incorporate a cafeteria approach, offering a broader range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year “cliff” eligibility standard for the present Plan.

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The Plan will also offer a spending account feature, enabling the benefit recipient to apply their allowance toward specific medical expenses, much like a Medical Spending Account.

CITY OF EASTLAKE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

B. Ohio Police and Fire Pension Fund (the “OP&F Fund”)

All City full-time police officers and full-time firefighters participate in the OP&F Fund, a cost-sharing multiple-employer defined benefit pension plan. The OP&F Fund 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 Ohio Police and Fire Pension Fund issues a stand-alone financial report that includes financial statements and required supplementary information for the OP&F Fund.

Interested parties may obtain a copy by making a written request to 140 East Town Street, Columbus, Ohio 43215-5164 or by calling (614) 228-2975.

Plan members are required to contribute 10.0% of their annual covered salary, while the City is required to contribute 11.75% and 16.25% respectively for police officers and firefighters. The City's contributions to the OP&F Fund for the years ending December 31, 2003, 2002 and 2001 were \$277,252, \$271,209 and \$241,952 for police and \$241,541, \$220,952 and \$194,798 for firefighters, respectively. The full amount has been contributed for 2002 and 2001. For 2003, 46% and 55%, respectively, have been contributed with the remainder being reported as a long term liability in the statement of net assets.

The OP&F Fund provides postemployment health care coverage to any person who received 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 on a full-time or two-thirds basis. The health care coverage provided by the OP&F Fund is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides that health care costs paid from the funds of the OP&F 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 rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2003. 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. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2003 that were used to fund postemployment benefits were \$182,869 for police and \$115,197 for firefighters. The OP&F's total health care expense for the year ended December 31, 2002 (the latest information available) was \$141,028,006, which was net of member contributions of \$12,623,875. The number of OP&F participants eligible to receive health care benefits as of December 31, 2002, was 13,527 for police and 10,396 for firefighters.

CITY OF EASTLAKE, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2003***

NOTE 10 – COMPENSATED ABSENCES

City employees earn vacation at varying rates based upon length of service. Vacation is earned in one year and must be used in the next two (2) years. In the case of death or retirement, an employee (or his estate) is paid for unused vacation leave and the prorated amount of vacation leave earned during the current year. At December 31, 2003, the total obligation for vacation accrual for the City as a whole amounted to \$421,021.

Sick leave is earned at the rate of four and six-tenths hours for every eighty (80) hours of pay, excluding overtime; and uniformed firefighters earn sick leave the rate of one-tenth hours per one hundred four (104) of pay, excluding overtime. Each employee with the City is paid a minimum of 25% after 8 or more years of service, or a maximum of one thousand three hundred forty-four (1,344) hours, or the employee's unused sick leave upon retirement from the City. At December 31, 2003, the total obligation for sick leave accrual for the City as a whole amounted to \$1,350,589.

NOTE 11 - NOTES PAYABLE

The Ohio Revised Code provides that notes including renewal notes issued in anticipation of the issuance of general obligation bonds may be issued and outstanding from time to time up to a maximum period of 20 years from the date of issuance of the original notes. The maximum maturity for notes anticipating general obligation bonds payable from special assessments is five years. Any period in excess of five years must be deducted from the permitted maximum maturity of the bonds anticipated, and portions of the principal amount of notes outstanding for more than five years must be retired in amounts at least equal to, and payable no later than, those principal maturities required if the bonds had been issued at the expiration of the initial five year period.

Bond anticipation notes may be retired at maturity from the proceeds of the sale of renewal notes or of the bonds anticipated by the notes, or from available funds of the City or a combination of these sources. The City is retiring its notes by the issuance of one year renewal notes with a portion of the principal being retired in accordance with the above provisions.

