



**Auditor of State
Betty Montgomery**

CITY OF AVON LAKE
LORAIN COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Combined Balance Sheet - All Fund Types and Account Groups	4
Combined Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Fund Types.....	8
Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual Comparison (Non-GAAP Basis) - All Governmental Fund Types.....	9
Combined Statement of Revenues, Expenses, and Changes in Fund Equity - Proprietary Fund Type	13
Combined Statement of Cash Flows - Proprietary Fund Type	14
Notes to General-Purpose Financial Statements	15
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	39

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

City of Avon Lake
Lorain County
150 Avon Belden Road
Avon Lake, Ohio 44012-1627

To the City Council:

We have audited the accompanying general-purpose financial statements of the City of Avon Lake, Lorain County, (the City) as of and for the year ended December 31, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Avon Lake as of December 31, 2002, and the results of its operations and the cash flows of its proprietary fund type for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2, the District changed the fund type classification of the Recreational Trust Fund, WWC Eastern Transmission Line 2 Fund and the ELT 2 MOR Fund.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 20, 2003 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Betty Montgomery
Auditor of State

August 20, 2003

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CITY OF AVON LAKE
Combined Balance Sheet
All Fund Types and Account Groups
December 31, 2002

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
ASSETS AND OTHER DEBITS				
Assets				
Cash and Cash Equivalents	\$ 3,511,397	\$ 5,664,298	\$ 609,487	\$ 3,154,124
Cash and Cash Equivalents with Fiscal and Escrow Agents		76,993	1,029	63,098
Receivables:				
Taxes	3,253,650	3,050,052		
Accounts	8,613	41,422		
Special Assessments			4,575,420	
Interfund	261,108			
Intergovernmental	11,613	58,185		
Materials and Supplies Inventory	24,107	63,570		
Unamortized Bond Issue Costs and Discounts				
Restricted Assets:				
Cash and Cash Equivalents				
Investment in Joint Venture				
Fixed Assets (Net of Accumulated Depreciation In Enterprise Funds)				
Other Debits:				
Amount to be Provided for Benefits				
Amount Available in Debt Service Fund for Retirement of General Obligation Debt				
Amount to be Provided for General Long-Term Debt				
Total Assets and Other Debits	\$ 7,070,488	\$ 8,954,520	\$ 5,185,936	\$ 3,217,222

Proprietary Fund Type	Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
		General Fixed Assets	General Long-Term Debt	
Enterprise	Agency			
\$ 7,559,264	\$ 154,756	\$ -	\$ -	\$ 20,653,326
	31,281			172,401
				6,303,702
561,944				611,979
				4,575,420
				261,108
1,171,000				1,240,798
47,111				134,788
278,117				278,117
1,347,434				1,347,434
2,177,071				2,177,071
58,970,073		18,444,643		77,414,716
			1,129,697	1,129,697
			609,487	609,487
			10,247,898	10,247,898
\$ 72,112,014	\$ 186,037	\$ 18,444,643	\$ 11,987,082	\$ 127,157,942

(Continued)

CITY OF AVON LAKE
Combined Balance Sheet
All Fund Types and Account Groups
December 31, 2002
(Continued)

	<u>Governmental Fund Types</u>			
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>
LIABILITIES, EQUITY AND OTHER CREDITS				
Liabilities				
Accounts and Contracts Payable	\$ 67,361	\$ 40,891	\$ -	\$ 124,905
Retainage Payable		76,993		63,098
Accrued Wages and Benefits	238,355	43,662		
Deferred Revenue	3,253,650	2,540,702	4,575,420	
Deposits Held and Due to Others				
Intergovernmental Payable	84,908	15,238		
Interfund Payables		256,813		4,295
Matured Bonds Payable			1,029	
Interest Payable				
Police and Fire Pension Liability				
Landfill Postclosure Costs				
Capital Leases Payable				
Bond Anticipation Notes Payable		429,031		650,046
Special Assessment Debt with Governmental Commitment				
General Obligation Bonds Payable				
OWDA General Obligation Debt				
Revenue Bonds Payable				
Total Liabilities	<u>3,644,274</u>	<u>3,403,330</u>	<u>4,576,449</u>	<u>842,344</u>
Equity and Other Credits				
Investment in General Fixed Assets				
Contributed Capital				
Unreserved Retained Earnings				
Fund Balance:				
Reserved for Encumbrances	45,895	480,712		770,051
Reserved for Inventory	24,107	63,570		
Unreserved, Undesignated	3,356,212	5,006,908	609,487	1,604,827
Total Fund Equity and Other Credits	<u>3,426,214</u>	<u>5,551,190</u>	<u>609,487</u>	<u>2,374,878</u>
Total Liabilities, Equity and Other Credits	<u>\$ 7,070,488</u>	<u>\$ 8,954,520</u>	<u>\$ 5,185,936</u>	<u>\$ 3,217,222</u>

The notes to the general-purpose financial statements are an integral part of this statement.

Proprietary Fund Type	Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
		General Fixed Assets	General Long-Term Debt	
Enterprise	Agency			
\$ 318,508	\$ -	\$ -	\$ -	\$ 551,665
				140,091
411,588			1,129,697	1,823,302
	186,037			10,369,772
				186,037
131,124				231,270
				261,108
				1,029
222,673				222,673
			115,055	115,055
			967,987	967,987
			50,591	50,591
				1,079,077
			3,666,388	3,666,388
7,262,241			5,574,779	12,837,020
8,692,403			482,585	9,174,988
14,413,943				14,413,943
31,452,480	186,037		11,987,082	56,091,996
		18,444,643		18,444,643
28,838,977				28,838,977
11,820,557				11,820,557
				1,296,658
				87,677
				10,577,434
40,659,534		18,444,643		71,065,946
\$ 72,112,014	\$ 186,037	\$ 18,444,643	\$ 11,987,082	\$ 127,157,942

CITY OF AVON LAKE

**Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
All Governmental Fund Types
For the Year Ended December 31, 2002**

