



**Auditor of State
Betty Montgomery**

CITY OF AVON LAKE
LORAIN COUNTY
FOR THE YEAR ENDED DECEMBER 31, 2003

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**Auditor of State
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INDEPENDENT ACCOUNTANTS' REPORT

Member of City Council
Board of Municipal Utilities
City of Avon Lake
Lorain County
150 Avon Belden Road
Avon Lake, Ohio 44012-1699

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

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

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

As described in Note 4, during the year ended December 31, 2003, the City implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* and restated the capital assets of the proprietary funds.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 1, 2005, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

Betty Montgomery
Auditor of State

April 1, 2005

CITY OF AVON LAKE
LORAIN COUNTY
FOR THE YEAR ENDED DECEMBER 31, 2003

MANAGEMENT’S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Avon Lake’s financial performance provides an overview of the City’s financial activities for the fiscal year ended December 31, 2003.

Please read it in conjunction with the City’s basic financial statements, which begin on page 15.

FINANCIAL HIGHLIGHTS

- The City’s net assets increased \$1.6 million as a result of this year’s operations. The net assets of our governmental activities increased by \$2.0 million, or 4.4 percent, and the net assets of business-type activities decreased by \$0.4 million, or 1.6 percent.
- The City issued General Obligation Bonds in 2003 for the purpose of constructing outdoor recreational facilities and constructing improvements to the wastewater collection system of the City.
- The City’s Bond Rating improved from A1 to Aa3 per Moody’s.

USING THIS ANNUAL FINANCIAL REPORT

This annual financial report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 15 and 16) provide information about the activities of the City as a whole and present a longer-term view of the City’s finances. Fund financial statements begin on page 17. For governmental activities, these statements tell how these services were financed in the short-term as well as what remains for future spending. Fund financial statements also report the City’s operations in more detail than the government-wide statements by providing information about the City’s most financially significant funds.

Reporting the City as a Whole

The Statement of Net Assets and the Statement of Activities

Our analysis of the City as a whole begins on page 15. One of the most important questions asked about the City’s finances is, “Is the City as a whole better off or worse off as a result of the year’s activities?” The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. Accrual of the current year’s revenues and expenses are taken into account regardless of when cash is received or paid.

CITY OF AVON LAKE
LORAIN COUNTY
FOR THE YEAR ENDED DECEMBER 31, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

These 2 statements report the City's *net assets* and changes in them. You can think of the City's net assets, the difference between assets, what the citizens own, and liabilities, what the citizens owe, as one way to measure the City's financial health, or *financial position*. Over time, *increases or decreases* in the City's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors; however, such as changes in the City's property tax base, income tax base, and the condition of the City's capital assets (land, roads, building, water and sewer lines, etc...) to assess the *overall health* of the City.

In the Statement of Net Assets and the Statement of Activities, we divide the City into 2 types of activities:

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

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

Reporting the City's Most Significant Funds

Fund Financial Statements

Our analysis of the City's major funds begins on page 17. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. Some funds are required to be established by State law. However, City Council establishes many other funds to help it control and manage money for particular purposes (ie. Income Tax Transfer Fund) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (ie. grants received from the U.S. Department of Justice). The City's two kinds of funds, governmental and proprietary, use different accounting approaches.

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

Proprietary funds: When the City charges customers for the full cost of the services it provides whether to outside customers or to other units of the City, these services are reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds (a component of business type funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

CITY OF AVON LAKE
LORAIN COUNTY
FOR THE YEAR ENDED DECEMBER 31, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

THE CITY AS A WHOLE

The City's *combined* net assets changed from a year ago, *increasing* from \$66.3 million to \$67.9 million. Looking at the net assets and net expenses of governmental and business-type activities separately, different stories emerge. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the City's governmental and business-type activities.

Table 1
Net Assets
(In Millions)

	Governmental Activities		Business-Type Activities		Total	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Assets						
Current and Other Assets	\$ 23.9	\$ 24.0	\$ 16.8	\$ 13.2	\$ 40.7	\$ 37.2
Capital Assets, Net	<u>39.8</u>	<u>37.6</u>	<u>40.8</u>	<u>41.1</u>	<u>80.6</u>	<u>78.7</u>
Total Assets	<u>\$ 63.7</u>	<u>\$ 61.6</u>	<u>\$ 57.6</u>	<u>\$ 54.3</u>	<u>\$ 121.3</u>	<u>\$ 115.9</u>
Liabilities						
Current and Other Liabilities	\$ 5.7	\$ 6.2	\$ 1.5	\$ 0.8	\$ 7.2	\$ 7.0
Long-Term Liabilities:						
Due Within One Year	1.0	0.8	1.9	1.7	2.9	2.5
Due Within More Than One Year	<u>11.6</u>	<u>11.2</u>	<u>31.7</u>	<u>28.9</u>	<u>43.3</u>	<u>40.1</u>
Total Liabilities	<u>18.3</u>	<u>18.2</u>	<u>35.1</u>	<u>31.4</u>	<u>53.4</u>	<u>49.6</u>
Net Assets						
Invested in Capital Assets Net of Debt	29.6	27.8	7.6	12.5	37.2	40.3
Restricted:						
Special Revenue	2.6	2.2	-	-	2.6	2.2
Debt Services	0.5	0.5	1.3	1.3	1.8	1.8
Capital Projects	3.4	3.3	-	-	3.4	3.3
Unrestricted	<u>9.3</u>	<u>9.6</u>	<u>13.6</u>	<u>9.1</u>	<u>22.9</u>	<u>18.7</u>
Total Net Assets	<u>\$ 45.4</u>	<u>\$ 43.4</u>	<u>\$ 22.5</u>	<u>\$ 22.9</u>	<u>\$ 67.9</u>	<u>\$ 66.3</u>

CITY OF AVON LAKE
LORAIN COUNTY
FOR THE YEAR ENDED DECEMBER 31, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

Net assets of the City's governmental activities increased by 4.6 percent (\$45.4 million compared to \$43.4 million). Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - decreased from \$9.6 million at December 31, 2002 to \$9.3 million at the end of 2003. Restricted net assets, those restricted mainly for debt services, special revenue funds and capital projects - increased from \$6.0 million at December 31, 2002 to \$6.5 million at the end of 2003. The investment in capital assets, net of debt category increased by \$1.8 million.

The net assets of our business-type activities decreased by 1.8 percent (\$22.9 million compared to \$22.5 million) in 2003 due mainly by the borrowing of \$4.5 million for wastewater system improvements and not starting the projects as of year end.

Table 2 shows the changes in net assets for the year ended December 31, 2003. Since this is the first year the City has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to 2002 are not available. The City will provide a comparative analysis of government-wide data in future years.

Table 2
Net Assets
(In Millions)

	Governmental Activities <u>2003</u>	Business-Type Activities <u>2003</u>	Total <u>2003</u>
Revenues			
Program Revenues:			
Charges for Services	\$ 1.3	\$ 10.7	\$ 12.0
Operating Grants and Contributions	0.2	0.0	0.2
Capital Grants and Contributions	<u>0.3</u>	<u>0.3</u>	<u>0.6</u>
Total Program Revenues	<u>1.8</u>	<u>11.0</u>	<u>12.8</u>
General Revenues:			
City Income Taxes	6.4	-	6.4
Property Taxes/Special Assessments	5.5	-	5.5
Intergovernmental	2.2	-	2.2
Grants and Contributions	-	-	-
Interest and Investment Earnings	0.3	0.2	0.5
Charges for Services not			
Restricted to Program Revenue	-	-	-
Other	0.1	0.1	0.2
Gain or Loss on Sale of Assets	-	-	-
Transfers	<u>(0.3)</u>	<u>0.3</u>	<u>-</u>
Total General Revenues	<u>14.2</u>	<u>0.6</u>	<u>14.8</u>
Total Revenues	<u>\$ 16.0</u>	<u>\$ 11.6</u>	<u>\$ 27.6</u>

CITY OF AVON LAKE
LORAIN COUNTY
FOR THE YEAR ENDED DECEMBER 31, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

Table 2
Net Assets (continued)
(In Millions)

	Governmental Activities <u>2003</u>	Business-Type Activities <u>2003</u>	Total <u>2003</u>
Expenses			
Program Expenses:			
General Government	\$ 2.7	\$ -	\$ 2.7
Security of Persons and Property	5.3	-	5.3
Public Health	0.1	-	0.1
Transportation	4.6	-	4.6
Community Environment	0.3	-	0.3
Basic Utility Services	0.1	-	0.1
Leisure Time Activities	0.4	-	0.4
Interest on Long-Term Debt	0.5	-	0.5
Water	-	8.4	8.4
Sewer	<u>0.0</u>	<u>3.6</u>	<u>3.6</u>
Total Program Expenses	<u>14.0</u>	<u>12.0</u>	<u>26.0</u>
Increase (Decrease) in Net Assets	<u>\$ 2.0</u>	<u>\$ (0.4)</u>	<u>\$ 1.6</u>

Governmental Activities

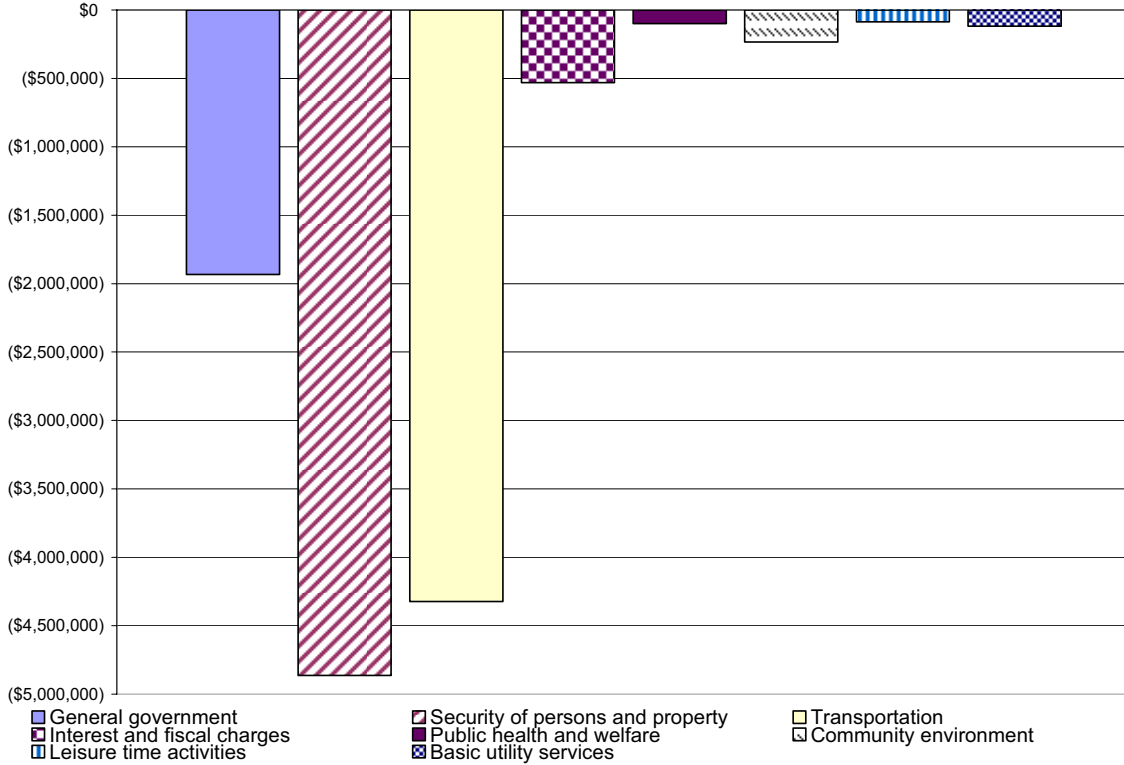
The 1.5 percent income tax is the largest revenue source for the City. Designated by ordinance, the Capital Acquisition and Improvement Fund receives 20 percent of net income tax received. In addition, the Sewer System Construction Fund receives 5 percent of net income tax received. The remaining 75 percent is allocated to the General Fund and is used for such things as Police and Fire Protection, Street Maintenance, etc.

