



**CITY OF EASTLAKE  
LAKE COUNTY**

**REGULAR AUDIT**

**FOR THE YEARS ENDED DECEMBER 31, 2005 & 2004**



**Auditor of State  
Betty Montgomery**



**CITY OF EASTLAKE  
LAKE COUNTY**

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**CITY OF EASTLAKE  
LAKE COUNTY**

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

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

To the City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Eastlake, Lake County, Ohio, (the City) as of and for the years ended December 31, 2005 and December 31, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

The Auditor of State served during the years ended December 31, 2005 and December 31, 2004 as the City's financial supervisor in accordance with procedures established under Ohio Revised Code §118.05 (G). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to conduct the audit of the City because the Auditor of State may assume broad management powers, duties, and functions in accordance with Ohio Revised Code §118.04. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 118.05 (G) requires the Auditor of State to provide these supervisory services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Eastlake, Lake County, Ohio, as of December 31, 2005 and December 31, 2004, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2B, during year ended December 31, 2005 implement GASB 40, Deposit and Investment Risk Disclosures. Also, as described in Note 17, during the year end December 31, 2004, the City restated net assets.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2006, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting 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

October 3, 2006

## **CITY OF EASTLAKE, OHIO**

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### ***Management's Discussion and Analysis For the Year Ended December 31, 2005***

***Unaudited***

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This discussion and analysis of the City of Eastlake's financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2005. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the City's financial performance.

### **FINANCIAL HIGHLIGHTS**

Key financial highlights for 2005 are as follows:

In total, net assets increased \$2,551,583. Net assets of governmental activities increased \$2,835,252, which represents a 20.3% increase from 2004. Net assets of business-type activities decreased \$283,669 or 10.2% from 2004.

General revenues accounted for \$15,708,008 or 73% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$5,772,744, or 27% of total revenues of \$21,480,752.

The City had \$17,209,391 in expenses related to governmental activities; only \$4,237,584 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$15,807,059 were adequate to provide for these programs.

The general fund had \$14,241,311 in revenues and \$11,707,110 in expenditures. The general fund's fund balance increased from a deficit of \$718,884 to a positive fund balance of \$1,526,362.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

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

These statements are as follows:

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

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

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

## ***CITY OF EASTLAKE, OHIO***

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***Management's Discussion and Analysis  
For the Year Ended December 31, 2005***

***Unaudited***

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### **Government-wide Statements**

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

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

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

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

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

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

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

### **Fund Financial Statements**

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

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



## CITY OF EASTLAKE, OHIO

**Management's Discussion and Analysis  
For the Year Ended December 31, 2005**

**Unaudited**

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

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

### FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The following table provides a summary of the City's net assets for 2005 compared to 2004.

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$13,346,573	\$11,525,824	\$644,000	\$762,661	\$13,990,573	\$12,288,485
Capital assets, Net	39,179,411	39,923,440	1,915,381	2,062,105	41,094,792	41,985,545
Total assets	52,525,984	51,449,264	2,559,381	2,824,766	55,085,365	54,274,030
Long-term debt outstanding	31,667,172	32,557,270	41,910	36,445	31,709,082	32,593,715
Other liabilities	4,060,877	4,929,311	20,863	8,044	4,081,740	4,937,355
Total liabilities	35,728,049	37,486,581	62,773	44,489	35,790,822	37,531,070
Net assets						
Invested in capital assets, net of related debt	9,957,366	9,670,586	1,915,381	2,062,105	11,872,747	11,732,691
Restricted	4,841,745	4,477,227	0	0	4,841,745	4,477,227
Unrestricted	1,998,824	(185,130)	581,227	718,172	2,580,051	533,042
Total net assets	\$16,797,935	\$13,962,683	\$2,496,608	\$2,780,277	\$19,294,543	\$16,742,960

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## CITY OF EASTLAKE, OHIO

### Management's Discussion and Analysis For the Year Ended December 31, 2005

*Unaudited*

Changes in Net Assets – The following table shows the changes in net assets for fiscal years 2004 and 2005:

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues						
Program revenues:						
Charges for Services and Sales	\$2,423,281	\$2,334,913	\$1,535,160	\$1,577,398	\$3,958,441	\$3,912,311
Operating Grants and Contributions	1,559,029	1,285,386	0	0	1,559,029	1,285,386
Capital Grants and Contributions	255,274	529,227	0	0	255,274	529,227
General revenues:						
Property Taxes	3,518,361	4,237,668	0	0	3,518,361	4,237,668
Income Taxes	7,103,050	7,051,523	0	0	7,103,050	7,051,523
State Levied Shared Taxes	3,809,332	4,251,803	0	0	3,809,332	4,251,803
Other Local Taxes	279,370	263,169	0	0	279,370	263,169
Investment Earnings	122,808	27,029	0	0	122,808	27,029
Miscellaneous	875,087	449,591	0	0	875,087	449,591
Total revenues	19,945,592	20,430,309	1,535,160	1,577,398	21,480,752	22,007,707
Program Expenses						
Security of Persons and Property	7,323,928	7,224,082	0	0	7,323,928	7,224,082
Public Health and Welfare Services	175,366	162,124	0	0	175,366	162,124
Leisure Time Activities	1,186,161	1,484,114	0	0	1,186,161	1,484,114
Community Environment	217,674	252,450	0	0	217,674	252,450
Basic Utility Services	2,113,087	2,320,504	0	0	2,113,087	2,320,504
Transportation	1,108,307	954,683	0	0	1,108,307	954,683
General Government	3,515,385	3,746,146	0	0	3,515,385	3,746,146
Interest and Fiscal Charges	1,569,483	1,275,405	0	0	1,569,483	1,275,405
Sewer	0	0	1,719,778	1,604,974	1,719,778	1,604,974
Total expenses	17,209,391	17,419,508	1,719,778	1,604,974	18,929,169	19,024,482
Change in Net Assets before transfers	2,736,201	3,010,801	(184,618)	(27,576)	2,551,583	2,983,225
Transfers	99,051	(70,833)	(99,051)	70,833	0	0
Total Change in Net Assets	2,835,252	2,939,968	(283,669)	43,257	2,551,583	2,983,225
Beginning Net Assets	13,962,683	11,022,715	2,780,277	2,737,020	16,742,960	13,759,735
Ending Net Assets	\$16,797,935	\$13,962,683	\$2,496,608	\$2,780,277	\$19,294,543	\$16,742,960

### Governmental Activities

Net assets of the City's governmental activities increased \$2,835,252. Property tax and intergovernmental receipts decreased due to an expired debt service levy and sewer levy.

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

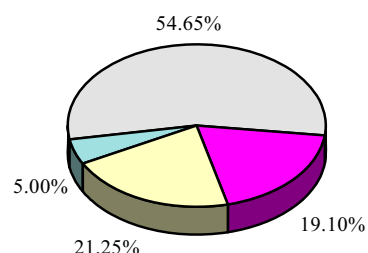
## CITY OF EASTLAKE, OHIO

**Management's Discussion and Analysis  
For the Year Ended December 31, 2005**

*Unaudited*

Income taxes and property taxes made up 36% and 18% respectively of revenues for governmental activities for the City in fiscal year 2005. The City's reliance upon tax revenues is demonstrated by the following graph indicating 55% of total revenues from general tax revenues:

Revenue Sources	2005	Percent of Total
General Tax Revenues	\$10,900,781	54.65%
Shared Revenue	3,809,332	19.10%
Program Revenues	4,237,584	21.25%
General Other	997,895	5.00%
Total Revenue	\$19,945,592	100.00%



### ***Business-Type Activities***

Net assets of the business-type activities decreased \$283,669, or 10% from the previous year. This decrease was the result of the combination of a decrease in amounts received for services provided, as well as increases in expenses for contractual services.

### **FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

The City's governmental funds reported a combined fund balance of \$5,937,583, which is an increase in fund balance from last year's balance of \$3,102,991. The schedule below indicates the fund balance and the total change in fund balance by fund type as of December 31, 2005 and 2004:

	Fund Balance December 31, 2005	Fund Balance (Deficit) December 31, 2004	Increase (Decrease)
General	\$1,526,362	(\$718,884)	\$2,245,246
GO Bond Retirement	2,209	112,252	(110,043)
Road Capital Improvement	1,661,373	1,062,630	598,743
Other Governmental	2,747,639	2,646,993	100,646
Total	\$5,937,583	\$3,102,991	\$2,834,592

## ***CITY OF EASTLAKE, OHIO***

***Management's Discussion and Analysis  
For the Year Ended December 31, 2005***

***Unaudited***

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

	2005 Revenues	2004 Revenues	Increase (Decrease)
Property Taxes	\$1,469,096	\$1,432,333	\$36,763
Municipal Income Taxes	7,057,754	7,049,560	8,194
State Levied Shared Taxes	2,409,229	2,416,177	(6,948)
Other Local Taxes	199,892	184,746	15,146
Intergovernmental Revenue	984,418	607,259	377,159
Charges for Services	1,043,216	750,109	293,107
Licenses, Permits and Fees	313,627	212,658	100,969
Investment Earnings	112,849	14,664	98,185
Fines and Forfeitures	218,636	243,938	(25,302)
All Other Revenue	432,594	413,253	19,341
<b>Total</b>	<b>\$14,241,311</b>	<b>\$13,324,697</b>	<b>\$916,614</b>

General Fund revenues in 2005 increased approximately 7% compared to revenues in fiscal year 2004. Charges for services reported a large increase due to a new garbage collection service fee. Licenses, permits and fees increased due to increases in housing inspection fees. Increases in interest rates resulted in increases in investment earnings.

	2005 Expenditures	2004 Expenditures	Increase (Decrease)
Security of Persons and Property	\$5,851,803	\$5,760,615	\$91,188
Public Health and Welfare Services	175,366	162,124	13,242
Leisure Time Activities	742,766	1,096,325	(353,559)
Community Environment	217,583	254,054	(36,471)
Basic Utility Services	774,162	791,237	(17,075)
Transportation	194,574	88,640	105,934
General Government	3,619,329	3,157,621	461,708
Capital Outlay	131,527	24,516	107,011
<b>Total</b>	<b>\$11,707,110</b>	<b>\$11,335,132</b>	<b>\$371,978</b>

General Fund expenditures increased \$371,978 or 3% from the prior year. This increase can mostly be attributed to increases in general government, which was the result of increases in insurance costs.

## **CITY OF EASTLAKE, OHIO**

**Management's Discussion and Analysis  
For the Year Ended December 31, 2005**

**Unaudited**

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

During the course of fiscal year 2005 the City amended its General Fund budget several times, none significant.

For the General Fund, actual revenue of \$13.8 million was higher than original budget estimates of \$12.7 million. This was due to increases in income taxes received. The General Fund had an adequate fund balance to cover expenditures.

### **CAPITAL ASSETS AND DEBT ADMINISTRATION**

#### **Capital Assets**

At the end of fiscal 2005 the City had a total of \$41,094,792 net of accumulated depreciation invested in land, buildings and improvements, infrastructure, and machinery and equipment. Of this total, \$39,179,411 was related to governmental activities and \$1,915,381 to the business-type activities. The following table shows fiscal year 2005 and 2004 balances:

	Governmental Activities		Increase (Decrease)
	2005	2004	
Land	\$7,001,655	\$7,068,856	(\$67,201)
Construction In Progress	873,549	474,261	399,288
Buildings	17,258,874	17,229,924	28,950
Improvements Other than Buildings	8,428,010	8,504,276	(76,266)
Infrastructure	18,152,412	18,152,412	0
Machinery, Vehicles and Equipment	5,757,968	5,458,825	299,143
Less: Accumulated Depreciation	(18,293,057)	(16,965,114)	(1,327,943)
<b>Totals</b>	<b>\$39,179,411</b>	<b>\$39,923,440</b>	<b>(\$744,029)</b>

Increases in machinery, vehicles and equipment can mostly be attributed to the purchase of police cruisers, an ambulance, and a fire truck. Construction in progress increased due to the initiation of the Roberts Road Project.

	Business-Type Activities		Increase (Decrease)
	2005	2004	
Land	\$75,556	\$75,556	\$0
Buildings and Improvements	778,221	778,221	0
Infrastructure	8,290,122	8,290,122	0
Machinery, Vehicles and Equipment	664,939	579,775	85,164
Less: Accumulated Depreciation	(7,893,457)	(7,661,569)	(231,888)
<b>Totals</b>	<b>\$1,915,381</b>	<b>\$2,062,105</b>	<b>(\$146,724)</b>

The primary increase occurred in machinery and equipment, which was the result of several assets being transferred in from the Governmental Activities. Additional information on the City's capital assets can be found in Note 7.

## **CITY OF EASTLAKE, OHIO**

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***Management's Discussion and Analysis  
For the Year Ended December 31, 2005***

***Unaudited***

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### ***Debt***

At December 31, 2005, the City had \$28,885,000 in General Obligation bonds outstanding, \$495,000 due within one year. The following table summarizes the City's debt outstanding as of December 31, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Governmental Activities:		
General Obligation Bonds	\$28,885,000	\$29,810,000
Ohio Public Works Commission Loans	312,215	334,136
Honeywell Project Loan	0	108,718
Pension Liability	285,950	272,209
Compensated Absences	2,159,177	1,964,129
Capital Leases	24,830	68,078
Total Governmental Activities	<u>31,667,172</u>	<u>32,557,270</u>
Business-Type Activities:		
Compensated Absences	\$41,910	\$36,445
Totals	<u>\$31,709,082</u>	<u>\$32,593,715</u>

Additional information on the City's long-term debt can be found in Note 10.

### **ECONOMIC FACTORS**

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

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

There are a total of over 800 businesses in the City of Eastlake employing nearly 15,000 employees, with a median household of just under \$40,000. Six to eight new businesses have moved onto Vine Street in 2005.

In 2004, construction was completed on a 15,000 square foot retail building. The building was constructed at a cost of \$2.4 million and includes 8 units. Five of the units are currently leased. In 2005, construction began on a 27 unit condominium complex on the property next to city hall. Eight were completed in 2005 with a selling price of over \$200,000 per unit. A new bank will be built in 2006, in addition to a small commercial building.