The following general obligation notes were payable at December 31, 2003:

	Balance January 1, 2003	Issued (Retired)	Balance December 31, 2003
General Obligation Notes Payable:			
2.55% Economic Development	\$980,000	(\$980,000)	\$0
2.00% Economic Development	0	980,000	980,000
3.75% Capital Facilities	0	4,100,000	4,100,000
2.50% Municipal Stadium	4,000,000	(4,000,000)	0
2.00% Pedestrian Bridge	0	250,000	250,000
2.00% Recreation Land Acquisition	0	670,000	670,000
2.00% Municipal Stadium	0	2,350,000	2,350,000
2.25% Municipal Stadium	5,100,000	(5,100,000)	0
2.50% Municipal Stadium	0	5,215,000	5,215,000
Total Notes	<u>\$10,080,000</u>	<u>\$3,485,000</u>	<u>\$13,565,000</u>

CITY OF EASTLAKE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 11 - NOTES PAYABLE (Continued)

All notes are backed by the full faith and credit of the City of Eastlake and mature within one year. The note liability is reflected in the fund which received the proceeds. The notes are generally issued in anticipation of long-term bond financing and are refinanced until such bonds are issued.

NOTE 12 - LONG-TERM DEBT AND OTHER LONG-TERM OBLIGATIONS

Long-term debt and other long-term obligations of the City at December 31, 2003 were as follows:

		Balance December 31, 2002	Additions	(Reductions)	Balance December 31, 2003	Due Within One Year
Governmental Activities:						
General Obligation Bonds:						
Tax Exempt Municipal Stadium	2002	\$4,380,000	\$0	\$0	\$4,380,000	\$120,000
Non Taxable Municipal Stadium	2002	8,180,000	0	0	8,180,000	180,000
City Hall Construction	1993	2,940,000	0	(135,000)	2,805,000	140,000
Sewer System	1993	1,930,000	0	(610,000)	1,320,000	645,000
General Capital Improvement	1993	160,000	0	(160,000)	0	0
Total General Obligation Bonds		<u>17,590,000</u>	<u>0</u>	<u>(905,000)</u>	<u>16,685,000</u>	<u>1,085,000</u>
Special Assessment Bond:						
with Governmental Commitment						
Breakwall Improvement	1993	11,000	0	(6,000)	5,000	5,000
Ohio Public Works Commission Loans (OPWC):						
Sewer Improvement	1995	42,275	0	(21,139)	21,136	21,136
N. Parkway Sewer	1999	40,000	0	(2,500)	37,500	2,500
E. 377th St. Road Improvement	2000	79,427	0	(6,907)	72,520	6,907
Stevens Blvd. Outfall	2000	44,224	0	(2,457)	41,767	2,457
Parkland Dr. Sewer	2000	22,417	0	(1,245)	21,172	1,245
E. Overlook Storm/Sanitary	2003	0	26,254	(656)	25,598	1,312
Total OPWC Loans		<u>228,343</u>	<u>26,254</u>	<u>(34,904)</u>	<u>219,693</u>	<u>35,557</u>
Honeywell Project Loan		307,178	0	(96,688)	210,490	101,772
Pension Liability		404,602	306,546	(404,602)	306,546	306,546
Compensated Absences		1,490,396	258,418	(8,341)	1,740,473	410,961
Capital Leases		23,964	85,041	(14,003)	95,002	32,884
Total Governmental Activities		<u>20,055,483</u>	<u>676,259</u>	<u>(1,469,538)</u>	<u>19,262,204</u>	<u>1,977,720</u>
Business-Type Activities:						
Compensated Absences		27,374	4,211	(448)	31,137	0
Totals		<u>\$20,082,857</u>	<u>\$680,470</u>	<u>(\$1,469,986)</u>	<u>\$19,293,341</u>	<u>\$1,977,720</u>

Special assessment general obligation bonds are used to finance street and water improvements. Debt service is financed by assessments to affected property owners. However, the City is ultimately responsible for the debt service if the assessments are not collected. Delinquent special assessments at year-end were \$26,032.