Graph 1 represents the cost of each of the City's Governmental four major program's – General Government, Security of Persons and Property, Transportation and Leisure Time Activities as well as each program's *net* cost (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the City's taxpayers by each of these functions.

CITY OF AVON LAKE
LORAIN COUNTY
FOR THE YEAR ENDED DECEMBER 31, 2003

MANAGEMENT’S DISCUSSION AND ANALYSIS

Graph 1
Governmental Programs Net Cost



As indicated by Governmental Program Expenses, citizen’s safety, health, and well being is emphasized.

When looking at sources of income to support governmental activities, it should be noted that charges for services are only 8.1 percent of revenue. Revenues provided by sources other than city residents in the form of operating and capital grants comprise another 3.4 percent. The remaining revenues are primarily generated locally through property (31.9 percent) and income taxes (40.0 percent).

Business-Type Funds

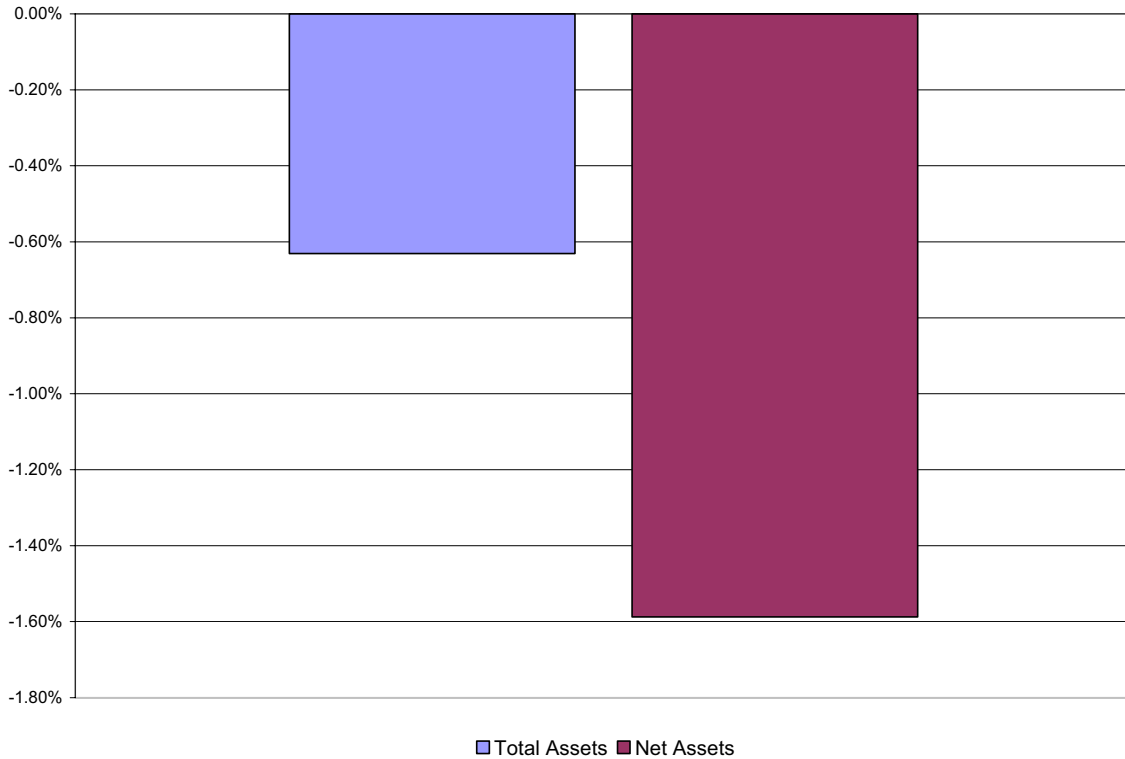
The City’s major Enterprise Funds consist of the Water Fund and the Sewer Fund. For a description of these funds see accompanying Notes to the Basic Financial Statements.

The basic financial statements for the major funds are included in this report. Because the focus on business-type funds is a cost of service measurement or capital maintenance, we have included these funds in Graph 2, which demonstrates return on ending assets and return on ending net assets.

CITY OF AVON LAKE
LORAIN COUNTY
FOR THE YEAR ENDED DECEMBER 31, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

Graph 2
Return on Assets



The City's Funds

Information about the City's major governmental funds begins on page 16. These funds are reported using the modified accrual basis of accounting. All Governmental funds had total revenues of \$16.5 million and expenditures of \$16.8 million. The General Fund balance decreased \$31,485. The City closely monitors its revenues and expenditures to maintain a sound fund balance.

General Fund Budgeting Highlights

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

CITY OF AVON LAKE
LORAIN COUNTY
FOR THE YEAR ENDED DECEMBER 31, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

The General Fund variance from original estimated revenues decreased by \$35,990 decreasing the overall General Fund estimated revenues to \$5,359,228 as indicated on page 21. This change represents 0.70% of total revenue. The General Fund variance from original appropriations to final appropriations was \$114,121, increasing overall General Fund appropriations to \$10,861,004. This change represents 1.1% of total appropriations. These changes reflect the City's realistic estimates based on the financial conditions in our states economy providing effective fiscal management.

The Income Tax Transfer Fund estimated revenues and appropriations were not adjusted from the original to final budgetary numbers. This reflects that employment in the City of Avon Lake maintained, and in fact, exceeded estimates.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2003, the City had \$80.7 million, net of depreciation, invested in a broad range of capital assets, including police, fire and radio equipment, land, vehicles, buildings, park facilities, roads, bridges, and water and sewer lines in Table 3. This amount represents a net increase over last year.

CITY OF AVON LAKE
LORAIN COUNTY
FOR THE YEAR ENDED DECEMBER 31, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

Table 3
Capital Assets (Net of Depreciation)
(In Millions)

	Governmental Activities		Business-Type Activities		Total	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Capital Assets						
Land	\$ 3.1	\$ 3.0	\$ 1.5	\$ 1.3	\$ 4.6	\$ 4.3
Construction in Progress	0.4	0.8	2.0	3.5	2.4	4.3
Building and Improvements	9.8	9.1	18.2	17.1	28.0	26.2
Equipment	2.1	2.0	1.9	1.9	4.0	3.9
Vehicles	1.2	0.9	0.1	0.1	1.3	1.0
Parking Lots	0.2	0.1	0.2	-	0.4	0.1
City Streets	11.3	10.0	-	-	11.3	10.0
Storm Sewers & Manholes	11.7	11.6	-	-	11.7	11.6
Water and Sewer lines	-	-	<u>17.0</u>	<u>16.8</u>	<u>17.0</u>	<u>16.8</u>
Total Capital Assets	\$ <u>39.8</u>	\$ <u>37.5</u>	\$ <u>40.9</u>	\$ <u>40.7</u>	\$ <u>80.7</u>	\$ <u>78.2</u>

This year's major additions in the Governmental Activities included a Heavy Rescue Vehicle, Leaf Vacuum and Chassis, Street Sweeper, Police Cruisers, Lake House and Municipal building renovations. Additions to Business-Type Activities included a Garage/Office Complex and various sewer separation projects.

The City's 2004 capital budget anticipates a spending level of \$11.7 million for capital projects. The City borrowed \$5.5 million in October 2003 for park improvements and waste water improvements included in the above figure. OWDA financing is being sought for approximately a \$4.7 million improvement project. More detailed information about the City's capital assets is presented in Note 8 to the basic financial statements.

Debt

At December 31, 2003, the City had \$17.6 million in General Obligation Bonds.

Table 4
General Obligation Bond Debt Outstanding at Year End
(Governmental Activities and Business-Type Activities)

	Governmental		Business-Type		Total	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Unvoted General Obligation Bonds:						
2001 Various Refunding Bonds	.4	.5	6.8	7.2	7.2	7.7
2001 Pin Oak Parkway Bonds	.4	.5	-	-	.4	.5
2001 Safety Center Bonds	4.5	4.6	-	-	4.5	4.6
2003 Park Improvement Bonds	1.0	-	-	-	1.0	-
2003 Wastewater Improvement Bonds	-	-	<u>4.5</u>	<u>-</u>	<u>4.5</u>	<u>-</u>
Total Unvoted General Obligation Bonds:	<u>6.3</u>	<u>5.6</u>	<u>11.3</u>	<u>7.2</u>	<u>17.6</u>	<u>12.8</u>

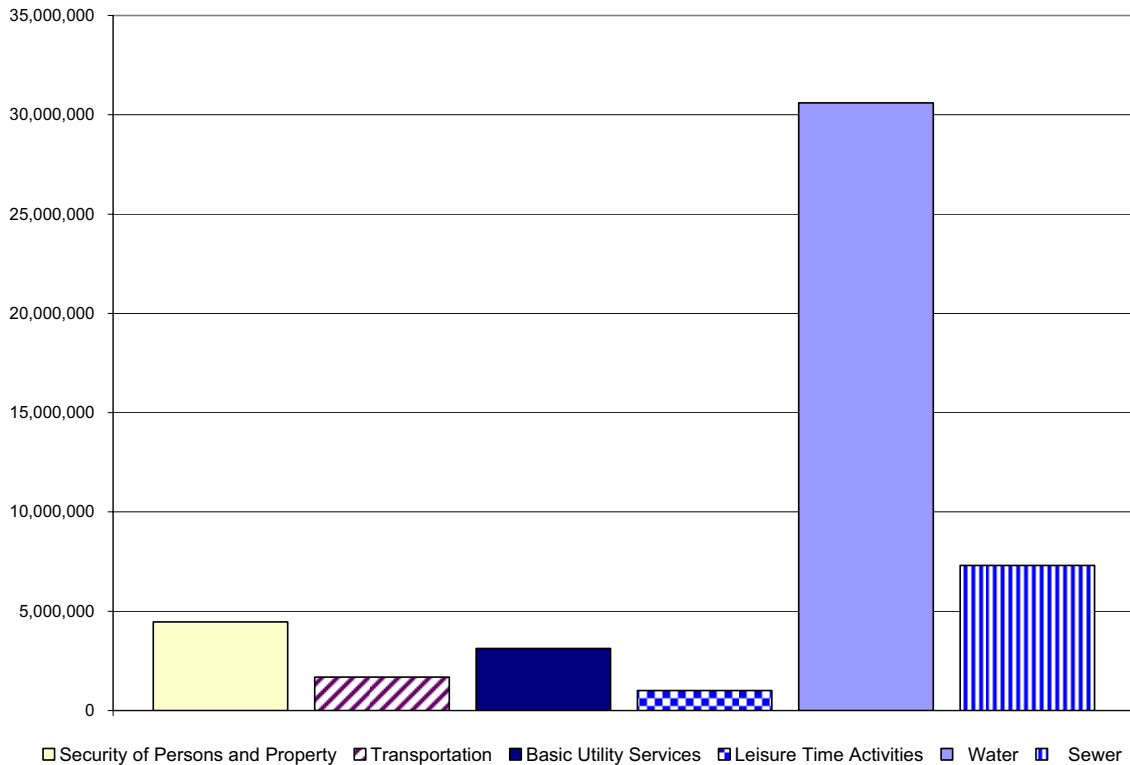
The City's overall legal debt margin was \$78,060,091 at December 31, 2003. The City's unvoted legal debt margin was \$40,888,619 at December 31, 2003.