### **REQUESTS FOR INFORMATION**

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

**CITY OF EASTLAKE, OHIO**

**Statement of Net Assets**  
**December 31, 2005**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Assets:</b>			
Cash and Cash Equivalents	\$ 4,381,217	\$ 129,157	\$ 4,510,374
Receivables:			
Taxes	4,599,120	0	4,599,120
Accounts	482,001	514,843	996,844
Intergovernmental	2,711,737	0	2,711,737
Special Assessments	305,938	0	305,938
Inventory of Supplies at Cost	42,770	0	42,770
Prepaid Items	142,670	0	142,670
Deferred Charge	681,120	0	681,120
Non-Depreciable Capital Assets	7,875,204	75,556	7,950,760
Depreciable Capital Assets, Net	31,304,207	1,839,825	33,144,032
<b>Total Assets</b>	<b>52,525,984</b>	<b>2,559,381</b>	<b>55,085,365</b>
<b>Liabilities:</b>			
Accounts Payable	106,018	14,155	120,173
Accrued Wages and Benefits	118,725	3,767	122,492
Intergovernmental Payable	341,926	2,941	344,867
Deferred Revenue	3,152,798	0	3,152,798
Accrued Interest Payable	341,410	0	341,410
Noncurrent liabilities:			
Due within one year	1,187,260	0	1,187,260
Due in more than one year	30,479,912	41,910	30,521,822
<b>Total Liabilities</b>	<b>35,728,049</b>	<b>62,773</b>	<b>35,790,822</b>
<b>Net Assets:</b>			
Invested in Capital Assets, Net of Related Debt	9,957,366	1,915,381	11,872,747
Restricted For:			
Capital Projects	3,266,357	0	3,266,357
Other Purposes	1,575,388	0	1,575,388
Unrestricted	1,998,824	581,227	2,580,051
<b>Total Net Assets</b>	<b>\$ 16,797,935</b>	<b>\$ 2,496,608</b>	<b>\$ 19,294,543</b>

See accompanying notes to the basic financial statements

**CITY OF EASTLAKE, OHIO**

**Statement of Activities**  
**For the Year Ended December 31, 2005**

	Program Revenues			
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental Activities:</b>				
Security of Persons and Property	\$ 7,323,928	\$ 241,767	\$ 470,931	\$ 0
Public Health and Welfare Services	175,366	0	0	0
Leisure Time Activities	1,186,161	437,831	0	0
Community Environment	217,674	225,567	0	0
Basic Utility Services	2,113,087	909,251	0	0
Transportation	1,108,307	75,410	979,555	255,274
General Government	3,515,385	533,455	108,543	0
Interest and Fiscal Charges	1,569,483	0	0	0
<b>Total Governmental Activities</b>	<b>17,209,391</b>	<b>2,423,281</b>	<b>1,559,029</b>	<b>255,274</b>
<b>Business-Type Activities:</b>				
Sanitary Sewer	1,719,778	1,535,160	0	0
<b>Total Business-Type Activities</b>	<b>1,719,778</b>	<b>1,535,160</b>	<b>0</b>	<b>0</b>
<b>Totals</b>	<b>\$ 18,929,169</b>	<b>\$ 3,958,441</b>	<b>\$ 1,559,029</b>	<b>\$ 255,274</b>

**General Revenues**

Property Taxes Levied for:  
     General Purposes  
     Special Purposes  
     Debt Service  
     Capital Outlay  
 Municipal Income Tax  
 State Levied Shared Taxes  
 Other Local Taxes  
 Investment Earnings  
 Miscellaneous  
 Transfers  
 Total General Revenues and Transfers

Change in Net Assets

Net Assets Beginning of Year  
 Net Assets End of Year

See accompanying notes to the basic financial statements



**CITY OF EASTLAKE, OHIO**

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Net (Expense) Revenue  
and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
\$ (6,611,230)	\$ 0	\$ (6,611,230)
(175,366)	0	(175,366)
(748,330)	0	(748,330)
7,893	0	7,893
(1,203,836)	0	(1,203,836)
201,932	0	201,932
(2,873,387)	0	(2,873,387)
(1,569,483)	0	(1,569,483)
<u>(12,971,807)</u>	<u>0</u>	<u>(12,971,807)</u>
<u>0</u>	<u>(184,618)</u>	<u>(184,618)</u>
<u>0</u>	<u>(184,618)</u>	<u>(184,618)</u>
<u>(12,971,807)</u>	<u>(184,618)</u>	<u>(13,156,425)</u>
1,473,384	0	1,473,384
283,363	0	283,363
628,622	0	628,622
1,132,992	0	1,132,992
7,103,050	0	7,103,050
3,809,332	0	3,809,332
279,370	0	279,370
122,808	0	122,808
875,087	0	875,087
99,051	(99,051)	0
<u>15,807,059</u>	<u>(99,051)</u>	<u>15,708,008</u>
2,835,252	(283,669)	2,551,583
<u>13,962,683</u>	<u>2,780,277</u>	<u>16,742,960</u>
<u>\$ 16,797,935</u>	<u>\$ 2,496,608</u>	<u>\$ 19,294,543</u>

**CITY OF EASTLAKE, OHIO**

**Balance Sheet**  
**Governmental Funds**  
**December 31, 2005**

	General	GO Bond Retirement	Road Capital Improvement	Other Governmental Funds	Total Governmental Funds
<b>Assets:</b>					
Cash and Cash Equivalents	\$ 0	\$ 2,209	\$ 1,581,508	\$ 2,797,500	\$ 4,381,217
Receivables:					
Taxes	2,766,264	203,292	1,026,851	602,713	4,599,120
Accounts	477,202	0	0	4,799	482,001
Intergovernmental	1,888,108	0	327,032	496,597	2,711,737
Special Assessments	0	0	0	305,938	305,938
Interfund Loans Receivable	0	0	82,434	0	82,434
Inventory of Supplies, at Cost	0	0	0	42,770	42,770
Prepaid Items	64,627	0	13,750	64,293	142,670
<b>Total Assets</b>	<b>\$ 5,196,201</b>	<b>\$ 205,501</b>	<b>\$ 3,031,575</b>	<b>\$ 4,314,610</b>	<b>\$ 12,747,887</b>
<b>Liabilities:</b>					
Accounts Payable	\$ 81,083	\$ 0	\$ 4,896	\$ 20,039	\$ 106,018
Accrued Wages and Benefits Payable	111,087	0	6,629	1,009	118,725
Intergovernmental Payable	49,110	0	4,794	288,022	341,926
Interfund Loans Payable	82,434	0	0	0	82,434
Deferred Revenue	3,346,125	203,292	1,353,883	1,257,901	6,161,201
<b>Total Liabilities</b>	<b>3,669,839</b>	<b>203,292</b>	<b>1,370,202</b>	<b>1,566,971</b>	<b>6,810,304</b>
<b>Fund Balance:</b>					
Reserved for Encumbrances	14,967	0	3,358	155,468	173,793
Reserved for Prepaid Items	64,627	0	13,750	64,293	142,670
Reserved for Supplies Inventory	0	0	0	42,770	42,770
Reserved for Debt Service	0	2,209	0	15,404	17,613
Undesignated, Unreserved in:					
General Fund	1,446,768	0	0	0	1,446,768
Special Revenue Funds	0	0	0	1,075,205	1,075,205
Capital Projects Funds	0	0	1,644,265	1,394,499	3,038,764
<b>Total Fund Balance</b>	<b>1,526,362</b>	<b>2,209</b>	<b>1,661,373</b>	<b>2,747,639</b>	<b>5,937,583</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 5,196,201</b>	<b>\$ 205,501</b>	<b>\$ 3,031,575</b>	<b>\$ 4,314,610</b>	<b>\$ 12,747,887</b>

See accompanying notes to the basic financial statements

**CITY OF EASTLAKE, OHIO**

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***Reconciliation Of Total Governmental Fund Balances  
To Net Assets Of Governmental Activities  
December 31, 2005***

---

**Total Governmental Fund Balances** \$ 5,937,583

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

Capital Assets used in governmental activities are not  
resources and therefore are not reported in the funds. 39,179,411

Other long-term assets are not available to pay for current-  
period expenditures and therefore are deferred in the funds. 3,008,403

Debt issuance costs are expended in the funds, however they are  
deferred in the entity-wide statements. 681,120

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

General Obligation Bonds	(28,885,000)
OPWC Loan Payable	(312,215)
Pension Liability	(285,950)
Compensated Absences Payable	(2,159,177)
Capital Leases	(24,830)
Accrued Interest Payable	(341,410)

(32,008,582)

***Net Assets of Governmental Activities***

\$ 16,797,935

See accompanying notes to the basic financial statements

## CITY OF EASTLAKE, OHIO

### Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds For the Year Ended December 31, 2005

	General	GO Bond Retirement	Road Capital Improvement	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>					
Property Taxes	\$ 1,469,096	\$ 650,216	\$ 952,898	\$ 458,881	\$ 3,531,091
Municipal Income Taxes	7,057,754	0	0	0	7,057,754
State Levied Shared Taxes	2,409,229	66,317	82,386	997,860	3,555,792
Other Local Taxes	199,892	0	0	79,478	279,370
Intergovernmental Revenues	984,418	203,336	612,338	588,285	2,388,377
Charges for Services	1,043,216	0	0	226,403	1,269,619
Rental Revenue	0	0	0	553,713	553,713
Licenses, Permits and Fees	313,627	0	0	0	313,627
Investment Earnings	112,849	4,869	0	5,090	122,808
Special Assessments	0	0	0	21,684	21,684
Fines and Forfeitures	218,636	0	0	20,656	239,292
All Other Revenue	432,594	0	0	61,293	493,887
<b>Total Revenue</b>	<b>14,241,311</b>	<b>924,738</b>	<b>1,647,622</b>	<b>3,013,343</b>	<b>19,827,014</b>
<b>Expenditures:</b>					
Current:					
Security of Persons and Property	5,851,803	0	0	959,848	6,811,651
Public Health and Welfare Services	175,366	0	0	0	175,366
Leisure Time Activities	742,766	0	0	0	742,766
Community Environment	217,583	0	0	0	217,583
Basic Utility Services	774,162	0	612,829	0	1,386,991
Transportation	194,574	0	0	845,769	1,040,343
General Government	3,619,329	9,723	0	208,996	3,838,048
Capital Outlay	131,527	0	324,129	621,429	1,077,085
Debt Service:					
Principal Retirement	0	1,158,718	21,921	0	1,180,639
Interest & Fiscal Charges	0	1,289,223	0	0	1,289,223
<b>Total Expenditures</b>	<b>11,707,110</b>	<b>2,457,664</b>	<b>958,879</b>	<b>2,636,042</b>	<b>17,759,695</b>
Excess (Deficiency) of Revenues Over Expenditures	2,534,201	(1,532,926)	688,743	377,301	2,067,319
<b>Other Financing Sources (Uses):</b>					
Sale of Capital Assets	373,976	0	0	0	373,976
Refunding Bonds Issued	0	2,825,276	0	0	2,825,276
Bond Premium	0	19,538	0	0	19,538
Payment to Refunded Bond Escrow Agent	0	(2,748,767)	0	0	(2,748,767)
Transfers In	0	1,326,836	0	842,198	2,169,034
Transfers Out	(634,529)	0	(90,000)	(1,294,505)	(2,019,034)
Other Financing Sources	20,965	0	0	0	20,965
Other Financing Uses	(8,285)	0	0	0	(8,285)
Refund of Prior Years Expenditures	0	0	0	186,266	186,266
<b>Total Other Financing Sources (Uses)</b>	<b>(247,873)</b>	<b>1,422,883</b>	<b>(90,000)</b>	<b>(266,041)</b>	<b>818,969</b>
Net Change in Fund Balance	2,286,328	(110,043)	598,743	111,260	2,886,288
<b>Fund Balance (Deficit) at Beginning of Year</b>	<b>(718,884)</b>	<b>112,252</b>	<b>1,062,630</b>	<b>2,646,993</b>	<b>3,102,991</b>
Decrease in Inventory Reserve	(41,082)	0	0	(10,614)	(51,696)
<b>Fund Balance End of Year</b>	<b>\$ 1,526,362</b>	<b>\$ 2,209</b>	<b>\$ 1,661,373</b>	<b>\$ 2,747,639</b>	<b>\$ 5,937,583</b>

See accompanying notes to the basic financial statements

**CITY OF EASTLAKE, OHIO**

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***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, 2005***

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**Net Change in Fund Balances - Total Governmental Funds** \$ 2,886,288

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

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

Capital Outlay	1,141,722	
Depreciation Expense	<u>(1,652,852)</u>	(511,130)

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

This is the amount of the loss on the disposal of capital assets net of proceeds received.		(232,899)
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Revenues in the statement of activities that do not provide current financial are not reported as revenues in the funds.		105,898
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The issuance of long-term debt provides current financial resources to governmental funds, but has no effect on net assets. In addition, the payment of debt principal is expenditure in the governmental funds, but reduces long-term liabilities in the of net assets.

Refunding Bonds Issued	(2,790,000)	
Payment to Refunded Bond Escrow Agent	2,748,767	
General Obligation Bond Principal Payment	1,050,000	
OPWC Loan Principal Payment	21,921	
Honeywell Project Loan Principal Payment	108,718	
Pension Liability	(13,741)	
Capital Leases	43,248	
Deferred Charges	<u>(28,380)</u>	1,140,533

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		(306,694)
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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	(195,048)	
Change in Inventory	<u>(51,696)</u>	<u>(246,744)</u>

<b><i>Change in Net Assets of Governmental Activities</i></b>		<b><u>\$ 2,835,252</u></b>
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See accompanying notes to the basic financial statements

**CITY OF EASTLAKE, OHIO**

**Statement of Revenues, Expenditures and Changes in  
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)  
General Fund  
For the Year Ended December 31, 2005**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>				
Property Taxes	\$ 1,812,316	\$ 1,948,390	\$ 1,968,696	\$ 20,306
Municipal Income Taxes	6,427,890	6,895,298	6,967,160	71,862
State Levied Shared Taxes	2,213,288	2,374,229	2,398,973	24,744
Other Local Taxes	170,829	183,251	185,161	1,910
Intergovernmental Revenue	107,296	115,098	116,298	1,200
Charges for Services	951,433	1,020,617	1,031,254	10,637
Licenses and Permits	288,963	309,975	313,206	3,231
Investment Earnings	104,114	111,685	112,849	1,164
Fines and Forfeitures	204,946	219,849	222,140	2,291
All Other Revenues	402,736	432,022	436,524	4,502
Total Revenues	<u>12,683,811</u>	<u>13,610,414</u>	<u>13,752,261</u>	<u>141,847</u>
<b>Expenditures:</b>				
Current:				
Security of Persons and Property	5,968,545	5,986,303	5,866,775	119,528
Public Health and Welfare	145,500	175,350	175,349	1
Leisure Time Activities	816,730	776,252	755,054	21,198
Community Environment	250,111	235,319	219,271	16,048
Basic Utility Services	823,000	822,100	813,823	8,277
Transportation	207,248	206,137	198,062	8,075
General Government	3,658,220	3,860,888	3,690,164	170,724
Capital Outlay	134,790	133,730	132,023	1,707
Total Expenditures	<u>12,004,144</u>	<u>12,196,079</u>	<u>11,850,521</u>	<u>345,558</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	679,667	1,414,335	1,901,740	487,405
<b>Other Financing Sources (Uses):</b>				
Sale of Capital Assets	685,026	734,838	742,496	7,658
Transfers Out	(700,500)	(634,547)	(634,529)	18
Other Financing Sources	19,342	20,749	20,965	216
Other Financing Uses	(13,600)	(9,160)	(8,285)	875
Total Other Financing Sources (Uses):	<u>(9,732)</u>	<u>111,880</u>	<u>120,647</u>	<u>8,767</u>
Net Change in Fund Balance	669,935	1,526,215	2,022,387	496,172
Fund Balance at Beginning of Year	(2,135,352)	(2,135,352)	(2,135,352)	0
Prior Year Encumbrances	15,563	15,563	15,563	0
Fund Balance at End of Year	<u>\$ (1,449,854)</u>	<u>\$ (593,574)</u>	<u>\$ (97,402)</u>	<u>\$ 496,172</u>

See accompanying notes to the basic financial statements

**CITY OF EASTLAKE, OHIO**

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***Statement of Net Assets  
Proprietary Fund  
December 31, 2005***

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	<u>Sanitary Sewer</u>
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 129,157
Receivables:	
Accounts	<u>514,843</u>
Total Current Assets	<u>644,000</u>
Noncurrent Assets:	
Non-Depreciable Capital Assets	75,556
Depreciable Capital Assets, Net	<u>1,839,825</u>
Total Noncurrent Assets	<u>1,915,381</u>
Total Assets	<u>2,559,381</u>
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts Payable	14,155
Accrued Wages and Benefits	3,767
Intergovernmental Payable	<u>2,941</u>
Total Current Liabilities	<u>20,863</u>
Noncurrent Liabilities:	
Compensated Absences Payable	<u>41,910</u>
Total noncurrent liabilities	<u>41,910</u>
<b>Total Liabilities</b>	<u>62,773</u>
<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	1,915,381
Unrestricted	<u>581,227</u>
Total Net Assets	<u>\$ 2,496,608</u>