CITY OF EASTLAKE, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2003**

NOTE 12 - LONG-TERM DEBT AND OTHER LONG-TERM OBLIGATIONS (Continued)

A. Principal and Interest Requirements

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2003 are as follows:

Years	General Obligation Bonds		Special Assessment Bond		Ohio Public Works Commission Loans		Honeywell Project	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$1,085,000	\$863,399	\$5,000	\$352	\$35,557	\$0	\$101,772	\$9,538
2005	1,120,000	817,159	0	0	14,421	0	108,718	4,188
2006	470,000	766,769	0	0	14,421	0	0	0
2007	480,000	748,791	0	0	14,421	0	0	0
2008	505,000	728,656	0	0	14,421	0	0	0
2009-2013	2,895,000	3,274,669	0	0	72,105	0	0	0
2014-2018	3,530,000	2,431,150	0	0	41,023	0	0	0
2019-2023	3,260,000	1,517,765	0	0	13,324	0	0	0
2024-2027	3,340,000	487,300	0	0	0	0	0	0
Totals	<u>\$16,685,000</u>	<u>\$11,635,658</u>	<u>\$5,000</u>	<u>\$352</u>	<u>\$219,693</u>	<u>\$0</u>	<u>\$210,490</u>	<u>\$13,726</u>

General obligation bonds will be paid from property taxes collected in the general bond retirement debt service fund. 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 OPWC loans will be paid by revenues from the capital projects funds.

The capital lease obligations will be paid from the General Fund. Compensated absences reported in "compensated absences payable" will be paid from the fund which the employees' salaries are paid.

The police and fire pension liability represents police and fire pension obligations and will be paid from taxes received in the police and fire pension special revenue funds.

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CITY OF EASTLAKE, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2003***

NOTE 13 – CAPITAL LEASES

The City is obligated under several leases accounted for as capital leases. The cost of the leased assets are accounted for as governmental type capital assets. The related liabilities are recorded as amounts due within one year and amounts due in more than one year within the governmental activities.

<u>Year Ending December 31,</u>	<u>Capital Leases</u>
2004	\$32,884
2005	24,073
2006	23,095
2007	6,900
2008	6,900
2009	<u>1,150</u>
Minimum Lease Payments	95,002
Less amount representing interest at the City's incremental borrowing rate of interest	<u>0</u>
Present value of minimum lease payments	<u><u>\$95,002</u></u>

NOTE 14 – SHARED RISK POOL

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

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

Each member provides operating resources to NORMA based on actuarially determined rates. In the event of losses, the first \$2,500 of any valid claim will be paid by the member. The next payment, generally a maximum of \$97,500 per occurrence, will come from the self-insurance pool, with any excess paid from the stop-loss coverage carried by the pool. Any loss over these amounts would be the obligation of the individual member. If the aggregate claims paid by the pool exceed the available resources, the pool may require the members to make additional supplementary payments up to a maximum of the regular annual payment.

CITY OF EASTLAKE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 14 – SHARED RISK POOL (Continued)

In 2003, the City of Eastlake paid \$140,532 in premiums from the general and special revenue funds, which represents 8.68% of total premiums. Financial information can be obtained by contacting the fiscal agent, the Finance Director at the City of Bedford Heights, 5661 Perkins Road, Bedford Heights, Ohio 44146.

There has not been a significant reduction in coverage from the prior year and claims have not exceeded coverage provided by NORMA in any of the last three years.

Also, the City pays the State Worker's Compensation system a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

Medical and prescription benefits in 2003 were provided through Medical Mutual of Ohio. Dental benefits as well, are provided through Medical Mutual of Ohio and Prudential Insurance Company. Payments are made on a monthly basis. The expenses are allocated by the number of employees multiplied by the fixed premium rate for each employee. The monthly premium for medical and prescription benefits range from \$244.94 to \$698.31 for single, two party, and family coverage. The monthly premium for dental benefits range from \$21.81 to \$65.87 for single, two-party, and family coverage.