CITY OF AVON LAKE
LORAIN COUNTY
FOR THE YEAR ENDED DECEMBER 31, 2003

MANAGEMENT’S DISCUSSION AND ANALYSIS

At December 31, 2003, the City had outstanding long-term debt obligations in the amount of \$10.3 million for the governmental activities and \$33.2 million for business-type activities. The breakout on debt is presented in the graph below.

Graph 3
Debt by Activity



Debt for Security of Persons and Property consist of \$4,464,101 for the City of Avon Lakes Safety Center. Debt for Transportation consists of \$418,299 for widening of Walker Rd., \$1,245,000 for the improvements to Pin Oak Parkway, \$9,471 for Pin Oak Parkway improvements, and \$10,370 for curb and gutter improvements along Redwood Blvd. Debt for Basic Utility Services consists of \$2,684,996 for the Central Avon Lake Ditch Project, \$24,549 for storm sewers along Avon Point, \$415,741 for storm sewers along Walker Rd. Debt for Leisure Time Activities consists of \$1,000,000 for improvements to Weiss Field. Debt for Water includes five improvement and expansion projects to the City of Avon Lakes water distribution plant totaling \$30,601,088. Debt for Sewer consists of \$1,395,286 for sanitary sewer installation along Walker Rd., \$104,818 for Waste Water Treatment plant expansion, \$532,856 for digester repairs and improvements, \$778,475 for sanitary sewer installation along Walker Rd., and \$4,500,000 for various sewer separation and storm sewer projects throughout the City of Avon Lake.

CITY OF AVON LAKE
LORAIN COUNTY
FOR THE YEAR ENDED DECEMBER 31, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City's general obligation bond rating is Aaa from Moody's. Other obligations include accrued vacation pay and sick leave. More detailed information about the City's long-term liabilities is presented in the notes to the basic financial statements.

Current Financial Related Activities

The City of Avon Lake's Administration, City Council and Board of Municipal Utilities are committed to improving services to its residents as well as maintaining and upgrading the City's assets and infrastructure.

In 2003, the City issued \$5,500,000 in bonds for the reconfiguration of Weiss Field's baseball diamonds as well as the City's continued commitment for sewer separation projects. New sewers were installed on the southern portion of Lear Road to accommodate development in the south eastern quadrant of the City. Also scheduled to be completed in 2004 are the separation of the sewers along State Route 83 as well as miscellaneous separations along State Route 6.

During the month of February 2004, the Utility Departments administrative staff moved into their new Office/Garage complex. Also early in 2004, the Water Department started an expansion project with \$4,700,000 in OWDA funds to increase its capacity to 40 million gallons per day ensuring the necessary capacity for the City of Avon Lake and surrounding communities well into the future.

The City continues to address its need for new vehicles planning to replace 3 police cruisers, a life support ambulance and two five ton dump trucks. Also the City continues an aggressive street repair program with \$826,000 budgeted for 2004 along with \$226,100 budgeted for the repaving of St. Rt. 6 and St. Rt. 83.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact City of Avon Lake, Avon Lake, Ohio, or visit our website at www.avonlake.org (Phone 440-933-6141), Joe Newlin – Finance Director.

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City of Avon Lake
Lorain County
Statement of Net Assets
December 31, 2003

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$12,257,408	\$10,928,017	\$23,185,425
Receivables:			
Taxes	6,409,314	0	6,409,314
Accounts	48,804	895,862	944,666
Special assessments	4,742,474	0	4,742,474
Due from other governments	148,403	74,000	222,403
Materials and supplies inventory	77,940	56,786	134,726
Total current assets	<u>23,684,343</u>	<u>11,954,665</u>	<u>35,639,008</u>
Noncurrent assets:			
Restricted cash and cash equivalents	185,567	1,347,290	1,532,857
Due from other governments	0	1,027,000	1,027,000
Unamortized bond issue costs and discounts	0	277,307	277,307
Investment in joint venture	0	2,191,818	2,191,818
Capital assets (Note 8)			
Land and construction in progress	3,536,242	3,509,839	7,046,081
Depreciable, net	36,289,070	37,334,811	73,623,881
Total noncurrent assets	<u>40,010,879</u>	<u>45,688,065</u>	<u>85,698,944</u>
Total assets	<u>63,695,222</u>	<u>57,642,730</u>	<u>121,337,952</u>
LIABILITIES			
Current liabilities:			
Accounts and contracts payables	76,709	309,125	385,834
Retainage payable	184,538	0	184,538
Accrued wages and benefits	319,916	91,658	411,574
Intergovernmental payable	103,579	116,401	219,980
Deferred revenue	4,965,283	0	4,965,283
Matured bonds payable	1,029	0	1,029
Interest payable	41,078	234,559	275,637
Notes payable	0	777,000	777,000
Long-term liabilities:			
Due within one year	1,038,926	1,875,678	2,914,604
Due in more than one year	11,602,950	31,698,865	43,301,815
Total liabilities	<u>18,334,008</u>	<u>35,103,286</u>	<u>53,437,294</u>
NET ASSETS			
Invested in capital assets, net of related debt	29,552,785	7,632,070	37,184,855
Restricted for:			
Capital projects	3,444,368	0	3,444,368
Debt service	493,401	0	493,401
Streets and highways	437,714	0	437,714
Public safety	1,260,633	0	1,260,633
Parks and recreation	699,965	0	699,965
Other purposes	185,567	1,347,290	1,532,857
Unrestricted	<u>9,286,781</u>	<u>13,560,084</u>	<u>22,846,865</u>
Total net assets	<u>\$45,361,214</u>	<u>\$22,539,444</u>	<u>\$67,900,658</u>

See Notes to the Basic Financial Statements

City of Avon Lake

Lorain County

Statement of Activities

For the Year Ended December 31, 2003

	Program Revenues			Net (Expense) Revenue and Changes In Net Assets		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
PROGRAMS						
Primary government:						
Governmental activities:						
General government	\$2,715,568	\$0	\$0	(\$1,933,130)	\$0	(\$1,933,130)
Security of persons and property	5,298,275	236,328	5,818	(4,863,926)	0	(4,863,926)
Public health and welfare	99,295	0	0	(99,295)	0	(99,295)
Transportation	4,565,067	0	92,561	(4,322,517)	0	(4,322,517)
Community environment	303,579	0	24,100	(233,711)	0	(233,711)
Basic utility services	118,111	0	0	(118,111)	0	(118,111)
Leisure time activities	406,947	0	192,786	(87,155)	0	(87,155)
Interest and fiscal charges	530,938	0	0	(530,938)	0	(530,938)
Total governmental activities	14,037,780	236,328	315,265	(12,188,783)	0	(12,188,783)
Business-type activities:						
Water	8,361,281	0	344,227	0	(751,873)	(751,873)
Sewer	3,644,439	0	0	0	(169,551)	(169,551)
Total business-type activities	12,005,720	0	344,227	0	(921,424)	(921,424)
Total primary government	\$26,043,500	\$236,328	\$659,492	(12,188,783)	(921,424)	(13,110,207)
General revenues						
Property taxes - general purposes				5,113,635	0	5,113,635
Income taxes				6,373,546	0	6,373,546
Special assessments				394,627	0	394,627
Intergovernmental				2,165,138	0	2,165,138
Investment earnings				346,186	148,396	494,582
Miscellaneous				142,985	75,743	218,728
Transfers, net				(344,834)	333,749	(11,085)
Total general revenues and transfers				14,191,283	557,888	14,749,171
Changes in net assets				2,002,500	(363,536)	1,638,964
Net assets - beginning (as restated - see note 4)				43,358,714	22,902,980	66,261,694
Net assets - ending				\$45,361,214	\$22,539,444	\$67,900,658

See Notes to the Basic Financial Statements

City of Avon Lake

Lorain County

Balance Sheet

Governmental Funds

December 31, 2003

	General Fund	Income Tax Transfer Fund	Capital Improvement Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	\$3,631,481	\$1,377,617	\$1,415,430	\$534,479	\$5,298,401	\$12,257,408
Cash and cash equivalents with fiscal and escrow agents	0	0	0	1,029	184,538	185,567
Receivables:						
Taxes	3,631,466	1,449,531	0	0	1,328,317	6,409,314
Accounts	4,276	0	0	0	44,528	48,804
Special assessments	0	0	0	4,742,474	0	4,742,474
Interfund	107,000	0	0	0	0	107,000
Intergovernmental	17,630	0	77,599	0	53,174	148,403
Materials and supplies inventory	25,273	0	0	0	52,667	77,940
Total assets	<u>\$7,417,126</u>	<u>\$2,827,148</u>	<u>\$1,493,029</u>	<u>\$5,277,982</u>	<u>\$6,961,625</u>	<u>\$23,976,910</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts and contracts payable	\$27,908	\$0	\$17,018	\$0	\$31,783	\$76,709
Retainage payable	0	0	0	0	184,538	184,538
Accrued wages and benefits	262,569	0	0	0	57,347	319,916
Deferred revenue	3,636,966	794,997	0	4,742,474	1,328,317	10,502,754
Intergovernmental payable	82,195	0	0	0	21,384	103,579
Interfund payables	0	0	0	0	107,000	107,000
Matured bonds payable	0	0	0	1,029	0	1,029
Interest payable	0	0	0	41,078	0	41,078
Compensated absences	12,759	0	0	0	0	12,759
Recreation fee credits payable	0	0	0	0	127,130	127,130
Total liabilities	<u>4,022,397</u>	<u>794,997</u>	<u>17,018</u>	<u>4,784,581</u>	<u>1,857,499</u>	<u>11,476,492</u>
FUND BALANCES:						
Reserved for:						
Inventories	25,273	0	0	0	52,667	77,940
Encumbrances	141,705	0	257,082	0	320,763	719,550
Debt service	0	0	0	493,401	0	493,401
Unreserved	3,227,751	2,032,151	1,218,929	0	0	6,478,831
Unreserved reported in nonmajor:						
Special revenue funds	0	0	0	0	3,804,237	3,804,237
Capital projects funds	0	0	0	0	926,459	926,459
Total fund balances	<u>3,394,729</u>	<u>2,032,151</u>	<u>1,476,011</u>	<u>493,401</u>	<u>5,104,126</u>	<u>12,500,418</u>
Total liabilities and fund balances	<u>\$7,417,126</u>	<u>\$2,827,148</u>	<u>\$1,493,029</u>	<u>\$5,277,982</u>	<u>\$6,961,625</u>	<u>\$23,976,910</u>

See Notes to the Basic Financial Statements

City of Avon Lake
Lorain County
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
December 31, 2003

Total fund balances - governmental funds \$12,500,418

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

Capital assets used in governmental activities are not financial
resources and therefore, are not reported as assets in governmental funds.
The cost of the assets is \$71,862,806 and the accumulated depreciation is \$32,037,494. 39,825,312