See accompanying notes to the basic financial statements

**CITY OF EASTLAKE, OHIO**

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**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**Proprietary Fund**  
**For the Year Ended December 31, 2005**

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	<u>Sanitary Sewer</u>
<b>Operating Revenues:</b>	
Charges for Services	\$ 1,535,160
<b>Total Operating Revenues</b>	<u>1,535,160</u>
<b>Operating Expenses:</b>	
Personal Services	335,261
Contractual Services	1,168,987
Depreciation	197,673
Other Operating Expenses	17,857
<b>Total Operating Expenses</b>	<u>1,719,778</u>
<b>Operating Loss</b>	(184,618)
<b>Non-Operating Revenue (Expenses):</b>	
Capital Contributions	50,949
<b>Total Non-Operating Revenues (Expenses)</b>	<u>50,949</u>
<b>Loss Before Transfers</b>	(133,669)
<b>Transfers:</b>	
Transfers-In	65,000
Transfers-Out	(215,000)
<b>Total Transfers</b>	<u>(150,000)</u>
<b>Change in Net Assets</b>	(283,669)
Net Assets Beginning of Year	2,780,277
<b>Net Assets End of Year</b>	<u>\$ 2,496,608</u>

See accompanying notes to the basic financial statements



**CITY OF EASTLAKE, OHIO**

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***Statement of Cash Flows***  
***Proprietary Fund***  
***For the Year Ended December 31, 2005***

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	<u>Sanitary Sewer</u>
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Customers	\$1,608,468
Cash Payments for Goods and Services	(1,169,996)
Cash Payments to Employees	(331,050)
Net Cash Provided by Operating Activities	<u>107,422</u>
 <u>Cash Flows from Noncapital Financing Activities:</u>	
Transfers in from Other Funds	65,000
Transfers Out to Other Funds	(215,000)
Net Cash Used by Noncapital Financing Activities	<u>(150,000)</u>
 Net Decrease in Cash and Cash Equivalents	(42,578)
Cash and Cash Equivalents at Beginning of Year	<u>171,735</u>
Cash and Cash Equivalents at End of Year	<u><u>\$129,157</u></u>
 <u>Reconciliation of Operating Loss to Net Cash</u>	
<u>    Provided by Operating Activities:</u>	
Operating Loss	(\$184,618)
Adjustments to Reconcile Operating Loss to	
Net Cash Provided by Operating Activities:	
Depreciation Expense	197,673
Changes in Assets and Liabilities:	
Decrease in Accounts Receivable	73,308
Decrease in Inventory	2,775
Increase in Accounts Payable	13,861
Decrease in Accrued Wages and Benefits	(510)
Decrease in Intergovernmental Payable	(532)
Increase in Compensated Absences	5,465
Total Adjustments	<u>292,040</u>
Net Cash Provided by Operating Activities	<u><u>\$107,422</u></u>

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

**CITY OF EASTLAKE, OHIO**

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***Statement of Net Assets***  
***Fiduciary Funds***  
***December 31, 2005***

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	<u>Agency Funds</u>
<b>Assets:</b>	
Cash and Cash Equivalents	\$ 240,161
<b>Total Assets</b>	<u>240,161</u>
<b>Liabilities:</b>	
Due to Others	<u>240,161</u>
<b>Total Liabilities</b>	<u>240,161</u>
<b>Total Net Assets</b>	<u><u>\$ 0</u></u>

See accompanying notes to the basic financial statements

## ***CITY OF EASTLAKE, OHIO***

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2005***

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

The financial statements are presented as of December 31, 2005 and for the year then ended, and have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to local governments. The Governmental Accounting Standards Board (the "GASB") is the standard-setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification).

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

#### **A. Reporting Entity**

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

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

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

## ***CITY OF EASTLAKE, OHIO***

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2005***

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **A. Reporting Entity** (Continued)

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

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

The City participates in a Shared Risk Pool and is associated with a Jointly Governed Organization. The shared risk pool is the Northern Ohio Risk Management Association (NORMA), which is presented in Note 12. The jointly governed organization is the Northeast Ohio Public Energy Council (NOPEC), which is presented in Note 15.

##### **B. Basis of Presentation - Fund Accounting**

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

##### ***Governmental Funds***

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

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

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

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

## ***CITY OF EASTLAKE, OHIO***

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2005***

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **B. Basis of Presentation - Fund Accounting (Continued)**

###### ***Proprietary Fund***

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

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

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

###### ***Fiduciary Funds***

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

##### **C. Basis of Presentation - Financial Statements**

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

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

## ***CITY OF EASTLAKE, OHIO***

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2005***

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **C. Basis of Presentation – Financial Statements (Continued)**

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

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

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

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

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

##### **D. Basis of Accounting**

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

## *CITY OF EASTLAKE, OHIO*

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### *Notes to the Basic Financial Statements For the Year Ended December 31, 2005*

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

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

Special assessment installments and related accrued interest, which are measurable but not available at December 31, are recorded as deferred revenues. Property taxes measurable as of December 31, 2005 but which are not intended to finance 2005 operations and delinquent property taxes, whose availability is indeterminate, are recorded as deferred revenues.

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

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

## *CITY OF EASTLAKE, OHIO*

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### *Notes to the Basic Financial Statements For the Year Ended December 31, 2005*

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **E. Budgetary Process**

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

##### **1. Tax Budget**

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

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

##### **2. Estimated Resources**

The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes, and reviews estimated revenue. The Budget Commission then certifies its actions to the City by September 1 of each year. As part of the certification process, the City receives an official certificate of estimated resources stating the projected receipts by fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year do not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include any unencumbered fund balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 2005.



## ***CITY OF EASTLAKE, OHIO***

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2005***

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **E. Budgetary Process** (Continued)

##### **3. Appropriations**

A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 through March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 through December 31. The appropriation ordinance establishes spending controls at the fund, department and object level and may be modified during the year by Ordinance of City Council. Total fund appropriations may not exceed the current estimated resources certified by the County Budget Commission. Expenditures may not legally exceed budgeted appropriations at the department, personal service and other object levels. During 2005, several supplemental appropriations were necessary to budget for major capital improvement projects that were not originally appropriated. Administrative control is maintained through the establishment of more detailed line-item budgets. Funds may be moved from one line-item account to another within the same object without approval of City Council. The City Finance Director maintains an accounting of the line-item expenditures to insure that the total expenditures within a department by object do not exceed approved appropriations. The allocation of appropriations among departments and objects within a fund may be modified during the year by an ordinance of City Council. The budgetary figures which appear on the "Statement of Revenues, Expenditures, and Changes in Fund Balances--Budget and Actual-(Non-GAAP – Budgetary Basis) —General Fund" are presented on a budgetary basis to provide a comparison of actual results to the final budget, including all amendments and modifications.

##### **4. Lapsing of Appropriations**

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the subsequent fiscal year and needs not be reappropriated.

##### **5. Budgetary Basis of Accounting**

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

**CITY OF EASTLAKE, OHIO**

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**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2005**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Budgetary Process (Continued)**

**5. Budgetary Basis of Accounting (Continued)**

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

Net Change in Fund Balance	General Fund
GAAP Basis (as reported)	\$2,286,328
Increase (Decrease):	
Accrued Revenues at December 31, 2005 received during 2006	(1,785,449)
Accrued Revenues at December 31, 2004 received during 2005	1,664,919
Accrued Expenditures at December 31, 2005 paid during 2006	2,361,068
Accrued Expenditures at December 31, 2004 paid during 2005	(2,462,142)
2004 Prepays for 2005	37,257
2005 Prepays for 2006	(64,627)
Outstanding Encumbrances	(14,967)
Budget Basis	<u>\$2,022,387</u>

**F. Cash and Cash Equivalents**

Cash and cash equivalents include amounts in demand deposits and the State Treasury Asset Reserve (STAR Ohio).

The City pools its cash for investment and resource management purposes. Each fund's equity in pooled cash and investments represents the balance on hand as if each fund maintains its own cash and investment account. See Note 3, "Cash, Cash Equivalents and Investments." For purposes of the statement of cash flows, the proprietary fund considers its share of equity in STAR Ohio to be cash equivalents.

## ***CITY OF EASTLAKE, OHIO***

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2005***

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **G. Investments**

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

The City has invested funds in the STAR Ohio during 2005. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 2005. See Note 3, "Cash, Cash Equivalents and Investments."

##### **H. Inventory**

On the government-wide financial statements and in the proprietary funds, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. The costs of inventory items are recorded as expenditures in the governmental funds when purchased.

##### **I. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond December 31, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

##### **J. Capital Assets and Depreciation**

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

###### **1. Property, Plant and Equipment - Governmental Activities**

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

**CITY OF EASTLAKE, OHIO**

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***Notes to the Basic Financial Statements  
For the Year Ended December 31, 2005***

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**J. Capital Assets and Depreciation** (Continued)

1. Property, Plant and Equipment - Governmental Activities (Continued)

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

2. Property, Plant and Equipment – Business Type Activities

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

3. Depreciation

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

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

**CITY OF EASTLAKE, OHIO**

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***Notes to the Basic Financial Statements  
For the Year Ended December 31, 2005***

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**K. Long-Term Obligations**

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

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

**L. Compensated Absences**

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

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

**M. Net Assets**

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

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

## ***CITY OF EASTLAKE, OHIO***

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2005***

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **N. Pensions**

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

##### **O. Interfund Activity**

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

##### **P. Reservations of Fund Balance**

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

##### **Q. Operating Revenues and Expenses**

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

#### **NOTE 2 - COMPLIANCE AND ACCOUNTABILITY**

##### **A. Fund Deficits**

The fund deficits at December 31, 2005 of \$134,185 in the Police Pension Fund, and \$96,905 in the Fire Pension Fund (special revenue funds) arise from the recognition of expenditures on the modified accrual basis which are greater than expenditures recognized on the budgetary basis. The General Fund provides transfers when cash is required, not when accruals occur.

## *CITY OF EASTLAKE, OHIO*

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### *Notes to the Basic Financial Statements For the Year Ended December 31, 2005*

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#### **NOTE 2 - COMPLIANCE AND ACCOUNTABILITY (Continued)**

##### **B. Change in Accounting Principles**

For 2005, the City has implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3)*. This statement amends Statement No. 3 and addresses additional cash and investment risks to which governments are exposed. Generally, this statement requires that state and local governments communicate key information about such risks in four principal areas: investment credit risks, including credit quality information issued by rating agencies; interest rate disclosures that include investment maturity information; interest rate sensitivity for investments that are highly sensitive to changes in interest rates; and foreign exchange exposures that would indicate the foreign investment's denomination.

In addition, the City has implemented GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This Statement establishes accounting and financial reporting standards for impairment of capital assets. Under provisions of this Statement, a capital asset is considered impaired when its service has declined significantly and unexpectedly. This Statement also clarifies and establishes accounting requirement for insurance recoveries. The implementation of GASB Statement No. 42 did not affect the presentation of the financial statements of the City.

##### **C. Non-Compliance Citations**

Ohio Revised Code Section 5705.41(B), prohibits a subdivision from making an expenditure unless it has been appropriated.

As of September 30, 2005 the following funds had expenditures plus encumbrances in excess of appropriations. These accounts were corrected at year-end.

<u>Fund / Program</u>	<u>Appropriations</u>	<u>Expenditures Plus Encumbrances</u>	<u>Excess</u>
Trust Fund*:			
Fire Ambulance Trust - Personnel Services	\$129,000	\$131,421	\$2,421
Capital Project Fund:			
Roberts Road	55,000	73,187	18,187
Agency Fund:			
Subdivision Inspection	4,000	7,874	3,874

\* For GAAP reporting purposes, this fund was combined with the General Fund.

**CITY OF EASTLAKE, OHIO**

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**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2005**

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**NOTE 2 - COMPLIANCE AND ACCOUNTABILITY (Continued)**

**C. Non-Compliance Citations (Continued)**

Ohio Revised Code Section 5705.39 provides that total appropriations made during the fiscal year from any fund must not exceed the amount contained in the certificate of estimated resources.

The following accounts had total appropriations exceeding total estimated revenue as of the dates tested below:

<u>Fund / Program</u>	<u>Estimated Receipts</u>	<u>Total Appropriations</u>	<u>Variance</u>
<b>At December 31, 2005:</b>			
Fire Levy Fund	\$464,113	\$703,200	\$239,087
Sanitary Sewer	1,793,785	1,803,098	9,313
<b>At September 30, 2005:</b>			
Fire Levy Fund	464,113	703,200	239,087

Ohio Revised Code Section 9.38 states that public money must be deposited with the treasurer of the public office or to a designated depository on the business day following the day of receipts.

During testing, twelve out of twenty-one total sewer tap-in fees, which totaled \$33,580 out of \$51,900 (65%) were not deposited to the Finance Department or designated depository within one day of collection.

We further noted the City has not established a policy during the audit period that would allow for monies to be held past the next business day.



## *CITY OF EASTLAKE, OHIO*

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### *Notes to the Basic Financial Statements For the Year Ended December 31, 2005*

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#### **NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS**

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

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

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

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

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

**CITY OF EASTLAKE, OHIO**

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**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2005**

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**NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)**

**A. Deposits**

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned. Protection of City cash and deposits is provided by the federal deposit insurance corporation as well as qualified securities pledged by the institution holding the assets. Ohio Law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the City places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105% of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation or other legally constituted authority of any other state, or any instrumentality of such county, municipal corporation or other authority. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

At year end the carrying amount of the City's deposits was \$4,520,137 and the bank balance was \$5,016,001. Federal depository insurance covered \$276,740 of the bank balance and \$4,739,261 was uninsured. Of the remaining uninsured bank balance, the City was exposed to custodial risk as follows:

	<u>Balance</u>
Uninsured and collateralized with securities held by the pledging institution's trust department not in the City's name	<u>\$4,739,261</u>
Total Balance	<u><u>\$4,739,261</u></u>

**B. Investments**

The City's investments at December 31, 2005 are summarized below:

	<u>Fair Value</u>	<u>Credit Rating</u>	<u>Investment Maturity</u>
STAR Ohio	\$230,398	AAAm	39 Days

## **CITY OF EASTLAKE, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2005***

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#### **NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)**

##### **B. Investments** (Continued)

*Interest Rate Risk* – As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the City’s investment policy limits investment portfolio maturities to five years or less.

*Credit Risk* – The City’s investment in STAR Ohio was rated AAAM by Standard and Poor’s.

*Custodial Credit Risk* – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party.

*Concentration of Risk* – The City places no limit on the amount that may be invested in any one issuer.

##### **C. Reconciliation of Cash, Cash Equivalents and Investments**

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

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

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>
Per GASB Statement No. 9	\$4,750,535	\$0
Investments:		
STAR Ohio	<u>(230,398)</u>	<u>230,398</u>
Per GASB Statement No. 3	<u>\$4,520,137</u>	<u>\$230,398</u>

#### **NOTE 4 - TAXES**

##### **A. Property Taxes**

Property taxes include amounts levied against all real estate and public utility property, and tangible personal property located in the City and used in business. Real property taxes (other than public utility) collected during 2005 were levied after October 1, 2004 on assessed values as of January 1, 2004, the lien date. Assessed values are established by the county auditor at 35 percent of appraised market value. All property is required to be reappraised every six years and equalization adjustments made in the third year following reappraisal. The last revaluation was completed in 2003. Real property taxes are paid annually or semi-annually. The first payment is due January 20; the remainder payable by June 20.