NOTE 15 - CONTINGENCIES

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

As to the *Ohio Department of Transportation vs. Eastlake Development Company* court case, of which the City was a guarantor of a State Infrastructure Bank Loan between the above mentioned parties, the City and the Ohio Department of Transportation have been actively negotiating. Most recently, the City proposed a settlement that would find the City consenting to a sum due quite less than the demanded \$3 million. The City would receive credits against this consented sum for any future sale of the property and for the past sale of a commercial building relating to the project. Any repayment of the remaining consented sum would only be repaid upon the City reaching a financial health wherein such repayment is possible with no negative consequences to the financial health of the City. It seems as though defining these conditions are what remain somewhat in dispute. The City anticipates that the litigation will ultimately resolve itself within these parameters.

The City and Lake County had been in dispute as to the role of the Lake County Budget Commission in manipulating or failing to manipulate millage rates. This dispute has been resolved with no further action from Lake County.

CITY OF EASTLAKE, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 16 –NORTHEAST OHIO PUBLIC ENERGY COUNCIL

The City is a member of the Northeast Ohio Public Energy Council (“NOPEC”). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of electricity. NOPEC is currently comprised over 100 communities who have been authorized by ballot to purchase electricity on behalf of their citizens. The intent of NOPEC is to provide electricity at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity to the citizens of its member communities.

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each County then elect one person to serve on the eight-member NOPEC Board of Directors. The Board of Directors oversees and manages the operation of the representation in the General Assembly and on the Board of Directors. The City of Eastlake did not contribute to NOPEC in 2003. Financial information can be obtained by contacting NOPEC, 1615 Clarke Avenue, Cleveland, Ohio, 43212.

NOTE 17 –SUBSEQUENT EVENTS

On May 25, 2004, the City issued \$2,500,000, \$670,000, and \$1,080,000 six months bond anticipation notes to pay costs of acquiring real estate in furtherance of the City’s parks and recreational purposes and to pay costs of acquiring and improving real estate and interests in real estate and improving the same by constructing surface areas for off-street parking purposes respectively.

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**CITY OF EASTLAKE
LAKE COUNTY
DECEMBER 31, 2003**

SCHEDULE OF FEDERAL AWARDS EXPENDITURES

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Revenues	Disbursements
<u>U.S. DEPARTMENT OF HIGHWAY PLANNING AND CONSTRUCTION</u>				
<i>Passed Through Ohio Department of Transportation</i>				
Highway Planning and Construction Grant - Vine Street Landscape Improvement Grant	TE21-G020(021)	20.205	\$230,670	\$442,695
Total U.S. Department of Highway Planning and Construction			230,670	442,695
<u>U.S. DEPARTMENT OF JUSTICE</u>				
<i>Direct Programs:</i>				
COPS Fast	1999-SH-WX-0610	16.710	40,586	0
<i>Passed Through Ohio Attorney General</i>				
Victims of Crime Assistance	2001VAGENE038	16.575	62,808	67,360
Total U.S. Department of Justice			103,394	67,360
<u>U.S. DEPARTMENT OF THE TREASURY</u>				
<i>Direct Program</i>				
Gang Resistance Education and Training (G.R.E.A.T.)	ATC 010034	21.053	5,048	5,546
Total U.S. Department of the Treasury			5,048	5,546
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>				
<i>Passed Through Ohio Department of Public Safety</i>				
FEMA Blackout Grant	EM-3187-OH	97.036	6,362	6,362
Total Federal Emergency Management Agency			6,362	6,362
Total Federal Assistance			\$345,474	\$521,963

The accompanying notes to this schedule are an integral part of this schedule.

**CITY OF EASTLAKE
LAKE COUNTY
DECEMBER 31, 2003**

NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the City's federal award programs. The schedule has been prepared on the cash basis of accounting.

CFDA – Catalog of Federal Domestic Assistance



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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

We have audited the financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Eastlake, Lake County, Ohio, (the City) as of and for the year ended December 31, 2003, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 14, 2004, wherein we noted the Auditor of State served during the year ended December 31, 2003 as the City's financial supervisor in accordance with procedures established under Ohio Rev. Code §118.05 (G). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to conduct the audit of the City because the Auditor of State may assume broad management powers, duties, and functions in accordance with Ohio Rev. Code §118.04. We also noted the City adopted Governmental Accounting Standards Board Statement No. 34. 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 City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2003-001 through 2003-004. Also, we noted a certain immaterial instance of noncompliance that we have reported to the City's management in a separate letter dated October 14, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting 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 the City's management in a separate letter dated October 14, 2004.