Income and special assessment taxes receivable will be collected this year, but are not
available soon enough to pay for the current period's expenditures, and therefore,
are deferred in the funds. 5,537,471

Long-term liabilities, including bonds payable and compensated absences,
are not due and payable in the current period and therefore, are not reported as
liabilities in the funds. (12,501,987)

Total net assets - governmental activities \$45,361,214

See Notes to the Basic Financial Statements

City of Avon Lake
Lorain County
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2003

	General Fund	Income Tax Transfer Fund	Capital Improvement Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
REVENUES						
Municipal income tax	\$0	\$6,741,972	\$0	\$0	\$0	\$6,741,972
Property and other taxes	3,349,136	0	0	0	1,597,445	4,946,581
Charges for services	148,613	0	5,583	0	148,441	302,637
Licenses and permits	579,505	0	0	0	172,774	752,279
Fines and forfeits	161,090	0	0	0	31,113	192,203
Intergovernmental	1,495,038	0	211,104	0	1,060,874	2,767,016
Special assessments	0	0	0	344,342	50,285	394,627
Interest	0	0	328,479	1,186	16,521	346,186
Other	69,175	0	0	0	4,009	73,184
Total revenues	<u>5,802,557</u>	<u>6,741,972</u>	<u>545,166</u>	<u>345,528</u>	<u>3,081,462</u>	<u>16,516,685</u>
EXPENDITURES						
Current:						
General government	2,190,318	0	325,736	0	31,797	2,547,851
Security of persons and property	4,620,331	0	404,409	0	1,282,939	6,307,679
Public health and welfare	60,500	0	0	0	38,795	99,295
Transportation	2,499,498	0	7,500	0	1,056,807	3,563,805
Community environment	295,449	0	0	0	6,986	302,435
Basic utility services	0	0	0	0	12,303	12,303
Leisure time activities	382,058	0	0	0	227,106	609,164
Capital outlay	0	0	1,458,286	0	884,840	2,343,126
Debt service:						
Principal retirement	0	0	0	456,071	0	456,071
Interest and fiscal charges	0	0	3,129	513,250	11,408	527,787
Total expenditures	<u>10,048,154</u>	<u>0</u>	<u>2,199,060</u>	<u>969,321</u>	<u>3,552,981</u>	<u>16,769,516</u>
Excess (deficiency) of revenues over expenditures	<u>(4,245,597)</u>	<u>6,741,972</u>	<u>(1,653,894)</u>	<u>(623,793)</u>	<u>(471,519)</u>	<u>(252,831)</u>
OTHER FINANCING SOURCES (USES)						
Bond proceeds	0	0	0	0	1,000,000	1,000,000
Contributions from developers	69,801	0	0	0	0	69,801
Transfers in	5,006,250	0	1,603,879	507,707	499,269	7,617,105
Transfers out	(861,939)	(6,675,000)	(375,000)	0	(50,000)	(7,961,939)
Total other financing sources (uses)	<u>4,214,112</u>	<u>(6,675,000)</u>	<u>1,228,879</u>	<u>507,707</u>	<u>1,449,269</u>	<u>724,967</u>
Net change in fund balances	<u>(31,485)</u>	<u>66,972</u>	<u>(425,015)</u>	<u>(116,086)</u>	<u>977,750</u>	<u>472,136</u>
Fund balances - beginning (as restated - see note 4)	<u>3,426,214</u>	<u>1,965,179</u>	<u>1,901,026</u>	<u>609,487</u>	<u>4,126,376</u>	<u>12,028,282</u>
Fund balances - ending	<u>\$3,394,729</u>	<u>\$2,032,151</u>	<u>\$1,476,011</u>	<u>\$493,401</u>	<u>\$5,104,126</u>	<u>\$12,500,418</u>

See Notes to the Basic Financial Statements

City of Avon Lake

Lorain County

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

Net changes in fund balances - total governmental funds \$472,136

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. 2,259,400

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

Income taxes	(368,426)	
Special assessments	<u>167,054</u>	
Total	<u>(201,372)</u>	(201,372)

Proceeds from debt issues are an other financing source in the funds, but a debt issue increases long-term liabilities in the statement of net assets. (1,000,000)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 549,287

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

Compensated absences	273,049	
Recreational fee credit payable	<u>(350,000)</u>	
Total	<u>(76,951)</u>	<u>(76,951)</u>

Change in net assets of governmental activities \$2,002,500

See Notes to the Basic Financial Statements

City of Avon Lake
Lorain County
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2003

	Budget Amounts		Actual
	Original	Final	
REVENUES			
Property and other taxes	\$3,591,740	\$3,591,740	\$3,664,057
Charges for services	146,450	146,450	147,563
Licenses and permits	572,700	572,700	588,118
Fines and forfeits	142,000	142,000	165,354
Intergovernmental	895,828	842,192	1,137,727
Other	46,500	64,146	96,196
Total revenues	<u>5,395,218</u>	<u>5,359,228</u>	<u>5,799,015</u>
EXPENDITURES			
Current:			
General government	2,448,623	2,532,024	2,238,627
Security of persons and property	4,727,586	4,739,060	4,605,722
Public health and welfare	60,500	60,500	60,500
Transportation	2,747,836	2,750,482	2,618,600
Community environment	339,559	341,159	300,794
Leisure time activities	422,779	437,779	388,183
Total expenditures	<u>10,746,883</u>	<u>10,861,004</u>	<u>10,212,426</u>
Excess (deficiency) of revenues over expenditures	<u>(5,351,665)</u>	<u>(5,501,776)</u>	<u>(4,413,411)</u>
OTHER FINANCING SOURCES (USES)			
Donations	0	0	69,801
Transfers-in	5,006,250	5,006,250	5,006,250
Transfers-out	(828,976)	(861,939)	(861,939)
Advances-in	0	0	261,108
Advances-out	0	(107,000)	(107,000)
Total other financing sources	<u>4,177,274</u>	<u>4,037,311</u>	<u>4,368,220</u>
Net change in fund balance	(1,174,391)	(1,464,465)	(45,191)
Fund balance - beginning	<u>3,511,397</u>	<u>3,511,397</u>	<u>3,511,397</u>
Fund balance - ending	<u>\$2,337,006</u>	<u>\$2,046,932</u>	<u>\$3,466,206</u>

See Notes to the Basic Financial Statements

City of Avon Lake
Lorain County
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget (Non-GAAP Basis) and Actual
Income Tax Transfer Fund
For the Year Ended December 31, 2003

	<u>Budget Amounts</u>		<u>Actual</u>
	<u>Original</u>	<u>Final</u>	
REVENUES			
Municipal income tax	<u>\$6,400,000</u>	<u>\$6,400,000</u>	<u>\$6,784,565</u>
Total revenues	<u>6,400,000</u>	<u>6,400,000</u>	<u>6,784,565</u>
EXPENDITURES			
Current:			
General government	<u>150,000</u>	<u>150,000</u>	<u>135,292</u>
Total expenditures	<u>150,000</u>	<u>150,000</u>	<u>135,292</u>
Excess (deficiency) of revenues over expenditures	<u>6,250,000</u>	<u>6,250,000</u>	<u>6,649,273</u>
OTHER FINANCING SOURCES (USES)			
Transfers-out	<u>(6,675,000)</u>	<u>(6,675,000)</u>	<u>(6,675,000)</u>
Total other financing sources (uses)	<u>(6,675,000)</u>	<u>(6,675,000)</u>	<u>(6,675,000)</u>
Net change in fund balance	(425,000)	(425,000)	(25,727)
Fund balance - beginning	<u>1,403,345</u>	<u>1,403,345</u>	<u>1,403,345</u>
Fund balance - ending	<u><u>\$978,345</u></u>	<u><u>\$978,345</u></u>	<u><u>\$1,377,618</u></u>

See Notes to the Basic Financial Statements

City of Avon Lake
Lorain County
Statement of Fund Net Assets
Proprietary Funds
December 31, 2003

	Business-Type Activities		
	Water	Sewer	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$3,958,841	\$6,969,176	\$10,928,017
Receivables:			
Accounts	487,863	407,999	895,862
Due from other governments	74,000	0	74,000
Materials and supplies inventory	41,092	15,694	56,786
Total current assets	<u>4,561,796</u>	<u>7,392,869</u>	<u>11,954,665</u>
Noncurrent assets:			
Restricted cash and cash equivalents	1,065,116	282,174	1,347,290
Due from other governments	1,027,000	0	1,027,000
Unamortized bond issue costs and discounts	259,256	18,051	277,307
Investment in joint venture	2,191,818	0	2,191,818
Capital assets: (Note 8)			
Land and construction in progress	2,918,462	591,377	3,509,839
Depreciable capital assets	38,698,086	22,567,874	61,265,960
Less accumulated depreciation	(12,793,512)	(11,137,637)	(23,931,149)
Total noncurrent assets	<u>33,366,226</u>	<u>12,321,839</u>	<u>45,688,065</u>
Total assets	<u>37,928,022</u>	<u>19,714,708</u>	<u>57,642,730</u>
LIABILITIES			
Current liabilities:			
Accounts and contracts payables	141,755	167,370	309,125
Accrued wages and benefits	47,237	44,421	91,658
Intergovernmental payable	62,296	54,105	116,401
Interest payable	211,417	23,142	234,559
Bond anticipation notes	777,000	0	777,000
General obligation bonds	425,676	226,036	651,712
OWDA general obligation debt	316,051	202,855	518,906
Revenue bonds	580,000	0	580,000
Total current liabilities	<u>2,561,432</u>	<u>717,929</u>	<u>3,279,361</u>
Noncurrent liabilities:			
Compensated absences	176,724	185,296	362,020
General obligation bonds	4,923,399	5,669,250	10,592,649
OWDA general obligation debt	6,376,962	1,213,351	7,590,313
Revenue bonds	13,278,943	0	13,278,943
Total noncurrent liabilities	<u>24,756,028</u>	<u>7,067,897</u>	<u>31,823,925</u>
Total liabilities	<u>27,317,460</u>	<u>7,785,826</u>	<u>35,103,286</u>
NET ASSETS			
Invested in capital assets, net of related debt	2,921,948	4,710,122	7,632,070
Restricted for debt service	1,065,116	282,174	1,347,290
Unrestricted	<u>6,623,498</u>	<u>6,936,586</u>	<u>13,560,084</u>
Total net assets	<u>\$10,610,562</u>	<u>\$11,928,882</u>	<u>\$22,539,444</u>

See Notes to the Basic Financial Statements

City of Avon Lake
Lorain County
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
for the Year Ended December 31, 2003

	Business-Type Activities		
	Water	Sewer	Total
OPERATING REVENUES			
Charges for services	\$7,609,408	\$3,474,888	\$11,084,296
Other	73,190	2,553	75,743
Total operating revenues	7,682,598	3,477,441	11,160,039
OPERATING EXPENSES			
Personal services	1,339,677	1,306,149	2,645,826
Contractual services	1,859,650	877,757	2,737,407
Materials and supplies	2,803,444	657,863	3,461,307
Depreciation	802,643	532,995	1,335,638
Total operating expenses	6,805,414	3,374,764	10,180,178
Operating income	877,184	102,677	979,861
NON-OPERATING REVENUES (EXPENSES)			
Earnings on investments	132,815	15,581	148,396
Interest and fiscal charges	(1,555,867)	(269,675)	(1,825,542)
Total non-operating (expenses)	(1,423,052)	(254,094)	(1,677,146)
(Loss) before operating transfers	(545,868)	(151,417)	(697,285)
Transfers-in	0	333,749	333,749
Change in net assets	(545,868)	182,332	(363,536)
Total net assets - beginning (as restated - see note 4)	11,156,430	11,746,550	22,902,980
Total net assets - ending	\$10,610,562	\$11,928,882	\$22,539,444