## ***CITY OF EASTLAKE, OHIO***

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2005***

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#### **NOTE 4 - TAXES (Continued)**

##### **A. Property Taxes** (Continued)

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

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

The County Treasurer collects property taxes on behalf of all taxing districts in the County including the City of Eastlake. The County Auditor periodically remits to the City its portion of the taxes collected. The full tax rate for all City operations for the year ended December 31, 2005 was \$10.8 per \$1,000 of assessed value. The assessed value upon which the 2005 tax receipts were based was \$527,974,708. This amount constitutes \$409,525,570 in real property assessed value, \$75,669,550 in public utility assessed value and \$42,779,588 in tangible personal property assessed value.

Ohio law prohibits taxation of property from all taxing authorities in excess of 1% of assessed value without a vote of the people. Under current procedures, the City's share is 1.08% (10.8 mills) of assessed value.

##### **B. Income Tax**

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

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

#### **NOTE 5 - RECEIVABLES**

Receivables at December 31, 2005 consisted of taxes, accounts receivable, special assessments and intergovernmental receivables arising from shared revenues.

**CITY OF EASTLAKE, OHIO**

**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2005**

**NOTE 6 - TRANSFERS**

Following is a summary of transfers in and out for all funds for 2005:

Fund	Transfer In	Transfer Out
<b>Governmental Funds:</b>		
General Fund	\$0	\$634,529
General Obligation Bond Retirement Fund	1,326,836	0
Road Capital Improvement Fund	0	90,000
Other Governmental Funds	842,198	1,294,505
Total Governmental Funds	<u>2,169,034</u>	<u>2,019,034</u>
<b>Proprietary Fund:</b>		
Sanitary Sewer Fund	65,000	215,000
Totals	<u>\$2,234,034</u>	<u>\$2,234,034</u>

**NOTE 7 - CAPITAL ASSETS**

**A. Governmental Activities Capital Assets**

Summary by category of changes in governmental activities capital assets at December 31, 2005:

Class	December 31, 2004	Additions	Deletions	December 31, 2005
<b>Historical Cost:</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$7,068,856	\$0	(\$67,201)	\$7,001,655
Construction in Progress	474,261	399,288	0	873,549
Subtotal	<u>7,543,117</u>	<u>399,288</u>	<u>(67,201)</u>	<u>7,875,204</u>
<b>Capital assets being depreciated:</b>				
Buildings	17,229,924	182,508	(153,558)	17,258,874
Improvements Other than Buildings	8,504,276	0	(76,266)	8,428,010
Infrastructure	18,152,412	0	0	18,152,412
Machinery, Vehicles and Equipment	5,458,825	559,926	(260,783)	5,757,968
Subtotal	<u>49,345,437</u>	<u>742,434</u>	<u>(490,607)</u>	<u>49,597,264</u>
Total Cost	<u>\$56,888,554</u>	<u>\$1,141,722</u>	<u>(\$557,808)</u>	<u>\$57,472,468</u>
<b>Accumulated Depreciation:</b>				
Class	December 31, 2004	Additions	Deletions	December 31, 2005
Buildings	(\$4,336,941)	(\$527,773)	\$44,787	(\$4,819,927)
Improvements Other than Buildings	(480,453)	(6)	0	(480,459)
Infrastructure	(8,860,794)	(726,096)	0	(9,586,890)
Machinery, Vehicles and Equipment	(3,286,926)	(398,977)	280,122	(3,405,781)
Total Depreciation	<u>(\$16,965,114)</u>	<u>(\$1,652,852) *</u>	<u>\$324,909</u>	<u>(\$18,293,057)</u>
<b>Net Value:</b>	<u>\$39,923,440</u>			<u>\$39,179,411</u>

**CITY OF EASTLAKE, OHIO**

**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2005**

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

**A. Governmental Activities Capital Assets (Continued)**

\* Depreciation expenses were charged to governmental functions as follows:

Security of Persons and Property	\$310,565
Leisure Time Activities	435,521
Community Environment	5,863
Basic Utility Services	726,096
Transportation	82,026
General Government	92,781
Total Depreciation Expense	\$1,652,852

**B. Business-Type Activities Capital Assets**

Summary by Category at December 31, 2005:

**Historical Cost:**

Class	December 31, 2004	Additions	Deletions	December 31, 2005
<i>Capital assets not being depreciated:</i>				
Land	\$75,556	\$0	\$0	\$75,556
Subtotal	75,556	0	0	75,556
<i>Capital assets being depreciated:</i>				
Buildings and Improvements	778,221	0	0	778,221
Infrastructure	8,290,122	0	0	8,290,122
Machinery, Vehicles and Equipment	579,775	85,164	0	664,939
Subtotal	9,648,118	85,164	0	9,733,282
Total Cost	\$9,723,674	\$85,164	\$0	\$9,808,838

**Accumulated Depreciation:**

Class	December 31, 2004	Additions	Deletions	December 31, 2005
Buildings and Improvements	(\$725,167)	(\$2,000)	\$0	(\$727,167)
Infrastructure	(6,646,057)	(167,982)	0	(6,814,039)
Machinery, Vehicles and Equipment	(290,345)	(74,939)	13,033	(352,251)
Total Depreciation	(\$7,661,569)	(\$244,921)	\$13,033	(\$7,893,457)
<b>Net Value:</b>	\$2,062,105			\$1,915,381

## ***CITY OF EASTLAKE, OHIO***

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2005***

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#### **NOTE 8 – DEFINED BENEFIT PENSION PLANS**

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

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

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

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

The Ohio PERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the TP Plan and CO Plan. Members of the MD Plan do not qualify for ancillary benefits, including postemployment health care benefits. Chapter 145 of the Ohio Revised Code provides statutory authority to establish and amend benefits. The Ohio Public Employees Retirement System issues a stand-alone financial report that includes financial statements and required supplementary information for the Ohio PERS. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6701 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2005, employee and employer contribution rates were consistent across all three plans (TP, MD and CO). The employee contribution rate is 8.5%. The 2005 employer contribution rate for local government employer units was 13.55%, of covered payroll, 9.55% to fund the pension and 4.0% to fund health care. The contribution requirements of plan members and the City are established and may be amended by the Public Employees Retirement Board. The City's contributions to the Ohio PERS for the years ending December 31, 2005, 2004, and 2003 were \$327,746, \$360,973 and \$418,226, respectively, which were equal to the required contributions for each year.

## ***CITY OF EASTLAKE, OHIO***

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2005***

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#### **NOTE 8 – DEFINED BENEFIT PENSION PLANS (Continued)**

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

The Ohio PERS provides postemployment health care benefits to age and service retirants with ten or more years of qualifying Ohio service credit under the TP and CO plans and to primary survivor recipients of such retirants. Health care coverage for disability recipients is also available. The health care coverage provided by the Ohio PERS is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to the Ohio PERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority requiring public employers to fund postemployment health care through their contributions to the Ohio PERS. The portion of the 2005 employer contribution rate (identified above) that was used to fund health care for the year 2005 was 4.0% of covered payroll which amounted to \$137,276.

The significant actuarial assumptions and calculations relating to postemployment health care benefits were based on the Ohio Public Employees Retirement System's latest actuarial review performed as of December 31, 2004. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 2004 was 8.0%. An annual increase of 4.0% compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0% base increase, were assumed to range from 0.5% to 6.3%. Health care costs were assumed to increase 4.0% annually plus an additional factor ranging from 1% to 6% for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase 4% (the projected wage inflation rate).

Benefits are advanced-funded on an actuarially determined basis. The number of active contributing participants for the TP and CO Plans was 376,109. The actuarial value of the Ohio PERS net assets available for OPEB at December 31, 2004 is \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$29.5 billion and \$18.7 billion, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, will be effective January 1, 2007. In addition to the HCPP, Ohio PERS has taken additional action to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. As an additional component of the HCPP, member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan



## ***CITY OF EASTLAKE, OHIO***

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2005***

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#### **NOTE 8 – DEFINED BENEFIT PENSION PLANS (Continued)**

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

All City full-time police officers and full-time firefighters participate in the OP&F Fund, a cost-sharing multiple-employer defined benefit pension plan. The OP&F Fund provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries. Contribution requirements and benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. The Ohio Police and Fire Pension Fund issues a stand-alone financial report that includes financial statements and required supplementary information for the OP&F Fund. Interested parties may obtain a copy by making a written request to 140 East Town Street, Columbus, Ohio 43215-5164 or by calling (614) 228-2975.

Plan members are required to contribute 10.0% of their annual covered salary, while employers are required to contribute 19.5% of covered payroll of which 11.75% is to fund pension and 7.75% to fund health care and 24.0% of covered payroll of which 16.25% is to fund pension and 7.75% to fund health care respectively for police officers and firefighters. The City's contributions to the OP&F Fund for the years ending December 31, 2005, 2004, and 2003 were \$265,132, \$265,339 and \$277,252 for police and \$263,099, \$246,487 and \$241,541 for firefighters, respectively, which were equal to the required contributions for each year.

The OP&F Fund provides postemployment health care coverage to any person who received or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school on a full-time or two-thirds basis. The health care coverage provided by the OP&F Fund is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides that health care costs paid from the funds of the OP&F Fund shall be included in the employer's contribution rate. The Ohio Revised Code also provides statutory authority allowing the Fund's Board of Trustees to provide postemployment health care coverage to all eligible individuals from the employer's contributions to the OP&F Fund.

The portion of the 2005 covered payroll that was used to fund postemployment health care benefits was \$174,874 representing 7.75% of covered payroll for police and \$119,590 representing 7.75% of covered payroll for fire. Health care funding and accounting was on a pay-as-you-go basis. 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. As of December 31, 2004, the date of the last actuarial evaluation available, the number of participants eligible to receive health care benefits was 13,812 for police and 10,528 for firefighters. The OP&F Fund does not provide separate data on the funded status and funding progress of postemployment health care benefits. The Fund's total health care expenses for the year ended December 31, 2004 were \$102,173,796, which was net of member contributions of \$55,665,341.

**CITY OF EASTLAKE, OHIO**

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***Notes to the Basic Financial Statements  
For the Year Ended December 31, 2005***

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**NOTE 9 – COMPENSATED ABSENCES**

City employees earn vacation at varying rates based upon length of service. Vacation is earned in one year and must be used in the next two (2) years. In the case of death or retirement, an employee (or his estate) is paid for unused vacation leave and the prorated amount of vacation leave earned during the current year. At December 31, 2005, the total obligation for vacation accrual for the City as a whole amounted to \$384,281.

Sick leave is earned at the rate of four and six-tenths hours for every eighty (80) hours of pay, excluding overtime; and uniformed firefighters earn sick leave the rate of one-tenth hours per one hundred four (104) of pay, excluding overtime. Each employee with the City is paid a minimum of 25% after 8 or more years of service, or a maximum of one thousand three hundred forty-four (1,344) hours, of the employee's unused sick leave upon retirement from the City. At December 31, 2005, the total obligation for sick leave accrual for the City as a whole amounted to \$1,749,040.

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## CITY OF EASTLAKE, OHIO

### *Notes to the Basic Financial Statements For the Year Ended December 31, 2005*

#### NOTE 10 - LONG-TERM DEBT AND OTHER LONG-TERM OBLIGATIONS

Long-term debt and other long-term obligations of the City at December 31, 2005 were as follows:

		Balance December 31, 2004	Additions	(Reductions)	Balance December 31, 2005	Due Within One Year
<b>Governmental Activities:</b>						
General Obligation Bonds:						
Tax Exempt Municipal Stadium	2002	\$4,260,000	\$0	(\$120,000)	\$4,140,000	\$125,000
Non Taxable Municipal Stadium	2002	8,000,000	0	(180,000)	7,820,000	190,000
City Hall Construction	1993	2,665,000	0	(2,665,000)	0	0
City Hall Construction Refunding	2005	0	2,790,000	(75,000)	2,715,000	180,000
Sewer System	1993	675,000	0	(675,000)	0	0
Capital Facilities	2004	4,320,000	0	0	4,320,000	0
Parking Lot	2004	1,130,000	0	0	1,130,000	0
Real Estate Acquisition	2004	700,000	0	0	700,000	0
Stadium	2004	8,060,000	0	0	8,060,000	0
Total General Obligation Bonds		29,810,000	2,790,000	(3,715,000)	28,885,000	495,000
Ohio Public Works Commission Loans (OPWC):						
N. Parkway Sewer	1999	35,000	0	(2,500)	32,500	2,500
E. 377th St. Road Improvement	2000	65,613	0	(6,907)	58,706	6,907
Stevens Blvd. Outfall	2000	39,310	0	(2,457)	36,853	2,457
Parkland Dr. Sewer	2000	19,927	0	(1,245)	18,682	1,245
E. Overlook Storm/Sanitary	2003	24,286	0	(1,312)	22,974	1,312
Roberts Road Improvements	2004	150,000	0	(7,500)	142,500	7,500
Total OPWC Loans		334,136	0	(21,921)	312,215	21,921
Honeywell Project Loan		108,718	0	(108,718)	0	0
Pension Liability		272,209	285,950	(272,209)	285,950	285,950
Compensated Absences		1,964,129	2,159,177	(1,964,129)	2,159,177	374,509
Capital Leases		68,078	0	(43,248)	24,830	9,880
Total Governmental Activities		32,557,270	5,235,127	(6,125,225)	31,667,172	1,187,260
<b>Business-Type Activities:</b>						
Compensated Absences		36,445	41,910	(36,445)	41,910	0
<b>Totals</b>		<u>\$32,593,715</u>	<u>\$5,277,037</u>	<u>(\$6,161,670)</u>	<u>\$31,709,082</u>	<u>\$1,187,260</u>

**CITY OF EASTLAKE, OHIO**

**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2005**

**NOTE 10 - LONG-TERM DEBT AND OTHER LONG-TERM OBLIGATIONS (Continued)**

**A. Principal and Interest Requirements**

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2005 are as follows:

Years	General Obligation Bonds		Ohio Public Works Commission Loans	
	Principal	Interest	Principal	Interest
2006	\$495,000	\$1,418,956	\$21,921	\$0
2007	730,000	1,398,316	21,921	0
2008	765,000	1,369,249	21,921	0
2009	790,000	1,337,119	21,921	0
2010	955,000	1,302,749	21,921	0
2011-2015	5,395,000	5,918,084	99,244	0
2016-2020	5,930,000	4,557,140	70,070	0
2021-2025	6,905,000	2,984,203	33,296	0
2026-2030	5,950,000	1,084,665	0	0
2031-2035	970,000	50,788	0	0
Totals	<u>\$28,885,000</u>	<u>\$21,421,269</u>	<u>\$312,215</u>	<u>\$0</u>

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

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

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

**B. Defeased Debt**

In April 2005, the City defeased \$2,665,000 of General Obligation Bonds for City Hall Building Improvements, dated June 1, 1993 with interest rates of 2.25% to 5.6% through the issuance of \$2,790,000 of General Obligation Bonds dated April 1, 2005 with interest rates varying from 3.6% to 6%. The net proceeds of the 2005 Bonds have been invested in obligations guaranteed as to both principal and interest by the United States Government and placed in irrevocable escrow accounts which, including interest earned, will be used to pay the principal and interest on the refunded bonds. The refunded bonds, which have an outstanding balance of \$2,520,000 at December 31, 2005, are not included in the City's outstanding debt since the City has in-substance satisfied its obligations through the advance refunding.

The City reduced its aggregate debt service payments over the life of the refunded bonds by \$244,064 and obtained an economic gain (difference between the present values of the old and new debt service payments) of \$235,035.