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
Revenues					
Municipal Income Tax	\$ -	\$ 6,683,218	\$ -	\$ -	\$ 6,683,218
Property and Other Taxes	3,292,571	1,517,749			4,810,320
Charges for Services	163,413			30,311	193,724
Licenses and Permits	482,857	128,293			611,150
Fines and Forfeits	151,910	31,756			183,666
Intergovernmental	1,294,923	955,810		159,034	2,409,767
Special Assessments			370,017	28,235	398,252
Interest		907,182		7,438	914,620
Other	120,791	11,041			131,832
Total Revenues	5,506,465	10,235,049	370,017	225,018	16,336,549
Expenditures					
Current:					
General Government	2,216,062	200,332	16,645		2,433,039
Security of Persons and Property	4,279,496	1,168,390			5,447,886
Public Health and Welfare	60,500	20,760			81,260
Transportation	2,697,845	882,177			3,580,022
Community Environment	329,494	1,502			330,996
Basic Utility Services		56,410			56,410
Leisure Time Activities	331,521	78,604			410,125
Capital Outlay		2,066,881		1,269,019	3,335,900
Debt Service:					
Principal Retirement		24,425	426,504		450,929
Interest and Fiscal Charges		8,400	488,213		496,613
Total Expenditures	9,914,918	4,507,881	931,362	1,269,019	16,623,180
Excess Revenues Over (Under) Expenditures	(4,408,453)	5,727,168	(561,345)	(1,044,001)	(286,631)
Other Financing Sources (Uses)					
Contributions from Developers	21,541				21,541
Operating Transfers In	5,198,600	2,852,694	604,548	1,731,524	10,387,366
Operating Transfers Out	(2,012,672)	(8,621,267)		(100,000)	(10,733,939)
Total Other Financing Sources (Uses)	3,207,469	(5,768,573)	604,548	1,631,524	(325,032)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(1,200,984)	(41,405)	43,203	587,523	(611,663)
Fund Balances Beginning of Year (Restated See Note 2)	4,627,906	5,592,586	566,284	1,787,355	12,574,131
Increase (decrease) Reserve for Inventory	(708)	9			(699)
Fund Balances End of Year	\$ 3,426,214	\$ 5,551,190	\$ 609,487	\$ 2,374,878	\$ 11,961,769

The notes to the general-purpose financial statements are an integral part of this statement.

CITY OF AVON LAKE

**Combined Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual Comparison (Non-GAAP Basis)
All Governmental Fund Types
General Fund
For the Year Ended December 31, 2002**

	<u>Revised Budget</u>	<u>Actual</u>	<u>Encumbrances</u>	<u>Actual Plus Encumbrances</u>	<u>Variance</u>
Revenues					
Property and Other Taxes	\$ 3,073,353	\$ 3,292,571	\$ -	\$ 3,292,571	\$ 219,218
Charges for Services	126,100	165,390		165,390	39,290
Licenses and Permits	469,200	480,684		480,684	11,484
Fines and Forfeits	142,000	148,305		148,305	6,305
Intergovernmental	1,147,494	1,301,667		1,301,667	154,173
Other	17,000	118,652		118,652	101,652
Total Revenues	<u>4,975,147</u>	<u>5,507,269</u>		<u>5,507,269</u>	<u>532,122</u>
Expenditures					
Current:					
General Government	2,473,494	2,219,035	\$50,229	2,269,264	204,230
Security of Persons and Property	4,658,301	4,241,151	20,447	4,261,598	396,703
Public Health and Welfare	60,500	60,500		60,500	
Transportation	2,781,228	2,647,396	7,601	2,654,997	126,231
Community Environment	353,102	327,360		327,360	25,742
Leisure Time Activities	349,453	337,743	1,905	339,648	9,805
Total Expenditures	<u>10,676,078</u>	<u>9,833,185</u>	<u>80,182</u>	<u>9,913,367</u>	<u>762,711</u>
Excess of Expenditures Over Revenues	<u>(5,700,931)</u>	<u>(4,325,916)</u>	<u>(80,182)</u>	<u>(4,406,098)</u>	<u>1,294,833</u>
Other Financing Sources (Uses)					
Sale of Fixed Assets	6,316	3,639		3,639	(2,677)
Donations	17,000	21,541		21,541	4,541
Transfers-In	5,198,600	5,198,600		5,198,600	
Advances-In	471,598	404,584		404,584	(67,014)
Transfers-Out	(2,012,672)	(2,012,672)		(2,012,672)	
Advances-Out	(194,095)	(194,095)		(194,095)	
Total Other Sources (Uses)	<u>3,486,747</u>	<u>3,421,597</u>		<u>3,421,597</u>	<u>(65,150)</u>
Excess of Expenditures and Other Financing Uses Over Revenues and Other Financing Sources	<u>(2,214,184)</u>	<u>(904,319)</u>	<u>\$ (80,182)</u>	<u>\$ (984,501)</u>	<u>\$ 1,229,683</u>
Fund Balance Beginning of Year	<u>4,415,716</u>	<u>4,415,716</u>			
Fund Balance End of Year	<u>\$ 2,201,532</u>	<u>\$ 3,511,397</u>			

The notes to the general-purpose financial statements are an integral part of this statement.

CITY OF AVON LAKE

**Combined Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual Comparison (Non-GAAP Basis)
All Governmental Fund Types (Continued)
Special Revenue Funds
For the Year Ended December 31, 2002**

	<u>Revised Budget</u>	<u>Actual</u>	<u>Encumbrances</u>	<u>Actual Plus Encumbrances</u>	<u>Variance</u>
Revenues					
Municipal Income Tax	\$ 6,400,000	\$ 6,676,177	\$ -	\$ 6,676,177	\$ 276,177
Property and Other Taxes	1,934,485	1,517,749		1,517,749	(416,736)
Charges for Services	2,000	10,241		10,241	8,241
Licenses and Permits	142,000	126,790		126,790	(15,210)
Fines and Forfeits	25,400	31,509		31,509	6,109
Intergovernmental	525,265	953,139		953,139	427,874
Interest	685,000	707,258		707,258	22,258
Other	15,203	16,255		16,255	1,052
Total Revenues	<u>9,729,353</u>	<u>10,039,118</u>		<u>10,039,118</u>	<u>309,765</u>
Expenditures					
Current:					
General Government	430,172	185,531	\$10,330	195,861	234,311
Security of Persons and Property	1,283,578	1,165,697	5,765	1,171,462	112,116
Public Health and Welfare	28,231	20,760		20,760	7,471
Transportation	1,174,663	917,566	48,469	966,035	208,628
Community Environment	3,200	1,502		1,502	1,698
Basic Utility Services	52,000	38,345	11,177	49,522	2,478
Leisure Time Activities	1,090,746	105,741	5,515	111,256	979,490
Capital Outlay	2,435,695	1,996,754	438,837	2,435,591	104
Debt Service:					
Principal Retirement	24,425	24,425		24,425	
Interest and Fiscal Charges	8,400	8,400		8,400	
Total Expenditures	<u>6,531,110</u>	<u>4,464,721</u>	<u>520,093</u>	<u>4,984,814</u>	<u>1,546,296</u>
Excess of Revenues Over (Under) Expenditures	<u>3,198,243</u>	<u>5,574,397</u>	<u>(520,093)</u>	<u>5,054,304</u>	<u>1,856,061</u>
Other Financing Sources (Uses)					
Note Proceeds	429,030	429,031		429,031	1
Sale of Fixed Assets		4,135		4,135	4,135
Transfers-In	3,042,494	3,042,494		3,042,494	
Transfers-Out	(8,705,767)	(8,705,622)		(8,705,622)	145
Total Other Sources (Uses)	<u>(5,234,243)</u>	<u>(5,229,962)</u>		<u>(5,229,962)</u>	<u>4,281</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>(2,036,000)</u>	<u>344,435</u>	<u>\$ (520,093)</u>	<u>\$ (175,658)</u>	<u>\$ 1,860,342</u>
Fund Balance Beginning of Year	<u>4,867,688</u>	<u>4,867,688</u>			
Fund Balance End of Year	<u>\$ 2,831,688</u>	<u>\$ 5,212,123</u>			

The notes to the general-purpose financial statements are an integral part of this statement.