See Notes to the Basic Financial Statements

City of Avon Lake
Lorain County
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2003

	<u>Business-Type Activities</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Totals</u>
Cash Flows From Operating Activities			
Cash received from customers and users	\$7,676,332	\$3,536,271	\$11,212,603
Cash paid to suppliers	(5,045,253)	(1,557,047)	(6,602,300)
Cash paid to employees	(1,297,516)	(1,252,000)	(2,549,516)
Net cash provided by operating activities	<u>1,333,563</u>	<u>727,224</u>	<u>2,060,787</u>
Cash Flows From Noncapital Financing Activities			
Transfers-in	<u>0</u>	<u>333,749</u>	<u>333,749</u>
Net cash provided by noncapital financing activities	<u>0</u>	<u>333,749</u>	<u>333,749</u>
Cash Flows From Capital and Related Financing Activities			
Purchase of capital assets	(1,071,021)	(673,157)	(1,744,178)
Contributions to joint venture	(14,747)	0	(14,747)
Proceeds from the sale of notes or bonds	1,547,000	4,500,000	6,047,000
Principal repaid on capital debt	(1,257,517)	(398,547)	(1,656,064)
Interest paid on capital debt	(1,554,002)	(186,716)	(1,740,718)
Net cash (used for) provided by capital financing activities	<u>(2,350,287)</u>	<u>3,241,580</u>	<u>891,293</u>
Cash Flows From Investing Activities			
Interest received	<u>63,695</u>	<u>13,817</u>	<u>77,512</u>
Net cash provided by investing activities	<u>63,695</u>	<u>13,817</u>	<u>77,512</u>
Net (decrease) increase in cash and cash equivalents	(953,029)	4,316,370	3,363,341
Cash and cash equivalents, beginning	<u>5,976,986</u>	<u>2,934,980</u>	<u>8,911,966</u>
Cash and cash equivalents, ending	<u><u>\$5,023,957</u></u>	<u><u>\$7,251,350</u></u>	<u><u>\$12,275,307</u></u>
Reconciliation Of Operating Income To Net Cash Provided By Operating Activities			
Operating income	\$877,184	\$102,677	\$979,861
Adjustments:			
Depreciation expense	802,643	532,995	1,335,638
Changes In Assets And Liabilities:			
Decrease in unamortized bond costs	954	0	954
(Increase) in materials and supplies inventories	(7,220)	(2,455)	(9,675)
(Increase) in accounts receivable	(322,328)	(11,590)	(333,918)
Decrease in intergovernmental receivable	70,000	0	70,000
(Decrease) increase in accounts and contracts payable	(101,755)	92,315	(9,440)
Increase in accrued wages and benefits payable	33,185	8,905	42,090
(Decrease) increase in intergovernmental payable	(19,100)	4,377	(14,723)
Net cash provided by operating activities	<u><u>\$1,333,563</u></u>	<u><u>\$727,224</u></u>	<u><u>\$2,060,787</u></u>

See Notes to the Basic Financial Statements

City of Avon Lake
Lorain County
Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2003

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$328,164
Total assets	<u>\$328,164</u>
LIABILITIES	
Due to others	\$307,768
Intergovernmental payable	20,396
Total liabilities	<u>\$328,164</u>

See Notes to the Basic Financial Statements

CITY OF AVON LAKE
LORAIN COUNTY
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 1 - DESCRIPTION OF THE CITY AND REPORTING ENTITY

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

Reporting Entity

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

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 organizations. Component units may also include organizations for which the City authorizes the issuance of debt or the levying of taxes, or determines the budget. There are no component units included as part of this report.

The City is associated with the Lorain County Community Alliance Council of Governments as a jointly governed organization. The City is also a member of the Medina-Lorain Water Consortium, a joint venture. (See Note 13.)

CITY OF AVON LAKE
LORAIN COUNTY
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Presentation

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

Government-wide Financial Statements

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

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

Fund Financial Statements

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

CITY OF AVON LAKE
LORAIN COUNTY
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Accounting

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

Governmental Funds

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

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

Income Tax Transfer Special Revenue Fund – This special revenue fund is used to account for the City's local income tax and subsequent transfers.

Capital Improvement Capital Projects Fund – The capital improvement capital projects fund accounts for that portion of municipal income tax designated by Council for the purpose of improving, constructing, maintaining, and purchasing those items necessary to enhance the operation of the City.

Debt Service Fund – This debt service fund is used to service all governmental fund debt.

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

Proprietary Funds

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

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

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

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

CITY OF AVON LAKE
LORAIN COUNTY
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The agency funds account for fees and deposits collected on behalf of others, municipal court collections that are distributed to various local governments and performance bonds pledged by contractors. The City's agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Measurement Focus

Government-wide Financial Statements

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

Fund Financial Statements

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

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

Basis of Accounting

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

CITY OF AVON LAKE
LORAIN COUNTY
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenues - Exchange and Non-exchange Transactions

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

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

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

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of December 31, 2003, but which were levied to finance fiscal year 2004 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenses/Expenditures

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

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

CITY OF AVON LAKE
LORAIN COUNTY
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary Process

An annual appropriated budget is legally required by the City Charter to be prepared for all funds of the City other than agency funds. Council passes appropriations at the fund and program level.

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

Tax Budget

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

Estimated Resources

The County Budget Commission determines if the tax budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by October 1. As part of this certification, the City receives the official certificate of estimated resources that states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include any unencumbered balances from the preceding year. The certificate of estimated resources can be further amended during the year if the fiscal officer determines, and the Budget Commission agrees, that an estimate needs to be either increased or decreased. The amounts reported in the budgetary statements as original represent the amounts in the official certificate of estimated resources when the original appropriations were adopted. The amounts reported in the budgetary statements as final reflect the amounts in the final amended official certificate of estimated resources issued during 2003.

Appropriations

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

CITY OF AVON LAKE
LORAIN COUNTY
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Lapsing of Appropriations

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

Encumbrances

As part of formal budgetary control purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. The Ohio Revised Code prohibits expenditures plus encumbrances from exceeding appropriations. On the GAAP basis, encumbrances outstanding at year-end are reported as reservations of fund balances for subsequent-year expenditures of governmental funds. For more information, see Note 3.

Cash and Cash Equivalents

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

Investments are reported at fair value which is based on quoted market prices, with the exception of nonparticipating repurchase agreements, which are reported at cost. For investments in open-end mutual funds, fair value is determined by the fund's share price. During the year, investments were limited to money market mutual fund accounts, manuscript debt, repurchase agreements, investments in U.S. agencies and instrumentalities and the City invested in STAROhio, an investment pool managed by the State Treasurer's Office. STAROhio which allows governments within the State to pool their funds for investment purposes. STAROhio 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 STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on December 31, 2003.

Following Ohio statutes, the City has, by ordinance, specified the Capital Improvement Fund to receive an allocation of interest earnings. Interest receipts credited to the Capital Improvement Funds during 2003 amounted to \$603,603 which includes \$594,105 assigned from other City funds.

The cash of the Municipal Court are included in this line item. The City utilizes a financial institution to service debt as principal and interest come due. The balances of these accounts are presented on the balance sheet as "Cash and Cash Equivalents" and represent deposits or short-term investments in certificates of deposit or money market accounts.

CITY OF AVON LAKE
LORAIN COUNTY
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2003, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which it was consumed.

Inventory

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

Capital Assets

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

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

CITY OF AVON LAKE
LORAIN COUNTY
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Interfund Balances

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

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 2003, interest costs incurred on construction projects in proprietary funds were not material.

Bond Discounts and Issuance Costs

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

Compensated Absences

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

CITY OF AVON LAKE
LORAIN COUNTY
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Accrued Liabilities and Long-Term Obligations

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

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

Fund Balance Reserves

The City reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent expendable resources and therefore are not available for appropriation or expenditure. As a result, encumbrances, debt service, and inventories are recorded as a reservation of fund balance.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

CITY OF AVON LAKE
LORAIN COUNTY
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Operating Revenues and Expenses

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

Contributions of Capital

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

Interfund Activity

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

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

Extraordinary and Special Items

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

Estimates

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

CITY OF AVON LAKE
LORAIN COUNTY
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

NOTE 3 - BUDGETARY BASIS OF ACCOUNTING

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

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
4. Unreported cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statement.
5. Advances-in and advances-out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general and income tax transfer funds.

	Net Change in Fund Balance General and Major Special Revenue Fund	
	<u>General Fund</u>	<u>Income Tax Transfer Fund</u>
GAAP Basis	\$ (31,485)	\$ 66,972
Net Adjustment for Revenue Accruals	257,566	42,593
Net Adjustment for Expenditure Accruals	(105,997)	(135,292)
Encumbrances	(165,275)	<u>0</u>
Budget Basis	\$ (45,191)	\$ (25,727)

CITY OF AVON LAKE
LORAIN COUNTY
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

NOTE 4 - CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE

Changes in Accounting Principles

For 2003, the City has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments," GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements," GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: and Omnibus," GASB Statement No. 38, "Certain Financial Statement Note Disclosures."

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

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

Restatement of Fund Balance

The government-wide financial statements split the City's programs between business-type and governmental activities. Except for one reclassified fund and the restatement explained below, the beginning net asset amount for the business-type activities equals fund equity of the enterprise funds from last year. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at December 31, 2002 caused by reclassification of funds based on guidance provided in GASB Statement No. 34 and the conversion to the accrual basis of accounting.

It was determined that one capital project fund be rolled into the sewer enterprise fund and two special revenue funds should be reclassified to the capital project funds.