**CITY OF EASTLAKE, OHIO**

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***Notes to the Basic Financial Statements  
For the Year Ended December 31, 2005***

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**NOTE 11 – CAPITAL LEASES**

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

<u>Year Ending December 31,</u>	<u>Capital Leases</u>
2006	\$9,880
2007	6,900
2008	6,900
2009	<u>1,150</u>
Minimum Lease Payments	24,830
Less amount representing interest at the City's incremental borrowing rate of interest	<u>0</u>
Present value of minimum lease payments	<u><u>\$24,830</u></u>

**NOTE 12 – SHARED RISK POOL**

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

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

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

**CITY OF EASTLAKE, OHIO**

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**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2005**

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**NOTE 12 – SHARED RISK POOL (Continued)**

In 2005, the City of Eastlake paid \$167,598 in premiums from the general and special revenue funds, which represents 8.68% of total premiums. Financial information can be obtained by contacting the fiscal agent, the Finance Director at the City of Bedford Heights, 5661 Perkins Road, Bedford Heights, Ohio 44146.

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

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

Medical and prescription benefits in 2005 were provided through United Health Care of Ohio. Dental benefits are provided through MetLife. Payments are made on a monthly basis. The expenses are allocated by the number of employees multiplied by the fixed premium rate for each employee. The monthly premium for medical and prescription benefits range from \$372.07 to \$1,116.23 for single, two party, and family coverage. The monthly premium for dental benefits range from \$25.36 to \$76.59 for single, two-party, and family coverage. Employee bi-weekly premium co-pays range from \$10.44 for single to \$31.31 for a family plan.

**NOTE 13 – INTERFUND LOANS RECEIVABLE AND PAYABLE**

Following is a summary of interfund loans receivable and payable for all funds at December 31, 2005:

Fund	Interfund Loan Receivable	Interfund Loan Payable
General Fund	\$0	\$82,434
Road Capital Improvement Fund	82,434	0
Total All Funds	<u>\$82,434</u>	<u>\$82,434</u>

These Interfund Loans are short-term loans to cover a temporary cash deficit.

## ***CITY OF EASTLAKE, OHIO***

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2005***

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#### **NOTE 14 - CONTINGENCIES**

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

As to the *Ohio Department of Transportation vs. Eastlake Development Company* court case, of which the City was a guarantor of a State Infrastructure Bank Loan between the above mentioned parties, the City and the Ohio Department of Transportation have been actively negotiating. Any repayment of the remaining consented sum would only be repaid upon the City reaching a financial health wherein such repayment is possible with no negative consequences to the financial health of the City. The City anticipates that the litigation will ultimately resolve itself within these parameters.

#### **NOTE 15 –NORTHEAST OHIO PUBLIC ENERGY COUNCIL**

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

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each County then elect one person to serve on the eight-member NOPEC Board of Directors. The Board of Directors oversees and manages the operation of the representation in the General Assembly and on the Board of Directors. The City of Eastlake did not contribute to NOPEC in 2005. Financial information can be obtained by contacting NOPEC, 1615 Clarke Avenue, Cleveland, Ohio, 43212.

#### **NOTE 16 – SUBSEQUENT EVENTS**

On November 14, 2006, the City granted a 37 year easement for a cell tower in the amount of \$525,000. Also, on September 13, 2006, the City received an \$809,000 grant which is the first installment of a \$4,200,000 federal commitment. These monies will be used to retire future stadium debt.

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## **CITY OF EASTLAKE, OHIO**

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### ***Management's Discussion and Analysis For the Year Ended December 31, 2004***

***Unaudited***

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This discussion and analysis of the City of Eastlake's financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2004. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the City's financial performance.

### **FINANCIAL HIGHLIGHTS**

#### **Key financial highlights for 2004 are as follows:**

In total, net assets increased \$2,983,225. Net assets of governmental activities increased \$2,939,968, which represents a 27% increase from 2003. Net assets of business-type activities increased \$43,257 or 1.6% from 2003.

General revenues accounted for \$16,280,783 or 74% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$5,726,924, or 26% of total revenues of \$22,007,707.

The City had \$17,419,508 in expenses related to governmental activities; only \$4,149,526 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$16,209,950 were adequate to provide for these programs.

Among major funds, the general fund had \$13,324,697 in revenues and \$11,335,132 in expenditures. The general fund's fund balance increased from a deficit of \$2,261,588 to a deficit of \$718,884.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

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

These statements are as follows:

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

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

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

## ***CITY OF EASTLAKE, OHIO***

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***Management's Discussion and Analysis  
For the Year Ended December 31, 2004***

***Unaudited***

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### **Government-wide Statements**

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

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

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

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

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

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

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

### **Fund Financial Statements**

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

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

## CITY OF EASTLAKE, OHIO

**Management's Discussion and Analysis  
For the Year Ended December 31, 2004**

**Unaudited**

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

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

### FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The following table provides a summary of the City's net assets for 2004 compared to 2003.

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Current and other assets	\$11,525,824	\$11,666,003	\$762,661	\$599,620	\$12,288,485	\$12,265,623
Capital assets, Net	39,923,440	39,496,928	2,062,105	2,187,005	41,985,545	41,683,933
Total assets	51,449,264	51,162,931	2,824,766	2,786,625	54,274,030	53,949,556
Long-term debt outstanding	32,557,270	19,262,204	36,445	31,137	32,593,715	19,293,341
Other liabilities	4,929,311	20,878,012	8,044	18,468	4,937,355	20,896,480
Total liabilities	37,486,581	40,140,216	44,489	49,605	37,531,070	40,189,821
Net assets						
Invested in capital assets, net of related debt	9,670,586	8,936,436	2,062,105	2,187,005	11,732,691	11,123,441
Restricted	4,477,227	894,542	0	0	4,477,227	894,542
Unrestricted	(185,130)	1,191,737	718,172	550,015	533,042	1,741,752
Total net assets	<u>\$13,962,683</u>	<u>\$11,022,715</u>	<u>\$2,780,277</u>	<u>\$2,737,020</u>	<u>\$16,742,960</u>	<u>\$13,759,735</u>

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## CITY OF EASTLAKE, OHIO

### Management's Discussion and Analysis For the Year Ended December 31, 2004

*Unaudited*

Changes in Net Assets – The following table shows the changes in net assets for the fiscal years 2003 and 2004:

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenues						
Program revenues:						
Charges for Services and Sales	\$2,334,913	\$1,387,947	\$1,577,398	\$1,503,148	\$3,912,311	\$2,891,095
Operating Grants and Contributions	1,285,386	1,087,547	0	0	1,285,386	1,087,547
Capital Grants and Contributions	529,227	1,046,067	0	0	529,227	1,046,067
General revenues:						
Property Taxes	4,237,668	3,647,550	0	0	4,237,668	3,647,550
Income Taxes	7,051,523	6,985,148	0	0	7,051,523	6,985,148
State Levied Shared Taxes	4,251,803	3,837,144	0	0	4,251,803	3,837,144
Other Local Taxes	263,169	249,643	0	0	263,169	249,643
Investment Earnings	27,029	74,275	0	0	27,029	74,275
Miscellaneous	449,591	980,460	0	0	449,591	980,460
Total revenues	<u>20,430,309</u>	<u>19,295,781</u>	<u>1,577,398</u>	<u>1,503,148</u>	<u>22,007,707</u>	<u>20,798,929</u>
Program Expenses						
Security of Persons and Property	7,224,082	8,020,648	0	0	7,224,082	8,020,648
Public Health and Welfare Services	162,124	143,982	0	0	162,124	143,982
Leisure Time Activities	1,484,114	1,999,358	0	0	1,484,114	1,999,358
Community Environment	252,450	417,649	0	0	252,450	417,649
Basic Utility Services	2,320,504	1,294,183	0	0	2,320,504	1,294,183
Transportation	954,683	1,573,095	0	0	954,683	1,573,095
General Government	3,746,146	3,736,285	0	0	3,746,146	3,736,285
Interest and Fiscal Charges	1,275,405	1,178,772	0	0	1,275,405	1,178,772
Sewer	0	0	1,604,974	1,733,399	1,604,974	1,733,399
Total expenses	<u>17,419,508</u>	<u>18,363,972</u>	<u>1,604,974</u>	<u>1,733,399</u>	<u>19,024,482</u>	<u>20,097,371</u>
Change in Net Assets before transfers	3,010,801	931,809	(27,576)	(230,251)	2,983,225	701,558
Transfers	(70,833)	(92,700)	70,833	92,700	0	0
Total Change in Net Assets	2,939,968	839,109	43,257	(137,551)	2,983,225	701,558
Beginning Net Assets	11,022,715	10,183,606	2,737,020	2,874,571	13,759,735	13,058,177
Ending Net Assets	<u>\$13,962,683</u>	<u>\$11,022,715</u>	<u>\$2,780,277</u>	<u>\$2,737,020</u>	<u>\$16,742,960</u>	<u>\$13,759,735</u>

### Governmental Activities

Net assets of the City's governmental activities increased \$2,939,968. Increases in charges for services and sales for garbage collection fees as well as increases in state levied shared taxes contributed to this increase.

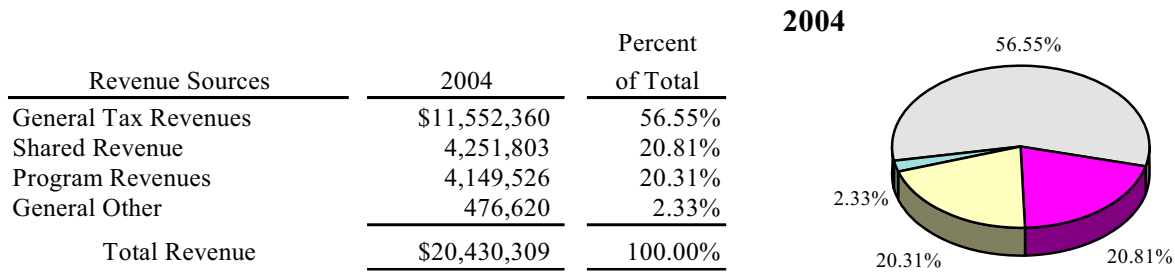
The City receives an income tax, which is based on 2.0% of all salaries, wages, commissions and other compensation and on net profits earned from residents living within the City.

## CITY OF EASTLAKE, OHIO

**Management's Discussion and Analysis  
For the Year Ended December 31, 2004**

*Unaudited*

Income taxes and property taxes made up 35% and 22% respectively of revenues for governmental activities for the City in fiscal year 2004. The City's reliance upon tax revenues is demonstrated by the following graph indicating 57% of total revenues from general tax revenues:



***Business-Type Activities***

Net assets of the business-type activities remained very stable, increasing \$43,257, or approximately 2% from 2003.

**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

The City's governmental funds reported a combined fund balance of \$3,102,991, which is an increase in fund balance from last year's deficit of \$11,303,681. The schedule below indicates the fund balance and the total change in fund balance by fund type as of December 31, 2004 and 2003:

	Fund Balance (Deficit) December 31, 2004	Fund Balance (Deficit) December 31, 2003	Increase (Decrease)
General	(\$718,884)	(\$2,261,588)	\$1,542,704
GO Bond Retirement	112,252	59,874	52,378
Road Capital Improvement	1,062,630	1,007,318	55,312
Economic Development	31,659	(11,973,066)	12,004,725
Other Governmental	2,615,334	1,863,781	751,553
Total	\$3,102,991	(\$11,303,681)	\$14,406,672

## **CITY OF EASTLAKE, OHIO**

**Management's Discussion and Analysis  
For the Year Ended December 31, 2004**

**Unaudited**

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

	2004 Revenues	2003 Revenues	Increase (Decrease)
Property Taxes	\$1,432,333	\$1,853,717	(\$421,384)
Municipal Income Taxes	7,049,560	6,630,774	418,786
State Levied Shared Taxes	2,416,177	2,268,131	148,046
Other Local Taxes	184,746	173,245	11,501
Intergovernmental Revenue	607,259	378,345	228,914
Charges for Services	750,109	93,420	656,689
Licenses, Permits and Fees	212,658	251,226	(38,568)
Investment Earnings	14,664	16,980	(2,316)
Fines and Forfeitures	243,938	228,722	15,216
All Other Revenue	413,253	336,128	77,125
<b>Total</b>	<b>\$13,324,697</b>	<b>\$12,230,688</b>	<b>\$1,094,009</b>

Overall, General Fund revenues in 2004 increased approximately 9% compared to revenues in fiscal year 2003. Municipal income tax receipts increased 6% in 2004. Intergovernmental revenues reported a decrease of over 30% due to decreases in the fire protection grant. In 2004, the City began providing garbage collection services. As a result of this new revenue source, the City reported a large increase in charges for services.

	2004 Expenditures	2003 Expenditures	Increase (Decrease)
Security of Persons and Property	\$5,760,615	\$6,459,852	(\$699,237)
Public Health and Welfare Services	162,124	143,982	18,142
Leisure Time Activities	1,096,325	1,438,816	(342,491)
Community Environment	254,054	419,238	(165,184)
Basic Utility Services	791,237	774,969	16,268
Transportation	88,640	770,379	(681,739)
General Government	3,157,621	3,421,991	(264,370)
Capital Outlay	24,516	108,519	(84,003)
<b>Total</b>	<b>\$11,335,132</b>	<b>\$13,537,746</b>	<b>(\$2,202,614)</b>

General Fund expenditures decreased \$2,202,614 or 16% from the prior year. This decrease can be attributed to overall decreases in salaries and benefits paid across many departments of the City.

## **CITY OF EASTLAKE, OHIO**

***Management's Discussion and Analysis  
For the Year Ended December 31, 2004***

***Unaudited***

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

During the course of fiscal year 2004 the City amended its General Fund budget several times, none significant.

For the General Fund, final actual revenue of \$13,102,718 was lower than original budget estimates of \$16,472,280. This was due to property taxes, income taxes, and state levied shared taxes received being less than anticipated. The General Fund did not have an adequate fund balance to cover expenditures.

### **CAPITAL ASSETS AND DEBT ADMINISTRATION**

#### ***Capital Assets***

At the end of fiscal 2004 the City had a total of \$41,985,545 net of accumulated depreciation invested in land, buildings and improvements, infrastructure, and machinery and equipment. Of this total, \$39,923,440 was related to governmental activities and \$2,062,105 to the business-type activities. The following table shows fiscal year 2004 and 2003 balances:

	Governmental Activities		Increase (Decrease)
	2004	2003	
Land	\$7,068,856	\$7,061,528	\$7,328
Construction In Progress	474,261	0	474,261
Buildings	17,229,924	17,229,924	0
Improvements Other than Buildings	8,504,276	7,507,739	996,537
Infrastructure	18,152,412	17,928,542	223,870
Machinery, Vehicles and Equipment	5,458,825	5,324,622	134,203
Less: Accumulated Depreciation	(16,965,114)	(15,555,427)	(1,409,687)
Totals	\$39,923,440	\$39,496,928	\$426,512

The primary increase occurred in land and improvements, which was the result of parking lot improvements.

	Business-Type Activities		Increase (Decrease)
	2004	2003	
Land	\$75,556	\$75,556	\$0
Buildings and Improvements	778,221	768,000	10,221
Infrastructure	8,290,122	8,290,122	0
Machinery, Vehicles and Equipment	579,775	517,604	62,171
Less: Accumulated Depreciation	(7,661,569)	(7,464,277)	(197,292)
Totals	\$2,062,105	\$2,187,005	(\$124,900)

The primary increase occurred in infrastructure, which was the result of several assets being transferred in from the Governmental Activities. Additional information on the City's capital assets can be found in Note 7.