CITY OF AVON LAKE

**Combined Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual Comparison (Non-GAAP Basis)
All Governmental Fund Types (Continued)
Debt Service Funds
For the Year Ended December 31, 2002**

	<u>Revised Budget</u>	<u>Actual</u>	<u>Encumbrances</u>	<u>Actual Plus Encumbrances</u>	<u>Variance</u>
Revenues					
Special Assessments	\$ 356,147	\$ 370,017	\$ -	\$ 370,017	\$ 13,870
Total Revenues	<u>356,147</u>	<u>370,017</u>		<u>370,017</u>	<u>13,870</u>
Expenditures					
General Government	16,645	16,645		16,645	
Debt Service:					
Principal	433,314	426,504		426,504	6,810
Interest and Fiscal Charges	490,666	488,213		488,213	2,453
Total Expenditures	<u>940,625</u>	<u>931,362</u>		<u>931,362</u>	<u>9,263</u>
Excess of Expenditures Over Revenues	<u>(584,478)</u>	<u>(561,345)</u>		<u>(561,345)</u>	<u>23,133</u>
Other Financing Sources					
Transfers-In	604,548	604,548		604,548	
Total Other Financing Sources	<u>604,548</u>	<u>604,548</u>		<u>604,548</u>	
Excess of Revenues and Other Financing Sources Over Expenditures	20,070	43,203	<u>\$ -</u>	<u>\$ 43,203</u>	<u>\$ 23,133</u>
Fund Balance Beginning of Year	<u>566,284</u>	<u>566,284</u>			
Fund Balance End of Year	<u>\$ 586,354</u>	<u>\$ 609,487</u>			

The notes to the general-purpose financial statements are an integral part of this statement.

CITY OF AVON LAKE

**Combined Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual Comparison (Non-GAAP Basis)
All Governmental Fund Types (Continued)
Capital Projects Funds
For the Year Ended December 31, 2002**

	<u>Revised Budget</u>	<u>Actual</u>	<u>Encumbrances</u>	<u>Actual Plus Encumbrances</u>	<u>Variance</u>
Revenues					
Special Assessments	\$ -	\$ 28,235	\$ -	\$ 28,235	\$ 28,235
Charges for Services		30,311		30,311	30,311
Intergovernmental	388,229	161,598		161,598	(226,631)
Interest		7,437		7,437	7,437
Total Revenues	<u>388,229</u>	<u>227,581</u>		<u>227,581</u>	<u>(160,648)</u>
Expenditures					
Capital Outlay	<u>5,151,688</u>	<u>1,466,260</u>	<u>894,303</u>	<u>2,360,563</u>	<u>2,791,125</u>
Total Expenditures	<u>5,151,688</u>	<u>1,466,260</u>	<u>894,303</u>	<u>2,360,563</u>	<u>2,791,125</u>
Excess of Expenditure Over Revenues	<u>(4,763,459)</u>	<u>(1,238,679)</u>	<u>(894,303)</u>	<u>(2,132,982)</u>	<u>2,630,477</u>
Other Financing Sources (Uses)					
Note Proceeds	650,046	650,046		650,046	
Bond Proceeds	1,450,000				(1,450,000)
Transfers-In	1,631,524	1,631,524		1,631,524	
Advances-In	4,295	4,295		4,295	
Advances-Out	(220,229)	(220,229)		(220,229)	
Transfers-Out	(100,000)	(100,000)		(100,000)	
Total Other Sources (Uses)	<u>3,415,636</u>	<u>1,965,636</u>		<u>1,965,636</u>	<u>(1,450,000)</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(1,347,823)	726,957	<u>\$ (894,303)</u>	<u>\$ (167,346)</u>	<u>\$ 1,180,477</u>
Fund Balance Beginning of Year	<u>2,490,262</u>	<u>2,490,262</u>			
Fund Balance End of Year	<u>\$ 1,142,439</u>	<u>\$ 3,217,219</u>			

The notes to the general-purpose financial statements are an integral part of this statement.

CITY OF AVON LAKE

**Combined Statement of Revenues, Expenses, and Changes in Fund Equity
Proprietary Fund Type
For the Year Ended December 31, 2002**

	Enterprise
Operating Revenues	
Charges for Services	\$ 9,441,582
Other	8,916
	<u>9,450,498</u>
Operating Expenses	
Personal Services	2,380,187
Contractual Services	2,121,556
Materials and Supplies	1,085,464
Depreciation	1,205,935
	<u>6,793,142</u>
Total Operating Expenses	<u>6,793,142</u>
Operating Income	<u>2,657,356</u>
Non-Operating Revenues (Expenses)	
Earnings on Investments	183,726
Interest and Fiscal Charges	(1,884,269)
Loss on Disposal of Fixed Assets	(126,729)
	<u>(1,827,272)</u>
Total Non-Operating Revenues (Expenses)	<u>(1,827,272)</u>
Income Before Operating Transfers	830,084
Operating Transfers-In	1,801,283
Operating Transfers-Out	(1,454,710)
	<u>346,573</u>
Total Operating Transfers	<u>346,573</u>
Net Income	1,176,657
Retained Earnings Beginning of Year (Restated See Note 2)	<u>10,643,900</u>
Retained Earnings End of Year	11,820,557
Contributed Capital End of Year	28,838,977
	<u>28,838,977</u>
Total Fund Equity End of Year	\$ 40,659,534

The notes to the general-purpose financial statements are an integral part of this statement.