CITY OF AVON LAKE
LORAIN COUNTY
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

NOTE 4 - CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE (Continued)

	Governmental Major Funds					Business-Type Major Funds		Fund Type Balances 12/31/02	
	General Fund	Income Tax Transfer Fund	Capital Improvement Fund	Debt Service Fund	Other Government Funds	Total Governmental Funds	Water Fund		Sewer Fund
General	\$ 3,426,214					\$ 3,426,214			\$ 3,426,214
Special Revenue		\$ 1,965,179	\$ 1,384,244		\$ 2,201,767	5,551,190			5,551,190
Capital Projects			516,782		1,853,491	2,370,273	\$ 4,605		2,374,878
Debt Service				\$ 609,487		609,487			609,487
Enterprise							\$ 17,277,397	23,382,137	40,659,534
	<u>\$ 3,426,214</u>	<u>\$ 1,965,179</u>	<u>\$ 1,901,026</u>	<u>\$ 609,487</u>	<u>\$ 4,055,258</u>	<u>\$ 11,957,164</u>	<u>\$ 17,277,397</u>	<u>23,386,742</u>	<u>\$ 40,664,139</u>
				<u>71,118</u>					
				<u>\$ 4,126,376</u>					

GASB Statement

No. 34 adjustments Governmental

Major Proprietary Funds 12/31/02		\$ 40,664,139
Major and Other Governmental Funds 12/31/02	\$ 11,957,164	
Various adjustments Other Governmental Funds	<u>71,118</u>	
Miscellaneous Restatements net (see below)		<u>(17,761,159)</u>
Fund Statement beginning Fund Balance/Net Assets	<u>12,028,282</u>	<u>22,902,980</u>
Capital Assets, net of accumulated depreciation	37,565,912	
Income Tax and Special Assessments deferrals	5,738,843	
Long term liabilities:		
Compensated absences and debt	<u>(11,974,323)</u>	
Governmental and Business Type Net Assets, 12/31/02	<u>\$ 43,358,714</u>	<u>\$ 22,902,980</u>

Commercial accounts receivable, GO bonds and capital assets were misstated in the enterprise funds. This restatement had the following effect on fund equity as it was previously reported:

	Water	Sewer	Total Enterprise
Fund Equity 12/31/02	\$17,277,397	\$23,382,137	\$40,659,534
Reclassified Sewer Construction Fund		4,605	4,605
Commercial Accounts Receivable	377,939	63,815	441,754
2001 Series GO Bonds	(116,921)	116,921	0
Miscellaneous		(8,020)	(8,020)
Water and Sewer Lines, Net of Accumulated Depreciation	<u>(6,381,985)</u>	<u>(11,812,908)</u>	<u>(18,194,893)</u>
Adjusted Net Assets 12/31/02	<u>\$11,156,430</u>	<u>\$11,746,550</u>	<u>\$22,902,980</u>

CITY OF AVON LAKE
LORAIN COUNTY
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

NOTE 5 - DEPOSITS AND INVESTMENTS

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
LORAIN COUNTY
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

NOTE 5 - DEPOSITS AND INVESTMENTS (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 \$5,671,547 including \$1,595 of petty cash and the bank balance was \$5,709,263. Of the bank balance, \$293,054 was covered by federal depository insurance, and \$5,416,209 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 invests in STAR Ohio, the State Treasurer's investment pool, and mutual funds which 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
LORAIN COUNTY
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

NOTE 5 - DEPOSITS AND INVESTMENTS (Continued)

	<u>Category</u>		<u>Carrying and Fair Value</u>
	<u>1</u>	<u>3</u>	
Money Market Mutual Funds	\$ 0	\$ 0	\$ 4,864,555
Manuscript Debt	24,199	0	24,199
Investments in STAR Ohio	0	0	3,376,043
Repurchase Agreement	0	95,000	95,000
Investments in U.S. Agencies and Instrumentalities	<u>0</u>	<u>11,015,102</u>	<u>11,015,102</u>
Total Investments	\$ <u>24,199</u>	\$ <u>11,110,102</u>	\$ <u>19,374,899</u>

The classification of cash and cash equivalents and investments on the 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 balance sheet and the classification of deposits and investments according to GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents/ Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 25,046,446	\$ -
Investments:		
U.S. Agencies and Instrumentalities	(11,015,102)	11,015,102
Money Market Mutual Funds	(4,864,555)	4,864,555
Repurchase Agreement	(95,000)	95,000
Manuscript Debt	(24,199)	24,199
STAR Ohio	<u>(3,376,043)</u>	<u>3,376,043</u>
GASB Statement No. 3	\$ <u>5,671,547</u>	\$ <u>19,374,899</u>

NOTE 6 - RECEIVABLES

Receivables at December 31, 2003, consisted primarily of municipal income taxes, property and other taxes, intergovernmental receivables arising from entitlements, shared revenues, special assessments, accrued interest on investments, and accounts (billings for utility service) receivable.

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

CITY OF AVON LAKE
LORAIN COUNTY
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

NOTE 6 – RECEIVABLES (Continued)

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 for capital assets and 23 percent for inventory. 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 year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property currently is assessed at 35 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, 2003 was \$7.24 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2003 property tax receipts were based are as follows:

Real Property	\$ 577,484,470
Public Utility Personal	89,826,130
Tangible Personal Property	<u>76,118,840</u>
Total	\$ <u>743,429,440</u>

CITY OF AVON LAKE
LORAIN COUNTY
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

NOTE 6 – RECEIVABLES (Continued)

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 council.

NOTE 7 - 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 2003, the City contracted for various types of insurance as follows:

<u>Company</u>	<u>Type of Coverage</u>	<u>Deductible</u>
Claredon Company	Property	\$ 5,000
	General Liability	5,000
	Law Enforcement	5,000
	Employment Practices	25,000
	Inland Marine	1,000
	Public Officials	25,000
Travelers Indemnity Company	Boiler & Machinery	1,000

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.

CITY OF AVON LAKE
LORAIN COUNTY
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2003, was as follows:

	Balance 12/31/02	Restated Balance 1/1/2003	Additions	Disposals	Balance 12/31/03
Governmental Activities					
Capital assets, not being depreciated:					
Land	\$3,020,016	\$3,020,016	\$78,344	\$0	\$3,098,360
Construction in progress	103,198	791,042	334,684	(687,844)	437,882
Total capital asset, not being depreciated	3,123,214	3,811,058	413,028	(687,844)	3,536,242
Capital assets, being depreciated:					
Buildings and improvements	8,999,814	10,899,817	924,504	(716)	11,823,605
Machinery and equipment	4,141,147	4,138,303	293,544	(53,688)	4,378,159
Vehicles	2,180,468	2,137,038	385,118	(56,944)	2,465,212
Infrastructure	0	46,054,396	3,605,192	0	49,659,588
Total capital asset, being depreciated	15,321,429	63,229,554	5,208,358	(111,348)	68,326,564
Less accumulated depreciation:					
Buildings and improvements	0	(1,777,798)	(181,977)	716	(1,959,059)
Machinery and equipment	0	(2,098,138)	(305,312)	53,688	(2,349,762)
Vehicles	0	(1,213,449)	(170,792)	56,944	(1,327,297)
Infrastructure	0	(24,385,315)	(2,016,061)	0	(26,401,376)
Total accumulated depreciation	0	(29,474,700)	(2,674,142)	111,348	(32,037,494)
Total capital asset, being depreciated, net	15,321,429	33,754,854	2,534,216	0	36,289,070
Total governmental capital assets, net	<u>\$18,444,643</u>	<u>\$37,565,912</u>	<u>\$2,947,244</u>	<u>(\$687,844)</u>	<u>\$39,825,312</u>
Business-Type Activities					
Capital assets, not being depreciated:					
Land	\$1,258,085	\$1,258,085	\$245,200	\$0	\$1,503,285
Construction in progress	4,263,247	3,575,403	0	(1,568,849)	2,006,554
Total capital asset, not being depreciated	5,521,332	4,833,488	245,200	(1,568,849)	3,509,839
Capital assets, being depreciated:					
Buildings and improvements	30,040,002	29,803,602	1,584,149	0	31,387,751
Machinery and equipment	2,434,774	2,671,704	117,945	(4,390)	2,785,259
Vehicles	354,745	345,652	55,128	0	400,780
Infrastructure	38,336,275	25,716,246	975,924	0	26,692,170
Total capital asset, being depreciated	71,165,796	58,537,204	2,733,146	(4,390)	61,265,960
Less accumulated depreciation:					
Buildings and improvements	(10,105,732)	(12,679,872)	(556,027)	0	(13,235,899)
Machinery and equipment	(776,603)	(776,603)	(118,371)	4,390	(890,584)
Vehicles	(269,738)	(269,738)	(28,748)	0	(298,486)
Infrastructure	(6,564,981)	(8,869,298)	(636,882)	0	(9,506,180)
Total accumulated depreciation	(17,717,054)	(22,595,511)	(1,340,028)	4,390	(23,931,149)
Total capital asset, being depreciated, net	53,448,742	35,941,693	1,393,118	0	37,334,811
Business-type capital assets, net	<u>\$58,970,074</u>	<u>\$40,775,181</u>	<u>\$1,638,318</u>	<u>(\$1,568,849)</u>	<u>\$40,844,650</u>

CITY OF AVON LAKE
LORAIN COUNTY
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

NOTE 8 - CAPITAL ASSETS (Continued)

* Depreciation expense was charged to governmental functions as follows:

General Government	\$ 217,434
Security of Persons and Property	277,977
Transportation	2,041,754
Community and Environment	1,194
Basic Utility Services	110,404
Leisure Time Activities	25,379
Total Depreciation Expense	<u>\$2,674,142</u>

NOTE 9 - COMPENSATED ABSENCES

Accumulated Unpaid Vacation

Full-time employees earn vacation leave at varying rates based upon length of service. Full-time employees may accrue a maximum of 25 days. In the event of a termination of employment, death, or retirement, employees (or their estates) are paid for unused vacation leave.

Accumulated Unpaid Sick Leave

Full-time employees earn sick leave at the rate of one and one-fourth days per month. Employees whose date of employment is prior to January 1, 1981 will receive all accumulated sick leave up to a maximum of 120 days. Employees hired after January 1, 1981 will receive 25% of their accumulated sick leave up to a maximum of 120 days.

Accumulated Unpaid Compensatory Time

From time to time, employees may need, with prior approval from their supervisors, to work overtime. These overtime hours will usually be paid at the appropriate overtime rate; however, with permission of the supervisor, an employee may have the option of taking the overtime in compensatory time at one and one half times the amount of hours worked. An employee can carry a maximum balance of 40 hours in compensatory time.

CITY OF AVON LAKE
LORAIN COUNTY
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

NOTE 10 - LONG-TERM OBLIGATIONS

Changes in long-term obligations were as follows:

	<u>Balance</u> <u>1/01/2003</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance</u> <u>12/31/2003</u>	<u>Amounts Due</u> <u>In One Year</u>
GOVERNMENTAL ACTIVITIES:					
GENERAL OBLIGATION BONDS					
2001 Refunding Bonds 3.3%-5.5%	\$ 450,419	\$ 0	\$ 32,120	\$ 418,299	\$ 33,288
2001 Pin Oak Parkway 2.75%-4.75%	475,259	0	27,000	448,259	27,000
2001 Safety Center 3.3%-5.5%	4,649,101	0	185,000	4,464,101	190,000
2003 Recreational Facility 3%-5%	<u>0</u>	<u>1,000,000</u>	<u>0</u>	<u>1,000,000</u>	<u>25,000</u>
Total	5,574,779	1,000,000	244,120	6,330,659	275,288
SPECIAL ASSESSMENT BONDS					
2001 Pin Oak Parkway 3.3%-5.5%	844,741	0	48,000	796,741	48,000
2001 CALDP 3.3%-5.5%	2,794,996	0	110,000	2,684,996	115,000
1990 Pin Oak Parkway II 8.35% Manuscript	14,207	0	4,736	9,471	4,736
1993 Redwood Curbs 6.0% Manuscript	<u>12,444</u>	<u>0</u>	<u>2,074</u>	<u>10,370</u>	<u>2,074</u>
Total	3,666,388	0	164,810	3,501,578	169,810
OHIO WATER DEVELOPMENT AUTHORITY LOANS					
1990 Walker Road 7.76%	447,073	0	31,332	415,741	38,988
Avon Point/Armour Sewer 7.77%	<u>35,512</u>	<u>0</u>	<u>10,963</u>	<u>24,549</u>	<u>11,815</u>
Total	482,585	0	42,295	440,290	50,803
CAPITAL LEASES PAYABLE	50,591	0	50,591	0	0
RECREATIONAL FEE CREDIT	0	500,000	22,870	477,130	127,130
LANDFILL POSTCLOSURE COSTS	967,987	0	45,776	922,211	45,776
COMPENSATED ABSENCES	1,129,697	0	273,049	856,648	368,351
POLICE AND FIRE PENSION	<u>115,055</u>	<u>0</u>	<u>1,695</u>	<u>113,360</u>	<u>1,768</u>
TOTAL GOVERNMENTAL ACTIVITIES	\$ <u>11,987,082</u>	\$ <u>1,500,000</u>	\$ <u>845,206</u>	\$ <u>12,641,876</u>	\$ <u>1,038,926</u>
BUSINESS-TYPE ACTIVITIES:					
GENERAL OBLIGATION BONDS					
2001 Refunding Bonds 3.3%-5.5%	\$ 7,262,241	\$ 0	\$ 517,880	\$ 6,744,361	\$ 536,712
2003 Wastewater Collection System System Improvement 3%-5%	<u>0</u>	<u>4,500,000</u>	<u>0</u>	<u>4,500,000</u>	<u>115,000</u>
	7,262,241	4,500,000	517,880	11,244,361	651,712