## **CITY OF EASTLAKE, OHIO**

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**Management's Discussion and Analysis  
For the Year Ended December 31, 2004**

**Unaudited**

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### **Debt**

At December 31, 2004, the City had \$29,810,000 in General Obligation bonds outstanding, \$1,120,000 due within one year. The following table summarizes the City's debt outstanding as of December 31, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Governmental Activities:		
General Obligation Bonds	\$29,810,000	\$16,685,000
Special Assessment Bonds	0	5,000
Ohio Public Works Commission Loans	334,136	219,693
Honeywell Project Loan	108,718	210,490
Pension Liability	272,209	306,546
Compensated Absences	1,964,129	1,740,473
Capital Leases	68,078	95,002
Total Governmental Activities	<u>32,557,270</u>	<u>19,262,204</u>
Business-Type Activities:		
Compensated Absences	<u>\$36,445</u>	<u>\$31,137</u>
Totals	<u>\$32,593,715</u>	<u>\$19,293,341</u>

Additional information on the City's long-term debt can be found in Note 11.

### **ECONOMIC FACTORS**

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

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

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

In 2004, construction was completed on a 15,000 square foot retail building. The building was constructed at a cost of \$2.4 million and includes 8 units. Three of the units are currently leased, two of which are to banks and the other is leased to a restaurant.

### **REQUESTS FOR INFORMATION**

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



**CITY OF EASTLAKE, OHIO**

**Statement of Net Assets**  
**December 31, 2004**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Assets:</b>			
Cash and Cash Equivalents	\$ 2,147,004	\$ 171,735	\$ 2,318,739
Receivables:			
Taxes	5,057,848	0	5,057,848
Accounts	503,417	588,151	1,091,568
Intergovernmental	2,552,084	0	2,552,084
Special Assessments	327,621	0	327,621
Inventory of Supplies at Cost	94,466	2,775	97,241
Prepaid Items	133,884	0	133,884
Deferred Charge	709,500	0	709,500
Non-Depreciable Capital Assets	7,543,117	75,556	7,618,673
Depreciable Capital Assets, Net	<u>32,380,323</u>	<u>1,986,549</u>	<u>34,366,872</u>
<b>Total Assets</b>	<u>51,449,264</u>	<u>2,824,766</u>	<u>54,274,030</u>
<b>Liabilities:</b>			
Accounts Payable	562,668	294	562,962
Accrued Wages and Benefits	126,524	4,277	130,801
Intergovernmental Payable	376,695	3,473	380,168
Deferred Revenue	3,744,941	0	3,744,941
Accrued Interest Payable	118,483	0	118,483
Noncurrent liabilities:			
Due within one year	1,946,924	0	1,946,924
Due in more than one year	<u>30,610,346</u>	<u>36,445</u>	<u>30,646,791</u>
<b>Total Liabilities</b>	<u>37,486,581</u>	<u>44,489</u>	<u>37,531,070</u>
<b>Net Assets:</b>			
Invested in Capital Assets, Net of Related Debt	9,670,586	2,062,105	11,732,691
Restricted For:			
Capital Projects	2,747,507	0	2,747,507
Debt Service	368,517	0	368,517
Other Purposes	1,361,203	0	1,361,203
Unrestricted (Deficit)	<u>(185,130)</u>	<u>718,172</u>	<u>533,042</u>
<b>Total Net Assets</b>	<u>\$ 13,962,683</u>	<u>\$ 2,780,277</u>	<u>\$ 16,742,960</u>

See accompanying notes to the basic financial statements

**CITY OF EASTLAKE, OHIO**

**Statement of Activities**  
**For the Year Ended December 31, 2004**

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental Activities:</b>				
Security of Persons and Property	\$ 7,224,082	\$ 280,192	\$ 212,550	\$ 0
Public Health and Welfare Services	162,124	0	0	0
Leisure Time Activities	1,484,114	621,027	0	0
Community Environment	252,450	161,028	0	0
Basic Utility Services	2,320,504	444,423	0	0
Transportation	954,683	296	909,466	529,227
General Government	3,746,146	827,947	163,370	0
Interest and Fiscal Charges	1,275,405	0	0	0
<b>Total Governmental Activities</b>	<b>17,419,508</b>	<b>2,334,913</b>	<b>1,285,386</b>	<b>529,227</b>
<b>Business-Type Activities:</b>				
Sanitary Sewer	1,604,974	1,577,398	0	0
<b>Total Business-Type Activities</b>	<b>1,604,974</b>	<b>1,577,398</b>	<b>0</b>	<b>0</b>
<b>Totals</b>	<b>\$ 19,024,482</b>	<b>\$ 3,912,311</b>	<b>\$ 1,285,386</b>	<b>\$ 529,227</b>

**General Revenues**

Property Taxes Levied for:  
 General Purposes  
 Special Purposes  
 Debt Service  
 Capital Outlay  
 Municipal Income Tax  
 State Levied Shared Taxes  
 Other Local Taxes  
 Investment Earnings  
 Miscellaneous  
 Transfers  
 Total General Revenues and Transfers

Change in Net Assets

Net Assets Beginning of Year - Restated  
 Net Assets End of Year

See accompanying notes to the basic financial statements

**CITY OF EASTLAKE, OHIO**

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Net (Expense) Revenue  
and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
\$ (6,731,340)	\$ 0	\$ (6,731,340)
(162,124)	0	(162,124)
(863,087)	0	(863,087)
(91,422)	0	(91,422)
(1,876,081)	0	(1,876,081)
484,306	0	484,306
(2,754,829)	0	(2,754,829)
<u>(1,275,405)</u>	<u>0</u>	<u>(1,275,405)</u>
<u>(13,269,982)</u>	<u>0</u>	<u>(13,269,982)</u>
<u>0</u>	<u>(27,576)</u>	<u>(27,576)</u>
<u>0</u>	<u>(27,576)</u>	<u>(27,576)</u>
<u>(13,269,982)</u>	<u>(27,576)</u>	<u>(13,297,558)</u>
1,459,292	0	1,459,292
287,379	0	287,379
1,363,456	0	1,363,456
1,127,541	0	1,127,541
7,051,523	0	7,051,523
4,251,803	0	4,251,803
263,169	0	263,169
27,029	0	27,029
449,591	0	449,591
<u>(70,833)</u>	<u>70,833</u>	<u>0</u>
<u>16,209,950</u>	<u>70,833</u>	<u>16,280,783</u>
2,939,968	43,257	2,983,225
<u>11,022,715</u>	<u>2,737,020</u>	<u>13,759,735</u>
<u>\$ 13,962,683</u>	<u>\$ 2,780,277</u>	<u>\$ 16,742,960</u>

**CITY OF EASTLAKE, OHIO**

**Balance Sheet  
Governmental Funds  
December 31, 2004**

	General	GO Bond Retirement	Road Capital Improvement	Economic Development	Other Governmental Funds	Total Governmental Funds
<b>Assets:</b>						
Cash and Cash Equivalents	\$ 0	\$ 176,752	\$ 0	\$ 31,659	\$ 1,938,593	\$ 2,147,004
Receivables:						
Taxes	2,596,072	856,792	1,008,450	0	596,534	5,057,848
Accounts	498,706	0	0	0	4,711	503,417
Intergovernmental	1,781,082	0	326,892	0	444,110	2,552,084
Special Assessments	0	0	0	0	327,621	327,621
Interfund Loans Receivables	0	0	1,082,423	0	1,037,365	2,119,788
Inventory of Supplies, at Cost	41,082	0	0	0	53,384	94,466
Prepaid Items	37,257	0	27,500	0	69,127	133,884
<b>Total Assets</b>	<b>\$ 4,954,199</b>	<b>\$ 1,033,544</b>	<b>\$ 2,445,265</b>	<b>\$ 31,659</b>	<b>\$ 4,471,445</b>	<b>\$ 12,936,112</b>
<b>Liabilities:</b>						
Accounts Payable	\$ 135,923	\$ 64,500	\$ 34,305	\$ 0	\$ 327,940	\$ 562,668
Accrued Wages and Benefits Payable	115,913	0	7,569	0	3,042	126,524
Intergovernmental Payable	90,518	0	5,419	0	280,758	376,695
Interfund Loans Payable	2,119,788	0	0	0	0	2,119,788
Deferred Revenue	3,210,941	856,792	1,335,342	0	1,244,371	6,647,446
<b>Total Liabilities</b>	<b>5,673,083</b>	<b>921,292</b>	<b>1,382,635</b>	<b>0</b>	<b>1,856,111</b>	<b>9,833,121</b>
<b>Fund Balance:</b>						
Reserved for Encumbrances	15,563	0	46,839	0	265,203	327,605
Reserved for Prepaid Items	37,257	0	27,500	0	69,127	133,884
Reserved for Supplies Inventory	41,082	0	0	0	53,384	94,466
Reserved for Debt Service	0	112,252	0	0	15,404	127,656
Undesignated, Unreserved in:						
General Fund (Deficit)	(812,786)	0	0	0	0	(812,786)
Special Revenue Funds	0	0	0	0	900,363	900,363
Capital Projects Funds	0	0	988,291	31,659	1,311,853	2,331,803
<b>Total Fund Balance</b>	<b>(718,884)</b>	<b>112,252</b>	<b>1,062,630</b>	<b>31,659</b>	<b>2,615,334</b>	<b>3,102,991</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 4,954,199</b>	<b>\$ 1,033,544</b>	<b>\$ 2,445,265</b>	<b>\$ 31,659</b>	<b>\$ 4,471,445</b>	<b>\$ 12,936,112</b>

See accompanying notes to the basic financial statements

**CITY OF EASTLAKE, OHIO**

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***Reconciliation Of Total Governmental Fund Balances  
To Net Assets Of Governmental Activities  
December 31, 2004***

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**Total Governmental Fund Balances** \$ 3,102,991

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

Capital Assets used in governmental activities are not  
resources and therefore are not reported in the funds. 39,923,440

Other long-term assets are not available to pay for current-  
period expenditures and therefore are deferred in the funds. 2,902,505

Debt issuance costs are expended in the funds, however they are  
deferred in the entity-wide statements. 709,500

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

General Obligation Bonds	(29,810,000)
OPWC Loan Payable	(334,136)
Honeywell Project Loan	(108,718)
Pension Liability	(272,209)
Compensated Absences Payable	(1,964,129)
Capital Leases	(68,078)
Accrued Interest Payable	(118,483)

(32,675,753)

***Net Assets of Governmental Activities***

\$ 13,962,683

See accompanying notes to the basic financial statements

## CITY OF EASTLAKE, OHIO

### Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds For the Year Ended December 31, 2004

	General	GO Bond Retirement	Road Capital Improvement	Economic Development	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>						
Property Taxes	\$ 1,432,333	\$ 1,378,068	\$ 930,251	\$ 0	\$ 455,532	\$ 4,196,184
Municipal Income Taxes	7,049,560	0	0	0	0	7,049,560
State Levied Shared Taxes	2,416,177	141,897	81,531	0	926,897	3,566,502
Other Local Taxes	184,746	0	0	0	78,423	263,169
Intergovernmental Revenues	607,259	203,336	831,325	145,336	315,163	2,102,419
Charges for Services	750,109	0	0	0	397,091	1,147,200
Rental Revenue	0	0	0	0	366,575	366,575
Licenses, Permits and Fees	212,658	0	0	0	0	212,658
Investment Earnings	14,664	0	0	11,199	1,166	27,029
Special Assessments	0	0	0	0	33,988	33,988
Fines and Forfeitures	243,938	0	0	0	34,191	278,129
All Other Revenue	413,253	0	0	15,108	11,353	439,714
<b>Total Revenue</b>	<b>13,324,697</b>	<b>1,723,301</b>	<b>1,843,107</b>	<b>171,643</b>	<b>2,620,379</b>	<b>19,683,127</b>
<b>Expenditures:</b>						
Current:						
Security of Persons and Property	5,760,615	0	0	0	943,003	6,703,618
Public Health and Welfare Services	162,124	0	0	0	0	162,124
Leisure Time Activities	1,096,325	0	0	0	0	1,096,325
Community Environment	254,054	0	0	0	0	254,054
Basic Utility Services	791,237	0	807,649	0	0	1,598,886
Transportation	88,640	0	0	0	785,605	874,245
General Government	3,157,621	18,381	0	0	160,963	3,336,965
Capital Outlay	24,516	0	1,310,132	781,069	369,745	2,485,462
Debt Service:						
Principal Retirement	0	186,772	11,864	0	1,028,693	1,227,329
Interest & Fiscal Charges	0	1,607,487	6,848	324,529	8,836	1,947,700
<b>Total Expenditures</b>	<b>11,335,132</b>	<b>1,812,640</b>	<b>2,136,493</b>	<b>1,105,598</b>	<b>3,296,845</b>	<b>19,686,708</b>
Excess (Deficiency) of Revenues Over Expenditures	1,989,565	(89,339)	(293,386)	(933,955)	(676,466)	(3,581)
<b>Other Financing Sources (Uses):</b>						
Sale of Capital Assets	4,000	0	0	0	0	4,000
General Obligation Bonds Issued	0	14,210,000	0	0	0	14,210,000
Premium on Note Sale	0	7,750	0	0	0	7,750
OPWC Loan Proceeds	0	0	150,000	0	0	150,000
Transfers In	0	0	198,698	12,938,680	1,421,825	14,559,203
Transfers Out	(483,170)	(14,076,033)	0	0	0	(14,559,203)
Other Financing Sources	8,849	0	0	0	5,024	13,873
Other Financing Uses	(3,996)	0	0	0	0	(3,996)
Other Financing Sources - Capital Lease	9,865	0	0	0	0	9,865
<b>Total Other Financing Sources (Uses)</b>	<b>(464,452)</b>	<b>141,717</b>	<b>348,698</b>	<b>12,938,680</b>	<b>1,426,849</b>	<b>14,391,492</b>
Net Change in Fund Balance	1,525,113	52,378	55,312	12,004,725	750,383	14,387,911
<b>Fund Balance (Deficit) at Beginning of Year</b>	<b>(2,261,588)</b>	<b>59,874</b>	<b>1,007,318</b>	<b>(11,973,066)</b>	<b>1,863,781</b>	<b>(11,303,681)</b>
Increase in Inventory Reserve	17,591	0	0	0	1,170	18,761
<b>Fund Balance (Deficit) End of Year</b>	<b>\$ (718,884)</b>	<b>\$ 112,252</b>	<b>\$ 1,062,630</b>	<b>\$ 31,659</b>	<b>\$ 2,615,334</b>	<b>\$ 3,102,991</b>

See accompanying notes to the basic financial statements

**CITY OF EASTLAKE, OHIO**

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***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, 2004***

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**Net Change in Fund Balances - Total Governmental Funds** \$ 14,387,911

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

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

Capital Outlay	2,116,014	
Depreciation Expense	<u>(1,607,923)</u>	508,091

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

This is the amount of the loss on the disposal of capital assets net of proceeds received.	(81,579)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 737,305

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

General Obligation Bond Proceeds	(14,210,000)	
General Obligation Bond Principal Payment	1,085,000	
Special Assessment Bond Principal Payment	5,000	
OPWC Loan Principal Payment	35,557	
OPWC Loan Proceeds	(150,000)	
Honeywell Project Loan Principal Payment	101,772	
Pension Liability	34,337	
Capital Leases	36,789	
New Capital Lease	(9,865)	
Deferred Charges	<u>709,500</u>	(12,361,910)

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. (44,955)

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	(223,656)	
Change in Inventory	<u>18,761</u>	(204,895)