Lausche Building / 615 Superior Ave., NW / Twelfth Floor / Cleveland, OH 44113-1801
Telephone: (216) 787-3665 (800) 626-2297 Fax: (216) 787-3361
www.auditor.state.oh.us

This report is intended for the information and use of the audit committee, management and City Council, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

October 14, 2004



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO ITS MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of the City of Eastlake, Lake County, Ohio, (the City) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2003. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2003.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control 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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program 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 compliance 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 October 14, 2004.

This report is intended for the information and use of the audit committee, management, City Council, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

October 14, 2004

CITY OF EASTLAKE
LAKE COUNTY
DECEMBER 31, 2003

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Program (list):	Highway Planning and Construction Grant – 20.205
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

**CITY OF EASTLAKE
LAKE COUNTY
DECEMBER 31, 2003**

**SCHEDULE OF FINDINGS
(Continued)**

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

* The comments with an asterisk (*) denote comments which were previously brought to management's attention for the year ended December 31, 2002, in which no corrective action has been taken.

Finding Number	2003-001
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EXPENDITURES PLUS ENCUMBRANCES IN EXCESS OF APPROPRIATIONS *

Ohio Revised Code Section 5705.41(B) prohibits a subdivision from making an expenditure unless it has been appropriated. Ohio Revised Code Section 5705.41(D)(1) states that no subdivision shall make any contract or order any expenditure of money unless the certificate of the fiscal officer is attached. The fiscal officer must certify that the amount required to meet such a commitment has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Further, contracts and orders for expenditure lacking prior certification shall be void. Ohio Revised Code Section 5705.38(C) provides that appropriation measures shall be classified so as to set forth separately the amounts appropriated for each office, department, and division, and, within each, the amount appropriated for personal services.

As of August 31, 2003, the following accounts had expenditures plus encumbrances in excess of appropriations: These accounts were corrected at year end.

Fund/Program	Appropriations	Expenditures Plus Encumbrances	Excess
General Fund:			
Services and Supplies:			
Clerk of Council	\$13,920	\$15,364	\$1,444
City Income Tax	28,905	29,439	534
Legal Administration	35,550	65,362	29,812
Municipal Court	42,450	61,885	19,435
City Hall	97,325	99,800	2,475
Engineering	49,000	63,073	14,073
Civil Service	3,350	4,053	703
Police Station	72,975	74,711	1,736
Police Substation	14,200	14,456	256
Community Education	2,700	11,660	8,960
Fire Communications	10,000	12,839	2,839
Surfside Pool	20,340	41,204	20,864
Recreation Garage	20,400	26,449	6,049
Recreation Program Contract	18,700	25,001	6,301
Park and Shade Tree	4,000	5,419	1,419
Solid Waste Collection	643,500	681,330	37,830
Service Garage	36,400	36,775	375
Public Service Benefits	60,250	110,963	50,713
Personal Services:			
Dive Team	0	4,199	4,199
Service Garage	161,417	210,138	48,721
Public Safety Expense	156,500	160,627	4,127
Special Revenue Fund:			
State Grants	5,200	6,441	1,421

**CITY OF EASTLAKE
LAKE COUNTY
DECEMBER 31, 2003**

**SCHEDULE OF FINDINGS
(Continued)**

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

Finding Number	2003-001
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EXPENDITURES PLUS ENCUMBRANCES IN EXCESS OF APPROPRIATIONS * (Continued)

Fund/Program	Appropriations	Expenditures Plus Encumbrances	Excess
Capital Project Fund:			
Fire Levy Fund	\$98,500	\$113,671	\$15,171
Eastlake Economic Development	6,000,000	9,476,491	3,476,491
Stadium/Vine Project	0	11,425	11,425
Pedestrian Bridge Improvement	500,000	739,851	239,851
Trust Funds**:			
Senior Citizens Trust	43,000	45,002	2,002
Flag Trust Fund	1,000	2,929	1,929
Law Enforcement Trust	29,000	53,749	24,749
Recreation and Land Acquisition	0	888,737	888,737
Agency Funds:			
Street Opening Deposits	3,000	6,700	3,700
Inspection Deposits	60,000	78,973	18,973
Lake County Water	260,000	260,233	233