CITY OF AVON LAKE
LORAIN COUNTY
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

NOTE 10 - LONG-TERM OBLIGATIONS (Continued)

	<u>Balance</u> <u>1/01/2003</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance</u> <u>12/31/2003</u>	<u>Amounts Due</u> <u>In One Year</u>
OHIO WATER DEVELOPMENT					
AUTHORITY LOANS					
1990 Walker Road 7.76%	846,918	0	68,443	778,475	73,761
1983 Wastewater Expansion 9.98%	304,875	0	200,057	104,818	104,818
1990 Water Plant Expansion 7.84%	6,984,847	0	291,777	6,693,070	314,652
1998 Wastewater Improvement 5.76%	<u>555,763</u>	<u>0</u>	<u>22,907</u>	<u>532,856</u>	<u>25,675</u>
Total	8,692,403	0	583,184	8,109,219	518,906
MORTGAGE REVENUE BONDS					
1993 Water System Revenue					
Refunding Bonds 2.5 - 5.4%	4,955,000	0	345,000	4,610,000	360,000
2000A Water System Revenue					
Refunding Bonds 4.7 - 5.6%	<u>9,458,943</u>	<u>0</u>	<u>210,000</u>	<u>9,248,943</u>	<u>220,000</u>
Total	<u>14,413,943</u>	<u>0</u>	<u>555,000</u>	<u>13,858,943</u>	<u>580,000</u>
COMPENSATED ABSENCES	<u>334,028</u>	<u>27,992</u>	<u>0</u>	<u>362,020</u>	<u>125,060</u>
TOTAL BUSINESS TYPE					
ACTIVITIES	\$ <u>30,702,615</u>	\$ <u>4,527,992</u>	\$ <u>1,656,064</u>	\$ <u>33,574,543</u>	\$ <u>1,875,678</u>

The ambulance general obligation notes were retired this year with special revenue paramedic levy fund money. General obligation bonds, other than the enterprise general obligation and mortgage revenue bonds, will be paid from the general bond retirement debt service fund from special assessments taxes. Ohio Water Development Authority loans other than those paid from the enterprise funds will be paid from the general bond retirement debt service fund from special assessments. Special assessment bonds will be paid from the proceeds of special assessments levied against benefited property owners. In the event that a property owner would fail to pay the assessment, payment would be made by the City. The police and fire pension liability will be paid from taxes receipted in the police and fire pension special revenue funds. Landfill postclosure costs are based on estimates as of December 31, 2003. The actual costs may be higher due to inflation, changes in technology, or changes in regulations and they will be paid from the general fund. Compensated absences will be paid from the fund which the employees' salaries are paid.

During the fall of 2002 a group of Avon Lake residences formed a group named Save the Woods. Through their efforts an agreement was reached with a developer to purchase 48 acres of wooded land for a future park. The payment for the property had the following components: \$1,205,000 from the Clean Ohio Conservation Fund, \$525,000 from the Lorain County Metropolitan Park District and the balance of \$500,000 from credits applied to the City of Avon Lake's Recreational Trust Fund.

Commencing July 1, 2003, for a five-year period, the developer will receive up to \$100,000 per year credit on any Recreational Fees due to the City of Avon Lake. In the event that the developer receives less than \$100,000 per year, the City of Avon Lake will issue payment for the difference within 60 days of the end of the given year. If during the first four years of the agreement, the developer receives in excess of \$100,000 credit, that balance will be carried forward to the following year.

CITY OF AVON LAKE
LORAIN COUNTY
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

NOTE 10 - LONG-TERM DEBT (Continued)

Principal and interest requirements to retire long-term obligations, except landfill post-closure costs, recreation fee credits, and compensated absences, and police and fire pension, at December 31, 2003 are as follows:

	General Obligation Bonds		Special Assessment Bonds		OWDA Loans		Total Governmental Activities	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
	2004	\$ 275,288	\$ 294,261	\$ 169,810	\$ 159,892	\$ 50,804	\$ 30,508	\$ 495,902
2005	288,256	277,447	178,010	153,557	54,751	26,952	521,017	457,956
2006	294,424	266,896	178,274	146,745	45,283	23,119	517,981	436,760
2007	312,684	255,860	181,474	139,991	48,802	19,950	542,960	415,801
2008	318,852	243,870	191,474	132,916	52,593	16,534	562,919	393,320
2009-2013	1,632,840	1,189,087	981,796	628,945	188,057	21,881	2,802,693	1,839,913
2014-2018	1,938,315	594,454	1,170,741	281,842			3,109,056	876,296
2019-2023	975,000	160,993	450,000	34,000			1,425,000	194,993
2024-2028	295,000	44,715					295,000	44,715
	<u>\$ 6,330,659</u>	<u>\$ 3,327,583</u>	<u>\$ 3,501,579</u>	<u>\$ 1,677,888</u>	<u>\$ 440,290</u>	<u>\$ 138,944</u>	<u>\$ 10,272,529</u>	<u>\$ 5,144,415</u>

	General Obligation Bonds		OWDA Loans		Revenue Bonds		Total Business-Type Activities	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
	2004	\$ 651,712	\$ 515,010	\$ 518,906	\$ 560,602	\$ 580,000	\$ 758,918	\$ 1,750,618
2005	675,544	460,365	444,434	524,718	610,000	730,248	1,729,978	1,715,330
2006	699,376	435,932	478,689	493,925	640,000	699,598	1,818,065	1,629,455
2007	722,916	410,068	515,595	460,753	675,000	666,718	1,913,511	1,537,539
2008	741,748	382,701	555,357	425,017	710,000	631,288	2,007,105	1,439,005
2009-2013	3,777,121	1,867,657	3,216,234	1,777,420	4,140,000	2,552,138	11,133,356	6,197,215
2014-2018	1,640,944	701,687	2,380,004	556,097	2,000,000	1,658,165	6,020,948	2,915,949
2019-2023	1,035,000	463,603			2,538,943	1,119,777	3,573,943	1,583,380
2024-2028	1,300,000	197,783			1,965,000	230,000	3,265,000	427,783
	<u>\$ 11,244,361</u>	<u>\$ 5,434,806</u>	<u>\$ 8,109,219</u>	<u>\$ 4,798,532</u>	<u>\$ 13,858,943</u>	<u>\$ 9,046,850</u>	<u>\$ 33,212,524</u>	<u>\$ 19,280,186</u>

Mortgage Revenue Bonds

The water system mortgage revenue refunding bonds series 1993A include serial and term bonds. The term bonds have annual mandatory sinking fund redemption requirements, and there are optional redemption provisions for the serial bonds. The term bonds mature on October 1, 2013 in the amount of \$3,470,000, at a redemption price equal to 100% of the principal plus accrued interest to the redemption date. The serial bonds maturing on or after October 1, 2004 are subject to early redemption, by and at 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
LORAIN COUNTY
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

NOTE 10 - LONG-TERM DEBT (Continued)

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

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

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

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

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

<u>Year</u>	<u>Principal Amount</u> <u>to be Redeemed</u>
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. The debt covenant requires that the City establish various funds for the construction, replacement, and the repayment of debt relating to the construction and improvement of the waterworks system.

CITY OF AVON LAKE
LORAIN COUNTY
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

NOTE 10 - LONG-TERM DEBT (Continued)

The restricted assets balance in the water fund segregates funds held by the City from funds held by the trustees in accordance with the trust agreement. Restricted assets relating to the water system mortgage revenue refunding bonds consisted of the following at December 31, 2003:

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

General Obligation Bonds

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

\$8,752,661 of the proceeds were used to refund all of the Series 1994 outstanding in the amount of \$8,465,000. Enterprise funds are responsible for \$8,227,501, and \$525,160 is the responsibility of the governmental debt service fund. The original bonds were issued for the purpose of paying the costs of (a) constructing improvements, additions or extensions to the City's water distribution system within and without the City, including acquiring real estate and easements therefore; (b) construction improvements to the City's 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% of the principal plus accrued interest to the redemption date. The serial bonds maturing on or after December 1, 2012 are subject to redemption, by and at the sole option of the City in whole at any time or in part on any interest payment date on or after December 1, 2011 in multiples of \$5,000 at the redemption price or 100% of the amount to be redeemed plus accrued interest to the date of redemption.

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

CITY OF AVON LAKE
LORAIN COUNTY
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

NOTE 10 - LONG-TERM DEBT (Continued)

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

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

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

OWDA

On March 10, 1983 the City entered into a loan agreement with OWDA for \$7,248,141 (capitalized interest of \$78,795 was added at end of construction period for a total of \$7,326,936). A grant for \$5,362,016 was received under Title II of the Federal Water Pollution Act of 1972, leaving the City of Avon Lake with a balance of \$1,964,920 to pay off. These funds were used to expand the existing Avon Lake Waste Water Treatment. This debt has a fixed rate of 9.98% interest over a twenty-year period beginning 1/1/1985 through 7/1/2004.

On June 28, 1990 the City entered into a loan agreement with OWDA for \$8,810,070 (capitalized interest of \$274,025 was added at end of construction period for a total of \$9,084,095). These funds were used to expand the existing Avon Lake Water Treatment Plant from 9,000,000 gallons per day designed plant to 22,000,000 gallons per day. This debt has a fixed rate of 7.84% interest over a twenty-five year period beginning 7/1/1992 through 1/1/2017.

On September 27, 1990 the City entered into a loan agreement with OWDA for \$119,127. These funds were used to install approximately 4,120 feet of 8" sanitary sewers and laterals on two residential streets, Avon Point Avenue and Armour Road between Lake Road and Electric Blvd. This project eliminated the use of septic tanks and their related discharges. This debt has a fixed rate of 7.77% interest over a fifteen-year period beginning 7/1/1991 through 1/1/2006.

CITY OF AVON LAKE
LORAIN COUNTY
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

NOTE 10 - LONG-TERM DEBT (Continued)

On August 24, 1990 the City of Avon Lake entered into a loan agreement with OWDA for \$1,950,000 (capitalized interest of \$99,278 was added at end of construction period for a total of \$2,049,278). These funds were used to install approximately 15,427 feet of sanitary sewers and related laterals along Walker Rd. providing sanitary sewer service to the southern half of the City of Avon Lake. This debt has a fixed rate of 7.77% interest over a twenty-year period beginning 7/1/1992 through 1/1/2012.