CITY OF AVON LAKE

**Combined Statement of Cash Flows
Proprietary Fund Type
For the Year Ended December 31, 2002**

	Enterprise
Cash Flows From Operating Activities:	
Cash Received from Customers and Users	\$ 9,765,847
Cash Paid to Suppliers	(3,198,257)
Cash Paid to Employees	(2,393,814)
	<u>4,173,776</u>
Cash Flows From Noncapital Financing Activities:	
Transfers-In	1,801,284
Transfers-Out	(1,454,710)
	<u>346,574</u>
Cash Flows From Capital and Related Financing Activities:	
Purchase of Fixed Assets	(528,029)
Contributions to Joint Venture	(570,704)
Principal Repaid on Capital Debt	(1,564,784)
Interest Paid on Capital Debt	(1,864,031)
	<u>(4,527,548)</u>
Cash Flows From Investing Activities:	
Interest Received	104,651
	<u>104,651</u>
Net Cash Provided By Investing Activities	<u>104,651</u>
Net Increase in Cash and Cash Equivalents	97,453
Cash and Cash Equivalents, Beginning of Year	8,809,245
	<u>8,906,698</u>
Cash and Cash Equivalents, End of Year	\$ 8,906,698
 Reconciliation of Operating Income to Net Cash Provided By Operating Activities	
Operating Income	\$ 2,657,356
Adjustments:	
Depreciation Expense	1,205,935
Changes in Assets and Liabilities:	
Decrease in Unamortized Bond Cost	21,288
Decrease in Materials and Supplies Inventory	16,132
Decrease in Accounts Receivable	176,451
Decrease in Intergovernmental Receivable	67,000
Increase in Accounts and Contracts Payable	133,301
(Decrease) in Accrued Wages and Benefits Payable	(777)
(Decrease) in Intergovernmental Payable	(102,910)
	<u>4,173,776</u>
Net Cash Provided By Operating Activities	\$ 4,173,776

The notes to the general-purpose financial statements are an integral part of this statement.

CITY OF AVON LAKE

Notes to the General-Purpose Financial Statements For the Year Ended December 31, 2002

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The City is associated with the Lorain County Community Alliance Council of Governments and the Northeast Lorain County Social Services Consortium as jointly governed organizations. The City is also a member of the Medina-Lorain Water Consortium, a joint venture. (See Note 11.)

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

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

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

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

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available. Available means the resources will be collected within the current year or are expected to be collected soon enough

CITY OF AVON LAKE

Notes to the General-Purpose Financial Statements For the Year Ended December 31, 2002 (Continued)

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

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

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

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

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

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

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

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

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

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

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

CITY OF AVON LAKE

Notes to the General-Purpose Financial Statements For the Year Ended December 31, 2002 (Continued)

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

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

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

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

Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds.

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

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

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

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

Cash and Cash Equivalents

Cash received by the City is deposited into several bank accounts. Monies for all funds, including enterprise funds, are maintained in these accounts or temporarily used to purchase short-term investments. Individual fund integrity is maintained through the City's records. During 2002, investments were limited to money market mutual fund accounts, manuscript debt, repurchase agreements, investments in U.S. agencies and instrumentalities, and STAR Ohio. Investments are reported at fair value, except repurchase agreements, which are reported at cost. Mutual funds are valued at the account share price, which is the price the investment could be sold for on December 31, 2002.

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, 2002.

The City utilizes a financial institution to service bonded debt as principal and interest come due. The balances of these accounts are presented on the combined balance sheet as "Cash and Cash

CITY OF AVON LAKE

Notes to the General-Purpose Financial Statements For the Year Ended December 31, 2002 (Continued)

Equivalents with Fiscal and Escrow Agents” and represent deposits or short-term investments in certificates of deposit or money market accounts.

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

Following Ohio statutes, the City has, by ordinance, specified the Special Revenue Improvement Fund to receive an allocation of interest earnings. Interest revenue credited to Special Revenue Funds during 2002 amounted to \$907,182, which includes \$681,980 assigned from other City funds.

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

Receivables

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

Intergovernmental Revenues

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

Interfund Assets and Liabilities

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

Inventory

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

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

Restricted Assets

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

CITY OF AVON LAKE

Notes to the General-Purpose Financial Statements For the Year Ended December 31, 2002 (Continued)

Fixed Assets and Depreciation

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

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

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

Capitalization of Interest

The City's policy is to delay capitalizing net interest on construction projects until substantial completion of the project. The amount of capitalized interest equals the difference between the interest cost associated with the tax exempt borrowing used to finance the project and the interest earned from temporary investment of the debt proceeds. Capitalized interest is amortized on the straight-line basis over the estimated useful life of the asset. For 2002, interest costs incurred on construction projects in proprietary funds were not material.

Bond Discounts and Issuance Costs

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

Contributed Capital

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

Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures/expenses. Transactions that constitute reimbursements to a fund for expenditures or expenses made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund, and as a reduction of expenditures/expenses in the fund that is reimbursed.

CITY OF AVON LAKE

Notes to the General-Purpose Financial Statements For the Year Ended December 31, 2002 (Continued)

Accrued Liabilities and Long-Term Obligations

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

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

Compensated Absences

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

Sick leave benefits are accrued as a liability using the vesting method. An accrual for sick leave is made to the extent that it is probable that benefits will result in separation payments. The liability is based upon sick leave accumulation at December 31, 2002 for those employees who are currently eligible to receive separation benefits and those employees who the City has identified as probable to receive separation benefit payments in the future.

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

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

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

Fund Balance Reserves

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

Memorandum Only – Total Columns

Total columns on the general purpose financial statements are captioned as “memorandum only” because they do not represent consolidated financial information and are presented only to facilitate financial analysis. The columns do not present information that reflects financial position, results of operations or cash flows in accordance with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data.

CITY OF AVON LAKE

Notes to the General-Purpose Financial Statements For the Year Ended December 31, 2002 (Continued)

New Accounting Pronouncements

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

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

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

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

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

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

At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding year and need not be reappropriated. Encumbrances at year end have been presented as reserves of fund balances.

CITY OF AVON LAKE

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2002
(Continued)**

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

Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses Governmental Fund Types				
	General	Special Revenue	Debt Service	Capital Projects
GAAP Basis	\$ (1,200,984)	\$ (41,405)	\$ 43,203	\$ 587,523
Net Adjustments for Revenue Accruals	409,027	427,035	-	556,904
Net Adjustments for Expenditure Accruals	(112,362)	(41,195)	-	(417,470)
Net Adjustments for Encumbrances	(80,182)	(520,093)	-	(894,303)
Budget Basis	<u>\$ (984,501)</u>	<u>\$ (175,658)</u>	<u>\$ 43,203</u>	<u>\$ (167,346)</u>

Fund Type Reclassifications: The recreational trust fund has been properly moved in 2002 from an expendable trust fund to a special revenue fund. The recreational trust did not have a formal trust agreement nor did it meet the criteria to be a trust fund.

Expendable Trust Fund

Fund Balance as of December 31, 2001	\$ 243,603
Restatement	(243,603)
Fund Balance, January 1, 2002	<u>\$ -</u>

Special Revenue Fund

Fund Balance, December 31, 2001	\$ 5,348,983
Restatement	243,603
Fund Balance, January 1, 2002	<u>\$ 5,592,586</u>

The WWC Eastern Transmission Line 2 and ELT 2 MOR funds have been properly moved in 2002 from enterprise funds to agency funds. These funds account for the construction, operation, and maintenance of water transmission lines for the Medina-Lorain Water Consortium, a joint venture in which the City participates.