***Change in Net Assets of Governmental Activities*** \$ 2,939,968

See accompanying notes to the basic financial statements

**CITY OF EASTLAKE, OHIO**

**Statement of Revenues, Expenditures and Changes in  
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)  
General Fund  
For the Year Ended December 31, 2004**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>				
Property Taxes	\$ 2,428,759	\$ 2,317,341	\$ 1,931,933	\$ (385,408)
Municipal Income Taxes	8,857,526	8,451,192	7,045,635	(1,405,557)
State Levied Shared Taxes	3,004,430	2,866,603	2,389,845	(476,758)
Other Local Taxes	217,570	207,589	173,064	(34,525)
Intergovernmental Revenue	135,345	129,136	107,659	(21,477)
Charges for Services	693,212	661,411	551,409	(110,002)
Licenses and Permits	274,205	261,626	218,114	(43,512)
Investment Earnings	18,435	17,589	14,664	(2,925)
Fines and Forfeitures	308,554	294,399	245,436	(48,963)
All Other Revenues	534,244	509,735	424,959	(84,776)
Total Revenues	<u>16,472,280</u>	<u>15,716,621</u>	<u>13,102,718</u>	<u>(2,613,903)</u>
<b>Expenditures:</b>				
Current:				
Security of Persons and Property	5,940,153	6,086,123	5,999,953	86,170
Public Health and Welfare	145,500	146,900	146,855	45
Leisure Time Activities	1,111,829	1,154,017	1,134,449	19,568
Community Environment	258,108	279,765	270,131	9,634
Basic Utility Services	836,500	807,900	807,239	661
Transportation	250,344	222,569	211,836	10,733
General Government	3,299,460	3,261,609	3,191,159	70,450
Capital Outlay	26,123	16,073	14,918	1,155
Total Expenditures	<u>11,868,017</u>	<u>11,974,956</u>	<u>11,776,540</u>	<u>198,416</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	4,604,263	3,741,665	1,326,178	(2,415,487)
<b>Other Financing Sources (Uses):</b>				
Sale of Capital Assets	5,029	4,798	4,000	(798)
Transfers Out	(530,000)	(501,067)	(488,113)	12,954
Other Financing Sources	11,125	10,614	8,849	(1,765)
Other Financing Uses	(1,900)	(22,300)	(3,996)	18,304
Total Other Financing Sources (Uses):	<u>(515,746)</u>	<u>(507,955)</u>	<u>(479,260)</u>	<u>28,695</u>
Net Change in Fund Balance	4,088,517	3,233,710	846,918	(2,386,792)
Fund Balance at Beginning of Year	(2,985,511)	(2,985,511)	(2,985,511)	0
Prior Year Encumbrances	3,241	3,241	3,241	0
Fund Balance at End of Year	<u>\$ 1,106,247</u>	<u>\$ 251,440</u>	<u>\$ (2,135,352)</u>	<u>\$ (2,386,792)</u>

See accompanying notes to the basic financial statements



**CITY OF EASTLAKE, OHIO**

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**Statement of Net Assets**  
**Proprietary Fund**  
**December 31, 2004**

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	<u>Sanitary Sewer</u>
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 171,735
Receivables:	
Accounts	588,151
Inventory of Supplies at Cost	<u>2,775</u>
Total Current Assets	<u>762,661</u>
Noncurrent assets:	
Non-Depreciable Capital Assets	75,556
Depreciable Capital Assets, Net	<u>1,986,549</u>
Total Noncurrent Assets	<u>2,062,105</u>
Total Assets	<u>2,824,766</u>
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts Payable	294
Accrued Wages and Benefits	4,277
Intergovernmental Payable	<u>3,473</u>
Total Current Liabilities	<u>8,044</u>
Noncurrent Liabilities:	
Compensated Absences Payable	<u>36,445</u>
Total Noncurrent Liabilities	<u>36,445</u>
<b>Total Liabilities</b>	<u>44,489</u>
<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	2,062,105
Unrestricted	<u>718,172</u>
Total Net Assets	<u>\$ 2,780,277</u>

See accompanying notes to the basic financial statements

**CITY OF EASTLAKE, OHIO**

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**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**Proprietary Fund**  
**For the Year Ended December 31, 2004**

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	<u>Sanitary Sewer</u>
<b>Operating Revenues:</b>	
Charges for Services	\$ 1,577,398
<b>Total Operating Revenues</b>	<u>1,577,398</u>
<b>Operating Expenses:</b>	
Personal Services	340,731
Contractual Services	1,066,545
Depreciation	195,733
Other Operating Expenses	<u>1,965</u>
<b>Total Operating Expenses</b>	<u>1,604,974</u>
<b>Operating Loss</b>	(27,576)
<b>Non-Operating Revenue (Expenses):</b>	
Capital Contributions	<u>70,833</u>
<b>Total Non-Operating Revenues (Expenses)</b>	<u>70,833</u>
<b>Change in Net Assets</b>	43,257
Net Assets Beginning of Year	<u>2,737,020</u>
<b>Net Assets End of Year</b>	<u>\$ 2,780,277</u>

See accompanying notes to the basic financial statements

**CITY OF EASTLAKE, OHIO**

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***Statement of Cash Flows***  
***Proprietary Fund***  
***For the Year Ended December 31, 2004***

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	<b><i>Enterprise Funds</i></b>
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Customers	\$1,588,813
Cash Payments for Goods and Services	(1,070,991)
Cash Payments to Employees	(346,141)
Net Cash Provided by Operating Activities	<u>171,681</u>
Net Increase in Cash and Cash Equivalents	171,681
Cash and Cash Equivalents at Beginning of Year	<u>54</u>
Cash and Cash Equivalents at End of Year	<u><u>\$171,735</u></u>
<u>Reconciliation of Operating Loss to Net Cash</u>	
<u>    Provided by Operating Activities:</u>	
Operating Loss	(\$27,576)
Adjustments to Reconcile Operating Loss to	
Net Cash Provided by Operating Activities:	
Depreciation Expense	195,733
Changes in Assets and Liabilities:	
Decrease in Accounts Receivable	11,415
Increase in Inventory	(2,775)
Increase in Accounts Payable	294
Decrease in Accrued Wages and Benefits	(8,775)
Decrease in Intergovernmental Payable	(1,943)
Increase in Compensated Absences	5,308
Total Adjustments	<u>199,257</u>
Net Cash Provided by Operating Activities	<u><u>\$171,681</u></u>

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

**CITY OF EASTLAKE, OHIO**

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***Statement of Net Assets  
Fiduciary Funds  
December 31, 2004***

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	<u>Agency Funds</u>
<b>Assets:</b>	
Cash and Cash Equivalents	\$ 288,255
<b>Total Assets</b>	<u>288,255</u>
<b>Liabilities:</b>	
Due to Others	<u>288,255</u>
<b>Total Liabilities</b>	<u>288,255</u>
<b>Total Net Assets</b>	<u><u>\$ 0</u></u>

See accompanying notes to the basic financial statements

## ***CITY OF EASTLAKE, OHIO***

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2004***

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

The financial statements are presented as of December 31, 2004 and for the year then ended, and have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to local governments. The Governmental Accounting Standards Board (the "GASB") is the standard-setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification).

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

#### **A. Reporting Entity**

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

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

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

## ***CITY OF EASTLAKE, OHIO***

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2004***

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **A. Reporting Entity** (Continued)

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

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

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

##### **B. Basis of Presentation - Fund Accounting**

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

##### ***Governmental Funds***

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

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

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

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

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

## ***CITY OF EASTLAKE, OHIO***

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2004***

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **B. Basis of Presentation - Fund Accounting (Continued)**

###### ***Proprietary Fund***

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

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

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

###### ***Fiduciary Funds***

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

##### **C. Basis of Presentation - Financial Statements**

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

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

## ***CITY OF EASTLAKE, OHIO***

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2004***

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **C. Basis of Presentation – Financial Statements (Continued)**

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

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

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

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

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

##### **D. Basis of Accounting**

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



## *CITY OF EASTLAKE, OHIO*

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### *Notes to the Basic Financial Statements For the Year Ended December 31, 2004*

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

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

Special assessment installments and related accrued interest, which are measurable but not available at December 31, are recorded as deferred revenues. Property taxes measurable as of December 31, 2004 but which are not intended to finance 2004 operations and delinquent property taxes, whose availability is indeterminate, are recorded as deferred revenues.

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

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

## *CITY OF EASTLAKE, OHIO*

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### *Notes to the Basic Financial Statements For the Year Ended December 31, 2004*

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **E. Budgetary Process**

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

##### **1. Tax Budget**

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

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

##### **2. Estimated Resources**

The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes, and reviews estimated revenue. The Budget Commission then certifies its actions to the City by September 1 of each year. As part of the certification process, the City receives an official certificate of estimated resources stating the projected receipts by fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year do not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include any unencumbered fund balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 2004.

## *CITY OF EASTLAKE, OHIO*

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### *Notes to the Basic Financial Statements For the Year Ended December 31, 2004*

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **E. Budgetary Process** (Continued)

##### **3. Appropriations**

A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 through March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 through December 31. The appropriation ordinance establishes spending controls at the fund, department and object level and may be modified during the year by Ordinance of City Council. Total fund appropriations may not exceed the current estimated resources certified by the County Budget Commission. Expenditures may not legally exceed budgeted appropriations at the department, personal service and other object levels. During 2004, several supplemental appropriations were necessary to budget for major capital improvement projects that were not originally appropriated. Administrative control is maintained through the establishment of more detailed line-item budgets. Funds may be moved from one line-item account to another within the same object without approval of City Council. The City Finance Director maintains an accounting of the line-item expenditures to insure that the total expenditures within a department by object do not exceed approved appropriations. The allocation of appropriations among departments and objects within a fund may be modified during the year by an ordinance of City Council. The budgetary figures which appear on the "Statement of Revenues, Expenditures, and Changes in Fund Balances--Budget and Actual (Non-GAAP Budgetary Basis) — General Fund" are presented on a budgetary basis to provide a comparison of actual results to the final budget, including all amendments and modifications.

##### **4. Lapsing of Appropriations**

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the subsequent fiscal year and needs not be reappropriated.

##### **5. Budgetary Basis of Accounting**

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

**CITY OF EASTLAKE, OHIO**

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**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2004**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Budgetary Process (Continued)**

**5. Budgetary Basis of Accounting (Continued)**

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

	Net Change in Fund Balance
	<u>General Fund</u>
GAAP Basis (as reported)	\$1,525,113
Increase (Decrease):	
Accrued Revenues at December 31, 2004 received during 2005	(1,664,919)
Accrued Revenues at December 31, 2003 received during 2004	1,442,940
Accrued Expenditures at December 31, 2004 paid during 2005	3,324,622
Accrued Expenditures at December 31, 2003 paid during 2004	(3,779,160)
2003 Prepays for 2004	51,142
2004 Prepays for 2005	(37,257)
Outstanding Encumbrances	<u>(15,563)</u>
Budget Basis	<u><u>\$846,918</u></u>

**F. Cash and Cash Equivalents**

Cash and cash equivalents include amounts in demand deposits and the State Treasury Asset Reserve (STAR Ohio).

The City pools its cash for investment and resource management purposes. Each fund's equity in pooled cash and investments represents the balance on hand as if each fund maintains its own cash and investment account. See Note 3, "Cash, Cash Equivalents and Investments." For purposes of the statement of cash flows, the proprietary fund considers its share of equity in STAR Ohio to be cash equivalents.

## ***CITY OF EASTLAKE, OHIO***

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2004***

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **G. Investments**

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

The City has invested funds in the STAR Ohio during 2004. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 2004. See Note 3, "Cash, Cash Equivalents and Investments."

##### **H. Inventory**

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

##### **I. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond December 31, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

##### **J. Capital Assets and Depreciation**

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

###### **1. Property, Plant and Equipment - Governmental Activities**

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

**CITY OF EASTLAKE, OHIO**

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***Notes to the Basic Financial Statements  
For the Year Ended December 31, 2004***

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**J. Capital Assets and Depreciation** (Continued)

**1. Property, Plant and Equipment - Governmental Activities** (Continued)

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

**2. Property, Plant and Equipment - Business Type Activities**

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

**3. Depreciation**

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

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

**CITY OF EASTLAKE, OHIO**

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***Notes to the Basic Financial Statements  
For the Year Ended December 31, 2004***

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**K. Long-Term Obligations**

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

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

**L. Compensated Absences**

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

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

**M. Net Assets**

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

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

## ***CITY OF EASTLAKE, OHIO***

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2004***

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **N. Pensions**

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

##### **O. Interfund Activity**

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

##### **P. Reservations of Fund Balance**

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

##### **Q. Operating Revenues and Expenses**

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

#### **NOTE 2 - COMPLIANCE AND ACCOUNTABILITY**

##### **A. Fund Deficits**

The fund deficits at December 31, 2004 of \$718,884 in the General Fund, \$136,802 in the Police Pension Fund, and \$114,846 in the Fire Pension Fund (special revenue funds) arise from the recognition of expenditures on the modified accrual basis which are greater than expenditures recognized on the budgetary basis. The General Fund provides transfers when cash is required, not when accruals occur.



**CITY OF EASTLAKE, OHIO**

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**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2004**

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**NOTE 2 - COMPLIANCE AND ACCOUNTABILITY (Continued)**

**B. Non-Compliance Citations**

Ohio Revised Code Section 5705.41(B), prohibits a subdivision from making an expenditure unless it has been appropriated.

As of September 30, 2004 the following accounts had expenditures plus encumbrances in excess of appropriations. These accounts were corrected at year-end.

<u>Fund / Program</u>	<u>Appropriations</u>	<u>Expenditures Plus Encumbrances</u>	<u>Excess</u>
Trust Fund*:			
Flag Trust	\$800	\$870	\$70
Alarm Monitoring	1,000	2,641	1,641
Unclaimed Trust	0	26,434	26,434
Special Revenue Funds:			
EMS - State Grant	5,000	5,589	589
Senior Citizens Trust	35,000	122,107	87,107
Recreation and Land Acquisition	0	4,130	4,130
Debt Service Fund:			
General Bond Retirement	2,445,034	4,839,172	2,394,138
Capital Project Fund:			
Eastlake Economic Development	1,137,590	1,410,933	273,343
Agency Funds:			
Subdivision Inspection	5,000	8,184	3,184
Plan Review Deposits	35,000	38,992	3,992

\* For GAAP reporting purposes, these funds were combined with the General Fund.

**CITY OF EASTLAKE, OHIO**

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**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2004**

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**NOTE 2 - COMPLIANCE AND ACCOUNTABILITY (Continued)**

**B. Non-Compliance Citations (Continued)**

Ohio Revised Code Section 5705.39 provides that total appropriations made during the fiscal year from any fund must not exceed the amount contained in the certificate of estimated resources.

The following accounts had total appropriations exceeding total estimated revenue as of the dates tested below:

<u>Fund / Program</u>	<u>Estimated Receipts</u>	<u>Total Appropriations</u>	<u>Variance</u>
<b>At December 31, 2004:</b>			
General Bond Retirement Fund	\$2,704,924	\$19,400,000	\$16,695,076
Eastlake Economic Development Fund	12,528	1,373,000	1,360,472
Unclaimed Trust Fund	4,454	26,500	22,046
Plan Review Deposits Fund	36,037	50,000	13,963
Lake County Water Fund	366,500	438,000	71,500
<b>At September 30, 2004:</b>			
Eastlake Economic Development Fund	12,528	1,137,590	1,125,062

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

The City did not obtain an amended certificate of estimated resources dated June 30, 2004 for the \$9,890,000 and \$4,320,000 general obligation bonds issued on December 1, 2004 or for the \$2,250,000 various purpose notes issued on June 9, 2004.

Ohio Revised Code Section 9.38 states that public money must be deposited with the treasurer of the public office or to a designated depository on the business day following the day of receipts.

During testing, eleven out of twenty-one total sewer tap-in fees, which totaled \$26,640 out of \$38,700 (69%) were not deposited to the Finance Department or designated depository within one day of collection.

We further noted the City has not established a policy during the audit period that would allow for monies to be held past the next business day.