On March 26, 1998 the City of Avon Lake entered into a loan agreement with OWDA for \$657,000. These funds were used to repair 2 digesters at our Wastewater facility. This debt has a fixed rate of 5.76% interest over a twenty-year period beginning 1/1/1999 through 7/1/2018.

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

On December 11, 2003 an OWDA loan agreement for \$4.7 million was entered into by the City. The only disbursement made was an OWDA fee for \$16,393.

MANUSCRIPT DEBT

On April 1, 1990 the City of Avon Lake issued \$71,400 of Manuscript debt. This was for a 247-foot easterly extension of Pin Oak Parkway consisting of concrete paving, curbs, gutters along with storm and sanitary sewers. This debt has a fixed rate of 8.35% interest over a fifteen-year period beginning 12/1/1991 through 12/1/2005.

On September 1, 1993 the City of Avon Lake issued \$31,110 of Manuscript debt. This was for a 142-foot improvement along Redwood Boulevard, westerly from Curtis Dr. to Mooreland Dr., consisting of concrete curbs and gutters along with replacement of driveway approaches. This debt has a fixed rate of 6.00% interest over a fifteen-year period beginning 12/1/1994 through 12/1/2008.

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

CITY OF AVON LAKE
LORAIN COUNTY
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-6705.

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

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2003, 2002, and 2001 were \$440,484, \$417,008 and \$373,077 respectively; 73 percent has been contributed for 2003 and 100 percent for 2002 and 2001.

B. Ohio Police and Fire Pension Fund

The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to the Ohio Police and Fire Pension Fund, 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 the City is required to contribute 11.75 percent for police officers and 16.25 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the OP&F for the years ended December 31, 2003, 2002, and 2001 were \$495,778, \$472,192 and \$440,516 respectively, equal to the required contributions for each year. The full amount has been contributed for 2002 and 2001. 72 percent has been contributed for 2003 with the remainder being reported as a liability.

CITY OF AVON LAKE
LORAIN COUNTY
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

NOTE 12 – POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and the service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2003 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 5.00 percent of covered payroll was the portion that was used to fund health care.

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

Health care premiums were assumed to increase 4.00 percent annually.

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

The number of active contributing participants in the traditional and combined plans was 364,881. Actual employer contributions for 2003 which were used to fund postemployment benefits were \$257,593. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2002 were \$10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$18.7 billion and \$8.7 billion, respectively.

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

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

CITY OF AVON LAKE
LORAIN COUNTY
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

NOTE 12 – POSTEMPLOYMENT BENEFITS (Continued)

B. Ohio Police and Fire Pension Fund

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

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24.0 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2003. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2003 that were used to fund postemployment benefits for police and fire were \$138,034 and \$136,639. The OP&F's total health care expense for the year ended December 31, 2002 was \$141,028,006, which was net of member contributions of \$12,623,875. The number of OP&F participants eligible to receive health care benefits as of December 31, 2002, was 13,527 for police and 10,396 for firefighters.

NOTE 13 – JOINTLY GOVERNED ORGANIZATIONS/JOINT VENTURES

A. Lorain County Community Alliance Council of Governments

The City is a member of the Lorain County Community Alliance (Alliance) which is a council of governments formed under Ohio Revised Code Section 167. The Alliance is comprised of public members that have voting privileges and other citizen, business, and agency members that have no voting privileges. 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	City Manager
City of Sheffield Lake	Mayor
City of Vermilion	Mayor
Village of Grafton	Mayor

CITY OF AVON LAKE
LORAIN COUNTY
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

NOTE 13 – JOINTLY GOVERNED ORGANIZATIONS/JOINT VENTURES (Continued)

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 cities, villages, and townships are eligible to cast votes equivalent to the total population of the member jurisdictions which they represent and Lorain County members are eligible to cast votes equivalent to twenty-five percent of the total population of Lorain County. The City of Avon Lake contributed \$125 to the Alliance during 2003. Financial information can be obtained by contacting Mark R. Stewart, Lorain County Auditor, at 226 Middle Avenue, Elyria, Ohio 44035, who serves as fiscal agent.

B. Medina-Lorain Water Consortium

The City is a member of the Medina-Lorain Water Consortium (the Consortium), which is a joint venture between the City of Avon Lake, the Rural Lorain County Water Authority, Medina County, and the City of Medina. The Consortium was created in 1999 for the purpose of construction, operation and maintenance of a water transmission line to serve the members of the Consortium, and for the purpose of bulk water delivery from the City of Avon Lake. There is an ongoing financial responsibility for all parties for the maintenance and repair of the project. The Consortium is governed by representatives of the member parties. The City of Avon Lake serves as the fiscal agent for the Consortium. As of December 31, 2003, the City's equity interest in the Consortium was \$2,191,818. Financial information can be obtained from Joe Newlin, City of Avon Lake Finance Director, 150 Avon Belden Road, Avon Lake, Ohio 44012.

NOTE 14 - CONTRACTUAL COMMITMENTS

As of December 31, 2003, the City had three significant contractual commitments outstanding; Lear Road Sanitary & Storm project for \$969,903, Route 83 Sewer Separation for \$2,397,218, and Lake Road Sewer Separation for \$429,420.

NOTE 15 - CONTINGENT LIABILITIES

Litigation

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

CITY OF AVON LAKE
LORAIN COUNTY
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

NOTE 16 – ACCOUNTABILITY AND COMPLIANCE

Significant violations of finance-related legal or contractual provisions would be disclosed along with actions taken to address such violations. The City of Avon Lake did not have any violations.

NOTE 17 – NOTES PAYABLE

A summary of the note transactions for the year ended December 31, 2003, follows:

	<u>Outstanding</u> <u>12/31/02</u>	<u>Issued</u>	<u>Retired</u>	<u>Outstanding</u> <u>12/31/03</u>
Governmental				
Special Revenue Fund:				
Bond Acquisition Notes				
2002 Various Purpose 1.76%				
Issued November 14, 2002,				
1-year term	\$ 429,031	\$ 0	\$ (429,031)	\$ 0
Capital Projects Fund:				
2002 Various Purpose 1.76%				
Issued November 14, 2002,				
1-year term	650,046	0	(650,046)	0
Business-Type				
Water Fund:				
BAN 2003 Water System				
Improvement 1.43% Issued				
March 25, 2003, 8 month				
term	0	770,000	(770,000)	0
BAN 2003-2 Water System				
Improvement 1.60%, Issued				
November 5, 2003, 5 month				
term	<u>0</u>	<u>777,000</u>	<u>0</u>	<u>777,000</u>
Totals	<u>\$ 1,079,077</u>	<u>\$ 1,547,000</u>	<u>\$ (1,849,077)</u>	<u>\$ 777,000</u>

On March 25, 2003, the City issued \$770,000 of new bond anticipation notes to cover the cost of construction improvements, additions or extensions to the City's water system distribution system; including constructing, furnishing and equipping an office garage complex. On November 5, 2003, the City issued \$777,000 of new bond anticipation notes to pay off the existing notes and continue the project until permanent financing is in place. These notes are backed by the full-faith and credit of the City. These notes are shown as liabilities in the funds that received the proceeds and will repay the debt.

CITY OF AVON LAKE
LORAIN COUNTY
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

NOTE 18 – INTERFUND BALANCES AND TRANSFERS

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

Interfund balances at December 31, 2003, consisted of the following amounts and represent charges for services or reimbursable expenses except for \$107,000 transfer from the general fund to the Weiss Field Improvement Fund for \$12,000, and the Krebs Road Improvement Fund for \$95,000; other governmental funds. These balances resulted from the time lag between the dates that (1) interfund goods or services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting, and (3) payments between funds are made. All are expected to be paid within one year, and are eliminated in the statement of net assets, for governmental activities. The following transfers were made in 2004:

Transfer From					
Governmental Activities					
Transfer To	General Fund	Income Tax Transfer Fund	Capital Improvement Fund	Other Governmental Funds	Totals
<i>Governmental Activities</i>					
General Fund		\$ 5,006,250			\$ 5,006,250
Capital Improvement Fund	\$ 218,879	1,335,000		\$ 50,000	1,603,879
Debt Service Fund	507,707				507,707
Other Governmental Funds	124,269		\$ 375,000		499,269
<i>Total</i>	850,855	6,341,250	375,000	50,000	7,617,105
<i>Business-Type Activities</i>					
Sewer		333,750			333,750
<i>Fiduciary</i>					
Agency	11,084				11,084
Total	\$ 861,939	\$ 6,675,000	\$ 375,000	\$ 50,000	\$ 7,961,939

NOTE 19 – 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.

CITY OF AVON LAKE
LORAIN COUNTY
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

NOTE 20 – SUBSEQUENT EVENTS

On February 28, 2005, the City of Avon Lake's Council authorized the sale of not to exceed \$4,425,000 Water System Revenue Refunding Bonds. This refunding is for the \$7,590,000 Water System Revenue Refunding Bonds dated March 1, 1993 of which \$4,250,000 are presently outstanding. In addition, the City of Avon Lake's Council authorized the sale of not to exceed \$10,500,000 Water System Revenue Advanced Refunding Bonds. This refunding is for the \$9,115,000 Water System Revenue, Series 2000A Bonds dated July 1, 2000 of which \$9,115,000 are presently outstanding. The present value of these to refunding issues will save approximately \$600,000 in interest combined.

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Auditor of State Betty Montgomery

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

Members of City Council
Board of Municipal Utilities
City of Avon Lake
Lorain County
150 Avon Belden Road
Avon Lake, Ohio 44012-1699

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Avon Lake, Lorain County, Ohio, (the City) as of and for the year ended December 31, 2003, which collectively comprise the City's basic financial statements and have issued our report thereon dated April 1, 2005, wherein we noted the City adopted Governmental Accounting Standards Board Statement No. 34 and restated the capital assets of the proprietary funds. 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.

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 to express our opinions on the financial statements and not to opine 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 reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the City's management dated April 1, 2005, we reported other matters involving internal control over financial reporting, we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2003-001. In a separate letter to the City's management dated April 1, 2005, we reported other matters related to compliance we deemed immaterial.

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City of Avon Lake
Lorain County
Independent Accountants' Report on Internal Control over Financial Reporting
And on Compliance and Other Matters Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of management, City Council, and the Board of Municipal Utilities. It is not intended for 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

April 1, 2005

CITY OF AVON LAKE
LORAIN COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2003

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

Finding Number	2003-001
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*** Certification of Expenditures Prior to Purchasing**

City of Avon Lake Charter, Section 58 states no contract, agreement, or other obligation involving the expenditure of money in excess of \$250 shall be entered into, nor shall any ordinance, resolution, or order for the expenditure of money be passed or issued by Council or be authorized by any officer of the Municipality, unless the Director of Finance shall have certified in writing that the money required for such contract, agreement, obligation or expenditure is in the treasury to the credit of the fund from which it is to be drawn and not appropriated for any other purpose.

In 28% of the non-payroll expenditures selected for examination, the required certification was not completed prior to the obligation being incurred. The failure to complete the required certification prior to expenditures being incurred could result in instances in which expenditures are made for which sufficient funds are not on hand or in the process of collection resulting in expenditures exceeding amounts appropriated or available resources. Certification should be completed prior to expenditures being incurred.



**Auditor of State
Betty Montgomery**

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CITY OF AVON LAKE

LORAIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 17, 2005**