Enterprise Fund

Retained Earnings as of December 31, 2001	\$ 11,036,601
Restatement	(392,701)
Retained Earnings, January 1, 2002	<u>\$ 10,643,900</u>

CITY OF AVON LAKE

Notes to the General-Purpose Financial Statements For the Year Ended December 31, 2002 (Continued)

<u>Agency Fund</u>	
Deposits Held and Due to Others as of December 31, 2001	\$ 631,210
Restatement	392,701
Deposits Held and Due to Others, January 1, 2002	<u>\$ 1,023,911</u>

NOTE 3: DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

CITY OF AVON LAKE

Notes to the General-Purpose Financial Statements For the Year Ended December 31, 2002 (Continued)

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

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

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

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

Deposits: At year end, the carrying amount of the City's deposits was \$197,242 including \$1,595 of petty cash and the bank balance was \$374,450. Of the bank balance, \$104,986 was covered by federal depository insurance, and \$269,464 was uncollateralized and uninsured.

Although the securities serving as collateral were held by the pledging financial institutions trust department or agent in the City's name and all state statutory requirements for the investment of money had been followed, noncompliance with federal requirements would potentially subject the City to a successful claim by the FDIC.

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

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

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

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

The City investments in STAR Ohio, the State Treasurer's investment pool, and mutual funds are not classified by degree of credit risk since they are not evidenced by securities that exist in physical or book entry form.

CITY OF AVON LAKE

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2002
(Continued)**

	Category		Carrying Value	Fair Value
	1	2		
Money Market Mutual Funds	\$ -	\$ -	\$ 4,225,241	\$ 4,225,241
Manuscript Debt	31,009	-	31,009	31,009
Investments in STAR OHIO	-	-	3,756,442	3,756,442
Repurchase Agreement	-	150,000	150,000	150,000
Investments in U.S. Agencies and Instrumentalities	-	13,813,227	13,813,227	13,813,227
Total Investments	\$ 31,009	\$ 13,963,227	\$ 21,975,919	\$ 21,975,919

The classification of cash and cash equivalents and investments on the combined balance sheet is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting". A reconciliation between the classification of cash and cash equivalents and investments on the combined balance sheet and the classification of deposits and investments according to GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/ Deposits		Investments
GASB Statement No. 9	\$ 22,173,161	\$ -	
Investments:			
U.S. Agencies and Instrumentalities	(13,813,227)	13,813,227	
Money Market - Mutual Funds	(4,225,241)	4,225,241	
Repurchase Agreements	(150,000)	150,000	
Manuscript Debt	(31,009)	31,009	
STAR Ohio	(3,756,442)	3,756,442	
GASB Statement No. 3	\$ 197,242	\$ 21,975,919	

NOTE 4: FIXED ASSETS

A summary of changes in general fixed assets during 2002 is as follows:

	Balance 12/31/01	Additions	Deletions	Balance 12/31/02
Land	\$ 3,020,016	\$ -	\$ -	\$ 3,020,016
Buildings	8,623,058	46,833	(900)	8,668,991
Other Improvements	330,823	-	-	330,823
Equipment	3,897,048	337,661	(93,562)	4,141,147
Vehicles	1,950,071	298,119	(67,722)	2,180,468
Construction-In-Progress	-	103,198	-	103,198
Total	\$ 17,821,016	\$ 785,811	\$ (162,184)	\$ 18,444,643

CITY OF AVON LAKE

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2002
(Continued)**

Proprietary fund fixed assets at December 31, 2002 were as follows:

Land	\$ 1,258,085
Buildings and Improvements	30,040,002
Water and Sewer Lines	38,336,275
Machinery and Equipment	2,434,774
Vehicles	354,745
Construction-In-Progress	4,263,247
Total Fixed Assets	<u>76,687,128</u>
Less: Accumulated Depreciation	<u>(17,717,055)</u>
Net Fixed Assets	<u><u>\$ 58,970,073</u></u>

NOTE 5: LONG-TERM OBLIGATIONS

Changes in long-term obligations were as follows:

	<u>Balance 1/1/02</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/2002</u>
GENERAL LONG-TERM OBLIGATIONS				
<u>General Obligation Bonds</u>				
1994 Series Refinanced 3.3%-5.5%	\$ 481,371	\$ -	\$ 30,952	\$ 450,419
2001 Pin Oak Parkway 2.75%-4.75%	498,659	-	23,400	475,259
2001 Safety Center 3.3%-5.5%	4,824,101	-	175,000	4,649,101
Total	<u>5,804,131</u>	-	<u>229,352</u>	<u>5,574,779</u>
<u>Seller-Financed Mortgages</u>				
1997 Park Lane 6%	31,754	-	31,754	-
<u>Special Assessment Bonds</u>				
2001 Pin Oak Parkway	886,341	-	41,600	844,741
2001 CALDP	2,899,996	-	105,000	2,794,996
1990 Pin Oak Parkway II 8.35% Manuscript	18,943	-	4,736	14,207
1993 Redwood Curbs 6.0% Manuscript	14,518	-	2,074	12,444
Total	<u>3,819,798</u>	-	<u>153,410</u>	<u>3,666,388</u>
<u>Ohio Water Development Authority Loans</u>				
1986 Walker Road 7.76%	480,642	-	33,569	447,073
Avon Point/Armour Sewer 7.77%	45,685	-	10,173	35,512
Total	<u>526,327</u>	-	<u>43,742</u>	<u>482,585</u>
Landfill Postclosure Costs	1,006,333	-	38,346	967,987
Compensated Absences	1,104,847	24,850	-	1,129,697
Police and Fire Pension	116,681	-	1,626	115,055
Capital Lease Payable	74,030	-	23,439	50,591
Total General Long-Term Obligations	<u>12,483,901</u>	<u>24,850</u>	<u>521,669</u>	<u>11,987,082</u>

(Continued)

CITY OF AVON LAKE

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2002
(Continued)**

	Balance 1/1/02	Additions	Reductions	Balance 12/31/2002
ENTERPRISE FUNDS				
<u>General Obligation Bonds</u>				
1994 Series Refinanced 3.3%-5.5%	7,761,289	-	499,048	7,262,241
<u>Ohio Water Development Authority Loans</u>				
1986 Walker Road 7.76%	910,426	-	63,508	846,918
1983 Wastewater Expansion 9.98%	486,778	-	181,903	304,875
1990 Water Plant Expansion 7.84%	7,255,411	-	270,564	6,984,847
1998 Wastewater Improvement 5.76%	578,717	-	22,954	555,763
Total	9,231,332	-	538,929	8,692,403
<u>Mortgage Revenue Bonds</u>				
1993 Water System Revenue Refunding Bonds 2.5 - 5.4%	5,285,000	-	330,000	4,955,000
2000A Water System Revenue Refunding Bonds 4.7 -5.6%	9,658,943	-	200,000	9,458,943
Total	14,943,943	-	530,000	14,413,943
Total Enterprise Funds	31,936,564	-	1,567,977	30,368,587
TOTAL	\$ 44,420,465	\$ 24,850	\$ 2,089,646	\$ 42,355,669