** These funds were combined with the General or Special Revenue Funds for GAAP reporting purposes.

The City should maintain a continuous budgetary process in which it maintains stringent budgetary controls from its managers or department heads over its expected operations. Budgetary compliance should be monitored throughout the fiscal period in order to identify any weaknesses at the legal level of budgetary control. In addition, to simplify the budget process, the City should explore other alternative legal level of appropriations. Appropriations should be monitored and amended during the fiscal year.

Finding Number	2003-002
----------------	----------

NEGATIVE UNENCUMBERED FUND BALANCES *

Ohio Revised Code Section 5705.10, requires in part, that money paid into any fund shall be used only for the purposes for which such fund was established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund.

The following funds had negative unencumbered fund balances as of the month ended August 31, 2003.

General Fund	\$2,018,796
Special Revenue:	
Federal Grant Fund	5,730
Police Pension Fund	101,713
Fire Pension Fund	48,209

**CITY OF EASTLAKE
LAKE COUNTY
DECEMBER 31, 2003**

**SCHEDULE OF FINDINGS
(Continued)**

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

Finding Number	2003-002
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NEGATIVE UNENCUMBERED FUND BALANCES * (Continued)

Also, the following fund had a negative unencumbered fund balance at December 31, 2003.

General Fund	\$3,192,421
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We recommend that negative fund balances are monitored and appropriate adjustments are made on a monthly basis. In addition, the City should review and monitor the potential financial needs monthly and, with the approval of City Council, initiate transfers and or advances.

Finding Number	2003-003
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APPROPRIATIONS EXCEEDING ESTIMATED RESOURCES

Ohio Revised Code Section 5705.39 provides that total appropriations made during the fiscal year from any fund must not exceed the amount contained in the certificate of estimated resources. Ohio Revised Code Section 5705.36(A)(5) provides that the amended certificate of estimated resources, certified prior to making the appropriation from each fund, should not exceed the total estimated revenue.

At December 31, 2003, the City's General Fund had appropriations which exceeded the Amended Certificate of Estimated Resources in the amount of \$1,020,804.

We recommend the City monitor appropriations and amend the certificate of estimated resources to ensure that appropriations do not exceed estimated resources.

Finding Number	2003-004
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CERTIFICATE OF ESTIMATED RESOURCES AMENDMENTS *

Ohio Revised Code Section 133.22(B) requires that when a subdivision issues anticipatory securities, the fiscal officer of the subdivision shall file a copy of the legislation passed under division (A) of this section with the county auditor of each county in which any part of the subdivision is located. Ohio Revised Code Section 5705.36(A)(3) requires that an increased amended certificate be obtained from the budget commission if the legislative authority intends to appropriate and expend the excess revenue collected by a subdivision.

The City did not obtain an amended certificate of estimated resources for the \$250,000 Pedestrian Bridge Improvement note, \$670,000 Recreation and Land Acquisition note \$2,350,000 Municipal Stadium note, and \$980,000 Economic Development note issued in June 2003, until December 2003. The City expended the funds received through the rollover of notes and related construction and land acquisitions in 2003. We recommend the City obtain an amended certificate of estimated resources on a timely basis.

**CITY OF EASTLAKE
LAKE COUNTY
DECEMBER 31, 2003**

SCHEDULE OF PRIOR AUDIT FINDINGS

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No <u>Longer Valid</u> ; <i>Explain:</i>
2002-001	ORC 5705.41 (B),(D) Expenditures exceeding Appropriation	No	Comment reissued as 2003-001
2002-002	ORC 5705.10 Negative Fund Balances	No	Comment reissued as 2003-002



**Auditor of State
Betty Montgomery**

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

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

CITY OF EASTLAKE

LAKE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 7, 2004**