General obligation bonds, other than the enterprise general obligation bonds and mortgage revenue, will be paid from the general bond retirement debt service fund from general fund transfers. Seller-financed mortgages were paid from the recreation trust special revenue fund. Ohio Water Development Authority loans other than those paid from the enterprise funds will be paid from the special assessment bond retirement debt service fund from special assessments. Special assessment bonds will be paid from the proceeds of special assessments levied against benefited property owners. In the event that a property owner would fail to pay the assessment, payment would be made by the City. The police and fire pension liability will be paid from taxes receipted in the police and fire pension special revenue funds. Landfill postclosure costs are based on estimates as of December 31, 2002. The actual costs may be higher due to inflation, changes in technology, or changes in regulations and they will be paid from the general fund. Compensated absences reported in the "Accrued Wages and Benefits" account will be paid from the fund which the employees' salaries are paid.

Principal and interest requirements to retire long-term obligations, except landfill post-closure costs, compensated absences, and capital leases outstanding, at December 31, 2002 are as follows:

CITY OF AVON LAKE

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2002
(Continued)**

	1994 Series Refinanced GO Bonds	2001 Series Pin Oak Parkway Bonds	Manuscript Bonds	2001 CALDP Special Assessment Bonds	1993 Mortgage Revenue Bonds
2003	\$ 884,988	\$ 128,745	\$ 8,743	\$ 239,530	\$ 607,320
2004	885,188	126,420	8,223	240,570	605,760
2005	884,098	128,983	7,703	241,315	607,760
2006	881,973	126,183	2,447	241,815	608,380
2007	883,488	128,343	2,323	237,003	607,380
2008-2012	4,383,358	639,698	2,198	1,203,413	3,044,700
2013-2017	1,772,125	503,525	-	1,207,500	606,050
2018-2022	-	-	-	727,000	-
	<u>\$ 10,575,218</u>	<u>\$ 1,781,897</u>	<u>\$ 31,637</u>	<u>\$ 4,338,146</u>	<u>\$ 6,687,350</u>

	2000A Mortgage Revenue Bonds	OWDA	Police and Fire Pension	2001 Safety Center GO Bonds	Capital Lease Payable
2003	\$733,238	\$1,343,306	\$6,567	\$400,443	\$25,415
2004	733,158	1,228,064	6,567	398,783	25,176
2005	732,488	1,112,822	6,567	401,752	-
2006	731,218	1,099,100	6,567	399,253	-
2007	734,338	1,099,100	6,567	401,360	-
2008-2012	3,651,595	5,290,335	32,835	1,997,200	-
2013-2017	3,656,550	3,630,292	32,835	2,010,450	-
2018-2022	3,659,790	27,274	32,835	1,206,000	-
2023-2027	2,926,626	-	32,835	-	-
2028-2032	-	-	32,835	-	-
2033-2037	-	-	16,518	-	-
	<u>\$ 17,559,001</u>	<u>\$ 14,830,293</u>	<u>\$ 213,528</u>	<u>\$ 7,215,241</u>	<u>\$ 50,591</u>

Mortgage Revenue Bonds

The water system mortgage revenue refunding bonds series 1993A include serial and term bonds. The term bonds have annual mandatory sinking fund redemption requirements, and there are optional redemption provisions for the serial bonds. The term bonds mature on October 1, 2013 in the amount of \$3,470,000, at a redemption price equal to 100 percent of the principal plus accrued interest to the redemption date. The serial bonds maturing on or after October 1, 2004 are subject to early redemption, by and at the option of the City in whole at any time or in part on any interest payment date on or after October 1, 2003 in multiples of \$5,000 at the following redemption prices plus accrued interest:

CITY OF AVON LAKE

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2002
(Continued)**

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

Mandatory Sinking Fund Redemption. The bonds maturing on October 1, 2013 are subject to mandatory redemption, pursuant to Sinking Fund Requirements, at a redemption price of 100 percent of the principal amount redeemed plus interest accrued to the redemption date, on October 1 in each of the years and in the principal amounts set forth below:

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

The water system mortgage revenue bonds series 2000A include serial and term bonds. The term bonds have annual mandatory sinking fund redemption requirements, and there are optional redemption provisions for the serial bonds. The term bonds mature on October 1, 2026 in the amount of \$4,120,000, at a redemption price equal to 100 percent of the principal plus accrued interest to the redemption date. The serial bonds maturing on or after October 1, 2011 are subject to redemption, by and at the option of the City in whole at any time or in part on any interest payment date on or after October 1, 2010 in multiples of \$5,000 at the redemption price or 100 percent of the principal amount to be redeemed plus accrued interest to the date of redemption.

Mandatory Sinking Fund Redemption. The bonds maturing on October 1, 2026 are subject to mandatory redemption, pursuant to Sinking Fund Requirements, at a redemption price of 100 percent of the principal amount redeemed plus interest accrued to the redemption date, on October 1 in each of the years and in the principal amounts set forth below:

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

In conjunction with the issuance of the water system mortgage revenue refunding bonds and the requirements of the indenture agreement, the City entered into a trust agreement with a commercial bank.

CITY OF AVON LAKE

Notes to the General-Purpose Financial Statements For the Year Ended December 31, 2002 (Continued)

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

The restricted assets balance in the water fund segregates funds held by the City from funds held by the trustees in accordance with the trust agreement. Restricted assets relating to the water system mortgage revenue refunding bonds consisted of the following at December 31, 2002:

Revenue Bond Future Debt Service	\$ 1,347,434
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General Obligation Bonds

On March 28, 2001, the City issued \$16,746,758 in Various Purpose Improvement and Refunding Bonds, Series 2001. These bonds are unvoted General Obligations of the City, issued to finance the permanent improvements described in the Bonds, and to advance refund existing 1994 Various Purpose General Obligation Bonds debt at a more favorable borrowing rate.

\$8,752,661 of the proceeds were used to refund all of the Series 1994 outstanding in the amount of \$8,465,000, of which \$7,803,309 are outstanding as of December 31, 2002. Enterprise funds are responsible for \$7,335,110, and \$468,199 is the responsibility of the general long-term obligations account group. The original bonds were issued for the purpose of paying the costs of (a) constructing improvements, additions or extensions to the City's water distribution system within and without the City, including acquiring real estate and easements therefore; (b) construction improvements to the City's sewerage system; (c) widening and resurfacing portions of Walker Road; and (d) issuing the bonds. All the reissued debt consists of serial bonds with final maturity in 2014, with the exception of 2010 which are capital appreciation bonds in the amount of \$695,000.

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

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

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

CITY OF AVON LAKE

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2002
(Continued)**

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

On September 12, 2001, the City issued \$1,385,000 in new bonds to cover the cost of retiring \$1,000,000 in 2002 Notes, maturing on October 4, 2001. In anticipation of Bonds, \$2,000,000 in notes were originally issued in 1999 to pay for property owners' portion of the construction cost to extend Pin Oak Parkway approximately 5,000 feet easterly paving, storm and sanitary sewers along with waterlines. The City anticipates debt service of \$886,341 to be paid through special assessments levied to the property owners. The Bonds are not subject to redemption prior to their stated maturities. As of December 31, 2002, the water enterprise fund has recorded \$1,171,000 as an Intergovernmental Receivable for the City of Avon's share of the waterline construction costs.

NOTE 6: NOTE ACTIVITY

	Outstanding 12/31/01	Additions	Reductions	Outstanding 12/31/02
<u>Special Revenue Fund:</u>				
Bond Acquisition Notes				
2002 Various Purpose 1.76%				
Issued November 14, 2002,				
1-year term	\$ -	\$ 429,031	\$ -	\$ 429,031
<u>Capital Projects Fund:</u>				
2002 Various Purpose 1.76%				
Issued November 14, 2002,				
1-year term	-	650,046	-	650,046
Totals	<u>\$ -</u>	<u>\$ 1,079,077</u>	<u>\$ -</u>	<u>\$ 1,079,077</u>

	Balance 1/1/02	Additions	Subtractions	Balance 12/31/02
2002 Municipal Park Building				
Renovation 1.76%	\$ -	\$ 250,018	\$ -	\$ 250,018

On November 14, 2002, the City issued \$250,018 in new bond anticipation notes to cover the cost of remodeling, renovating, furnishing, equipping a municipal building for parks and recreational purposes, including improving its site and related parking facilities.

CITY OF AVON LAKE

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2002
(Continued)**

	Balance 1/1/02	Additions	Subtractions	Balance 12/31/02
2002 Heavy Rescue Vehicle 1.76%	\$ -	\$ 179,013	\$ -	\$ 179,013

On November 14, 2002, the City issued \$179,018 in new bond anticipation notes to pay a portion of the cost of acquiring fire apparatus consisting of a heavy rescue vehicle, together with the necessary equipment and appurtenances.

	Balance 1/1/02	Additions	Subtractions	Balance 12/31/02
2002 City Hall Renovation 1.76%	\$ -	\$ 650,046	\$ -	\$ 650,046

On November 14, 2002, the City issued \$650,046 in new bond anticipation notes to cover the cost of remodeling, renovating, furnishing, equipping and otherwise improving city hall including improving its site and related parking facilities.

These notes were backed by the full faith and credit of the City. The note liabilities were reflected in the fund which received the proceeds and will repay the debt.

NOTE 7: CONTRACTUAL COMMITMENTS

During 2002, the City entered into various contracts for building and construction projects. Outstanding contractual commitments of \$575,806 existed at year ended December 31, 2002.

NOTE 8: TAXES

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

Real property taxes collected were based on assessed value equal to thirty-five percent (35%) of appraised value. The Lorain County Auditor reappraises real property every six years, with a triennial update, which was last completed for 2000. Real property taxes are levied on assessed valuations as of December 31, which is the lien date. Real property taxes, billed one year in arrears, are payable annually or semiannually. The first payment is due January 20, and the remainder is payable by June 20.

Taxpayers (other than public utilities) become liable for tangible personal property taxes on January 1 of the current calendar year based on tax rates determined in the preceding year and assessed values determined at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of that calendar year. Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25 percent of its true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30 with the remainder payable by September 20. Under Ohio law, personal property taxes do not attach as a lien on the personal property.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year

CITY OF AVON LAKE

Notes to the General-Purpose Financial Statements For the Year Ended December 31, 2002 (Continued)

preceding the tax collection year, the lien date. Certain public utility tangible personal property currently is assessed at 88 percent of its true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

The full tax rate for all City operations for the year ended December 31, 2002 was \$7.24 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2002 property tax receipts were based are as follows:

Real Property	\$ 451,479,810
Tangible Personal Property	<u>247,763,290</u>
Total	<u>\$ 699,243,100</u>

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

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

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

NOTE 9: PENSION PLAN

Ohio Public Employees Retirement System (OPERS)

Plan Description. All City full-time employees, other than Police and Firefighters, participate in the Ohio Public Employees Retirement System (OPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Ohio Public Employees Retirement System. OPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. The Ohio Public Employees Retirement System issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-PERS (7377).

Funding Policy. The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contributions rates are 8.5 percent of covered salary, other than law enforcement and public safety. The law enforcement and public safety classifications do not affect the City. The 2002 employer pension contribution rate for the City was 13.55 percent of covered payroll, 8.55 percent was the portion used to fund pension obligations for 2002, a decrease from 9.25 percent in 2001. Contributions are authorized by State statute. The City's required contributions to OPERS for the years ending December 31, 2002, 2001, and 2000 were \$417,008, \$373,077, and \$256,971, respectively. The full amount has been contributed for 2001 and 2000, and 73 percent has been contributed for 2002 with the remainder being reported as a liability within the respective funds.

CITY OF AVON LAKE

Notes to the General-Purpose Financial Statements For the Year Ended December 31, 2002 (Continued)

Ohio Police and Fire Pension Fund (OP&F)

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

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations, while employers are required to contribute 19.5 percent for police (11.75 percent was the portion used to fund pension obligations for 2002, a decrease from 12.00 percent for 2001); and 24.00 percent for firefighters (16.25 percent was the portion used to fund pension obligations in 2002, a decrease from 16.75 from 2001). The City's contributions to OP&F for the years ending December 31, 2002, 2001, and 2000 were \$472,192, \$440,516, and \$435,457, respectively. The full amount has been contributed for 2001 and 2000, and 73 percent has been contributed for 2002 with the remainder being reported as a liability within the within the respective funds.

NOTE 10: POST EMPLOYMENT BENEFITS

Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2002 employer contribution rate was 13.55 percent of covered payroll; 5.00 percent was the portion that was used to fund health care for 2002. The 2001 employer rate was 13.55 percent and 4.30 percent was used to fund health care. The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS.

Benefits are advance-funded using the entry age normal actuarial cost method of valuation. Significant actuarial assumptions, based on OPERS latest actuarial review performed as of December 31, 2001, include a rate of return on investments of 8.00 percent, an annual base pay 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 to 6.30 percent over and above the base 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. Under this approach, assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets.

The number of active contributing participants was 402,041. The City's actual employer contributions for 2002, which were used to fund postemployment benefits, were \$243,862. The actual contribution and the actuarially required contribution amounts are the same. OPERS actuarially valued net assets available for payment of benefits at December 31, 2001, (the latest information available) were \$11.6 billion. The

CITY OF AVON LAKE

Notes to the General-Purpose Financial Statements For the Year Ended December 31, 2002 (Continued)

actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$16.4 billion and \$4.8 billion, respectively.

In December 2001, the Board adopted the Health Care "Choices" Plan in its continuing effort to respond to the rise in the cost of Health Care. The Choices Plan will be offered to all persons newly hired under OPERS after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices, as the name suggests, will incorporate a cafeteria approach, offering a more broad 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.

Ohio Police and Fire Pension Fund

The Ohio Police and Fire Pension Fund (OP&F) provides postretirement 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 full-time or on a 2/3 basis.

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides the statutory authority allowing the OP&F's board of trustees to provide health care coverage and states that health care costs paid from 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 is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.50 and 7.75 percent of covered payroll, respectively, was applied to the postemployment health care program during 2001 and 2002. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment.

The City's actual contributions for 2002 that were used to fund postemployment benefits for police and fire were \$129,424 and \$131,547. The OP&F's total health care expenses for the year ended December 31, 2001, (the latest information available) was \$122,298,771, which was net of member contributions of \$6,874,699. The number of OP&F participants eligible to receive health care benefits as of December 31, 2001, was 13,174 for police and 10,239 for firefighters.

In addition to current contributions, the City pays installments on the accrued liability incurred when the State of Ohio established the statewide pension system for police and firefighters in 1967. As of December 31, 2002, the unfunded liability of the City was \$115,055 payable in semiannual payments through the year 2035. This is an accounting liability of the City which will not vary. The liability is reported in the general long-term obligations account group.

NOTE 11: JOINTLY GOVERNED ORGANIZATIONS/JOINT VENTURES

Lorain County Community Alliance Council of Governments

The City is a member of the Lorain County Community Alliance (Alliance) which is a council of governments formed under Ohio Revised Code § 167. The Alliance is comprised of public members that

CITY OF AVON LAKE

Notes to the General-Purpose Financial Statements For the Year Ended December 31, 2002 (Continued)

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

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

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

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

Member city, village, and township are eligible to cast votes equivalent to the total population of the member jurisdictions which they represent and Lorain County members are eligible to cast votes equivalent to twenty-five percent of the total population of Lorain County. The City of Avon Lake contributed \$250 to the Alliance during 2002. Financial information can be obtained by contacting Mark R. Stewart, Lorain County Auditor, at 226 Middle Avenue, Elyria, Ohio 44035, who serves as fiscal agent.

Northeast Lorain County Social Services Consortium

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

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

CITY OF AVON LAKE

Notes to the General-Purpose Financial Statements For the Year Ended December 31, 2002 (Continued)

The Consortium established a disbursement office at the City of Avon Lake for the management of Consortium fiscal affairs. The City contributed \$20,760 to the Consortium during 2002. Financial information can be obtained by contacting Northeast Lorain County Social Services, Janet M. Strickland, Director, 4575 Lake Road, Sheffield Lake, Ohio 44054.

Medina-Lorain Water Consortium

The City is a member of the Medina-Lorain Consortium (the Consortium), which is a joint venture between the City of Avon Lake, the Rural Lorain County Water Authority, Medina County, and the City of Medina. The Consortium was created in 1999 for the purpose of construction, operation and maintenance of a water transmission line to serve the members of the Consortium, and for the purpose of bulk water from the City of Avon Lake. There is an ongoing financial responsibility for all parties for the maintenance and repair of the project. The Consortium is governed by representatives of the member parties. The City of Avon Lake serves as the fiscal agent for the Consortium. As of December 31, 2002, the City's equity interest in the Consortium was \$2,177,071. Financial information can be obtained from Joe Newlin, City of Avon Lake Finance Director, 150 Avon Belden Road, Avon Lake, Ohio 44012.

NOTE 12: RISK MANAGEMENT

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

During 2002, the City contracted for various types of insurance as follows:

<u>Company</u>	<u>Type of Coverage</u>	<u>Deductible</u>
St. Paul Insurance Company	Property	\$ 5,000
	General Liability	5,000
	Law Enforcement	5,000
	Health Care	5,000
	Auto	1,000
	Crime	250
Travelers Indemnity Company	Boiler & Machinery	1,000
General Star National Insurance	Public Officials Liability	25,000

Settled claims have not exceeded this commercial coverage in any of the past three years.

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

NOTE 13: SEGMENT INFORMATION FOR ENTERPRISE FUNDS

Segment information for Enterprise Funds is as follows:

CITY OF AVON LAKE

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2002
(Continued)**

	Water Fund	Sewer Fund	Total
Operating Revenues	\$ 6,668,092	\$ 2,782,406	\$ 9,450,498
Operating Expenses Before Depreciation	3,452,535	2,134,672	5,587,207
Depreciation Expense	670,838	535,097	1,205,935
Operating Gain	2,544,719	112,637	2,657,356
Net Nonoperating (Expense)	(1,496,865)	(330,407)	(1,827,272)
Net Transfers	-	346,573	346,573
Net Income (Loss)	1,047,854	128,803	1,176,657
Plant, Property and Equipment Additions	496,266	31,763	528,029
Net Working Capital	5,549,273	2,706,153	8,255,426
Total Assets	45,051,941	27,060,073	72,112,014
Long-Term Liabilities	27,041,684	3,326,903	30,368,587
Total Equity	17,277,397	23,382,137	40,659,534

NOTE 14: LANDFILL POSTCLOSURE COSTS

State and federal laws and regulations required the City to place a final cover on the municipal landfill when it stopped accepting waste and perform certain maintenance and monitoring functions at the site for 30 years after closure. The City closed the landfill on December 31, 1990. The Landfill Postclosure Costs liability reflects an estimate of the remaining costs to perform the required maintenance and monitoring functions for approximately 18 years. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

NOTE 15: CONTINGENCIES

Litigation

As of December 31, 2002, the City was a party to a legal proceeding. The ultimate disposition of this proceeding is not presently determinable, but will not, in the opinion of management, have a material adverse effect on the continued operations of the City.



**Auditor of State
Betty Montgomery**

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

City of Avon Lake
Lorain County
150 Avon Belden Road
Avon Lake, Ohio 44012-1627

To the City Council:

We have audited the general-purpose financial statements of the City of Avon Lake, Lorain County, (the City) as of and for the year ended December 31, 2002, and have issued our report thereon dated August 20, 2003, in which we noted the District changed the fund type classification of the Recreational Trust Fund, WWC Eastern Transmission Line 2 Fund and the ELT 2 MOR Fund. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated August 20, 2003.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the City in a separate letter dated August 20, 2003.

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

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

Betty Montgomery
Auditor of State

August 20, 2003



**Auditor of State
Betty Montgomery**

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Columbus, Ohio 43216-1140

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800-282-0370

Facsimile 614-466-4490

CITY OF AVON LAKE

LORAIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 30, 2003**