## ***CITY OF EASTLAKE, OHIO***

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2004***

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#### **NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS**

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

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

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

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

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

## *CITY OF EASTLAKE, OHIO*

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### *Notes to the Basic Financial Statements For the Year Ended December 31, 2004*

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#### **NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)**

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

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

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

#### *Deposits:*

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

#### *Investments:*

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

#### **A. Deposits**

At year-end, the carrying amount of the City's deposits was \$1,302,491 (including \$1,800 in petty cash), and the bank balance \$1,541,533. Federal depository insurance covered \$229,678 of the bank balance. All \$1,311,855 of the remaining deposits were classified as Category 3.

**CITY OF EASTLAKE, OHIO**

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**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2004**

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**NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)**

**B. Investments**

The City's investments at December 31, 2004 are summarized below:

<u>Non-Categorized Investments</u>	<u>Fair Value</u>
STAR Ohio	<u>\$1,304,503</u>
Total Investments	<u><u>\$1,304,503</u></u>

**C. Reconciliation of Cash, Cash Equivalents and Investments**

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

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

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>
Per GASB Statement No. 9	\$2,606,994	\$0
Investments:		
STAR Ohio	<u>(1,304,503)</u>	<u>1,304,503</u>
Per GASB Statement No. 3	<u><u>\$1,302,491</u></u>	<u><u>\$1,304,503</u></u>

**NOTE 4 - TAXES**

**A. Property Taxes**

Property taxes include amounts levied against all real estate and public utility property, and tangible personal property located in the City and used in business. Real property taxes (other than public utility) collected during 2004 were levied after October 1, 2003 on assessed values as of January 1, 2003, the lien date. Assessed values are established by the county auditor at 35 percent of appraised market value. All property is required to be reappraised every six years and equalization adjustments made in the third year following reappraisal. The last revaluation was completed in 2003. Real property taxes are paid annually or semi-annually. The first payment is due January 20; the remainder payable by June 20.

## ***CITY OF EASTLAKE, OHIO***

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2004***

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#### **NOTE 4 - TAXES (Continued)**

##### **A. Property Taxes** (Continued)

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

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

The County Treasurer collects property taxes on behalf of all taxing districts in the County including the City of Eastlake. The County Auditor periodically remits to the City its portion of the taxes collected. The full tax rate for all City operations for the year ended December 31, 2004 was \$10.8 per \$1,000 of assessed value. The assessed value upon which the 2004 tax receipts were based was \$539,369,245. This amount constitutes \$417,879,710 in real property assessed value, \$76,961,960 in public utility assessed value and \$44,527,575 in tangible personal property assessed value.

Ohio law prohibits taxation of property from all taxing authorities in excess of 1% of assessed value without a vote of the people. Under current procedures, the City's share is 1.08% (10.8 mills) of assessed value.

##### **B. Income Tax**

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

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

#### **NOTE 5 - RECEIVABLES**

Receivables at December 31, 2004 consisted of taxes, accounts receivable, special assessments, interfund receivables and intergovernmental receivables arising from shared revenues.

**CITY OF EASTLAKE, OHIO**

**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2004**

**NOTE 6 - TRANSFERS**

Following is a summary of transfers in and out for all funds for 2004:

Fund	Transfer In	Transfer Out
<b>Governmental Funds:</b>		
General Fund	\$0	\$483,170
General Obligation Bond Retirement Fund	0	14,076,033
Road Capital Improvement Fund	198,698	0
Economic Development Fund	12,938,680	0
Other Governmental Funds	1,421,825	0
<b>Totals</b>	<b>\$14,559,203</b>	<b>\$14,559,203</b>

**NOTE 7 - CAPITAL ASSETS**

**A. Governmental Activities Capital Assets**

Summary by category of changes in governmental activities capital assets at December 31, 2004:

<i>Historical Cost:</i>				
Class	December 31, 2003	Additions	Deletions	December 31, 2004
<i>Capital assets not being depreciated:</i>				
Land	\$7,061,528	\$7,328	\$0	\$7,068,856
Construction in Progress	0	474,261	0	474,261
Subtotal	7,061,528	481,589	0	7,543,117
<i>Capital assets being depreciated:</i>				
Buildings	17,229,924	0	0	17,229,924
Improvements Other than Buildings	7,507,739	1,071,470	(74,933)	8,504,276
Infrastructure	17,928,542	223,870	0	18,152,412
Machinery, Vehicles and Equipment	5,324,622	339,085	(204,882)	5,458,825
Subtotal	47,990,827	1,634,425	(279,815)	49,345,437
Total Cost	\$55,052,355	\$2,116,014	(\$279,815)	\$56,888,554
<i>Accumulated Depreciation:</i>				
Class	December 31, 2003	Additions	Deletions	December 31, 2004
Buildings	(\$4,153,917)	(\$183,024)	\$0	(\$4,336,941)
Improvements Other than Buildings	(150,155)	(334,398)	4,100	(480,453)
Infrastructure	(8,139,176)	(721,618)	0	(8,860,794)
Machinery, Vehicles and Equipment	(3,112,179)	(368,883)	194,136	(3,286,926)
Total Depreciation	(\$15,555,427)	(\$1,607,923) *	\$198,236	(\$16,965,114)
<i>Net Value:</i>	\$39,496,928			\$39,923,440

**CITY OF EASTLAKE, OHIO**

**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2004**

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

**A. Governmental Activities Capital Assets (Continued)**

\* Depreciation expenses were charged to governmental functions as follows:

Security of Persons and Property	\$271,717
Leisure Time Activities	429,449
Community Environment	1,769
Basic Utility Services	721,618
Transportation	85,059
General Government	98,311
Total Depreciation Expense	\$1,607,923

**B. Business-Type Activities Capital Assets**

Summary by Category at December 31, 2004:

***Historical Cost:***

Class	December 31, 2003	Additions	Deletions	December 31, 2004
<b><i>Capital assets not being depreciated:</i></b>				
Land	\$75,556	\$0	\$0	\$75,556
Subtotal	75,556	0	0	75,556
<b><i>Capital assets being depreciated:</i></b>				
Buildings and Improvements	768,000	10,221	0	778,221
Infrastructure	8,290,122	0	0	8,290,122
Machinery, Vehicles and Equipment	517,604	64,712	(2,541)	579,775
Subtotal	9,575,726	74,933	(2,541)	9,648,118
Total Cost	\$9,651,282	\$74,933	(\$2,541)	\$9,723,674

***Accumulated Depreciation:***

Class	December 31, 2003	Additions	Deletions	December 31, 2004
Buildings and Improvements	(\$723,167)	(\$2,000)	\$0	(\$725,167)
Infrastructure	(6,480,174)	(165,883)	0	(6,646,057)
Machinery, Vehicles and Equipment	(260,936)	(31,950)	2,541	(290,345)
Total Depreciation	(\$7,464,277)	(\$199,833)	\$2,541	(\$7,661,569)
<b><i>Net Value:</i></b>	\$2,187,005			\$2,062,105



## ***CITY OF EASTLAKE, OHIO***

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2004***

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#### **NOTE 8 – DEFINED BENEFIT PENSION PLANS**

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

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

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

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

The Ohio PERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the TP Plan and CO Plan. Members of the MD Plan do not qualify for ancillary benefits. Chapter 145 of the Ohio Revised Code provides statutory authority to establish and amend benefits. The Ohio Public Employees Retirement System issues a stand-alone financial report that includes financial statements and required supplementary information for the Ohio PERS. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6701 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2004, employee and employer contribution rates were consistent across all three plans (TP, MD and CO). The employee contribution rate is 8.5%. The 2004 employer contribution rate for local government employer units was 13.55%, of covered payroll, 9.55% to fund the pension and 4.0% to fund health care. The contribution requirements of plan members and the City are established and may be amended by the Public Employees Retirement Board. The City's contributions to the Ohio PERS for the years ending December 31, 2004, 2003 and 2002 were \$360,973, \$418,226 and \$446,545, respectively, which were equal to the required contributions for each year.

## *CITY OF EASTLAKE, OHIO*

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### *Notes to the Basic Financial Statements For the Year Ended December 31, 2004*

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#### **NOTE 8 – DEFINED BENEFIT PENSION PLANS (Continued)**

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

The Ohio PERS provides postemployment health care benefits to age and service retirees with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirees. Health care coverage for disability recipients is also available. The health care coverage provided by the Ohio PERS is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to the Ohio PERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority requiring public employers to fund postemployment health care through their contributions to the Ohio PERS. The portion of the 2004 employer contribution rate (identified above) that was used to fund health care for the year 2004 was 4.0% of covered payroll which amounted to \$151,191.

The significant actuarial assumptions and calculations relating to postemployment health care benefits were based on the Ohio Public Employees Retirement System's latest actuarial review performed as of December 31, 2003. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 2003 was 8.0%. An annual increase of 4.0% compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0% base increase, were assumed to range from 0.5% to 6.3%. Health care costs were assumed to increase 4.0% annually plus an additional factor ranging from 1% to 6% for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase 4% (the projected wage inflation rate).

Benefits are advanced-funded on an actuarially determined basis. The number of active contributing participants was 369,885. The actuarial value of the Ohio PERS net assets available for OPEB at December 31, 2003 is \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$26.9 billion and \$16.4 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures Ohio PERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

## ***CITY OF EASTLAKE, OHIO***

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2004***

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#### **NOTE 8 – DEFINED BENEFIT PENSION PLANS (Continued)**

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

All City full-time police officers and full-time firefighters participate in the OP&F Fund, a cost-sharing multiple-employer defined benefit pension plan. The OP&F Fund provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries. Contribution requirements and benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. The Ohio Police and Fire Pension Fund issues a stand-alone financial report that includes financial statements and required supplementary information for the OP&F Fund. Interested parties may obtain a copy by making a written request to 140 East Town Street, Columbus, Ohio 43215-5164 or by calling (614) 228-2975.

Plan members are required to contribute 10.0% of their annual covered salary, while employers are required to contribute 19.5% of covered payroll of which 11.75% is to fund pension and 7.75% to fund health care and 24.0% of covered payroll of which 16.25% is to fund pension and 7.75% to fund health care respectively for police officers and firefighters. The City's contributions to the OP&F Fund for the years ending December 31, 2004, 2003 and 2002 were \$265,339, \$277,252 and \$271,209 for police and \$246,487, \$241,541 and \$220,952 for firefighters, respectively, which were equal to the required contributions for each year.

The OP&F Fund provides postemployment health care coverage to any person who received or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school on a full-time or two-thirds basis. The health care coverage provided by the OP&F Fund is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides that health care costs paid from the funds of the OP&F Fund shall be included in the employer's contribution rate. The Ohio Revised Code also provides statutory authority allowing the Fund's Board of Trustees to provide postemployment health care coverage to all eligible individuals from the employer's contributions to the OP&F Fund.

The portion of the 2004 covered payroll that was used to fund postemployment health care benefits was \$175,011 representing 7.75% of covered payroll for police and \$112,040 representing 7.75% of covered payroll for fire. Health care funding and accounting was on a pay-as-you-go basis. 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. As of December 31, 2003, the date of the last actuarial evaluation available, the number of participants eligible to receive health care benefits was 13,662 for police and 10,474 for firefighters. The OP&F Fund does not provide separate data on the funded status and funding progress of postemployment health care benefits. The Fund's total health care expenses for the year ended December 31, 2003 were \$150,853,148, which was net of member contributions of \$17,207,506.

**CITY OF EASTLAKE, OHIO**

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**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2004**

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**NOTE 9 – COMPENSATED ABSENCES**

City employees earn vacation at varying rates based upon length of service. Vacation is earned in one year and must be used in the next two (2) years. In the case of death or retirement, an employee (or his estate) is paid for unused vacation leave and the prorated amount of vacation leave earned during the current year. At December 31, 2004, the total obligation for vacation accrual for the City as a whole amounted to \$408,187.

Sick leave is earned at the rate of four and six-tenths hours for every eighty (80) hours of pay, excluding overtime; and uniformed firefighters earn sick leave the rate of one-tenth hours per one hundred four (104) of pay, excluding overtime. Each employee with the City is paid a minimum of 25% after 8 or more years of service, or a maximum of one thousand three hundred forty-four (1,344) hours, of the employee's unused sick leave upon retirement from the City. At December 31, 2004, the total obligation for sick leave accrual for the City as a whole amounted to \$1,521,538.

**NOTE 10 - NOTES PAYABLE**

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

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

The following general obligation notes were payable at December 31, 2004:

	Balance January 1, 2004	Issued	Retired	Balance December 31, 2004
General Obligation Notes Payable:				
2.00% Economic Development	\$980,000	\$0	(\$980,000)	\$0
3.75% Capital Facilities	4,100,000	0	(4,100,000)	0
2.00% Pedestrian Bridge	250,000	0	(250,000)	0
2.00% Recreation Land Acquisition	670,000	0	(670,000)	0
2.00% Municipal Stadium	2,350,000	0	(2,350,000)	0
2.50% Municipal Stadium	5,215,000	0	(5,215,000)	0
4.00% Various Purpose	0	4,250,000	(4,250,000)	0
Total Notes	<u>\$13,565,000</u>	<u>\$4,250,000</u>	<u>(\$17,815,000)</u>	<u>\$0</u>

## CITY OF EASTLAKE, OHIO

### Notes to the Basic Financial Statements For the Year Ended December 31, 2004

#### NOTE 10 - NOTES PAYABLE (Continued)

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

#### NOTE 11 - LONG-TERM DEBT AND OTHER LONG-TERM OBLIGATIONS

Long-term debt and other long-term obligations of the City at December 31, 2004 were as follows:

		Balance December 31, 2003	Additions	(Reductions)	Balance December 31, 2004	Due Within One Year
<b>Governmental Activities:</b>						
General Obligation Bonds:						
Tax Exempt Municipal Stadium	2002	\$4,380,000	\$0	(\$120,000)	\$4,260,000	\$120,000
Non Taxable Municipal Stadium	2002	8,180,000	0	(180,000)	8,000,000	180,000
City Hall Construction	1993	2,805,000	0	(140,000)	2,665,000	145,000
Sewer System	1993	1,320,000	0	(645,000)	675,000	675,000
Capital Facilities	2004	0	4,320,000	0	4,320,000	0
Parking Lot	2004	0	1,130,000	0	1,130,000	0
Real Estate Acquisition	2004	0	700,000	0	700,000	0
Stadium	2004	0	8,060,000	0	8,060,000	0
Total General Obligation Bonds		16,685,000	14,210,000	(1,085,000)	29,810,000	1,120,000
Special Assessment Bond:						
with Governmental Commitment						
Breakwall Improvement	1993	5,000	0	(5,000)	0	0
Ohio Public Works Commission Loans (OPWC):						
Sewer Improvement	1995	21,136	0	(21,136)	0	0
N. Parkway Sewer	1999	37,500	0	(2,500)	35,000	2,500
E. 377th St. Road Improvement	2000	72,520	0	(6,907)	65,613	6,907
Stevens Blvd. Outfall	2000	41,767	0	(2,457)	39,310	2,457
Parkland Dr. Sewer	2000	21,172	0	(1,245)	19,927	1,245
E. Overlook Storm/Sanitary	2003	25,598	0	(1,312)	24,286	1,312
Roberts Road Improvements	2004	0	150,000	0	150,000	7,500
Total OPWC Loans		219,693	150,000	(35,557)	334,136	21,921
Honeywell Project Loan		210,490	0	(101,772)	108,718	108,718
Pension Liability		306,546	272,209	(306,546)	272,209	272,209
Compensated Absences		1,740,473	1,964,129	(1,740,473)	1,964,129	397,023
Capital Leases		95,002	9,865	(36,789)	68,078	27,053
Total Governmental Activities		19,262,204	16,606,203	(3,311,137)	32,557,270	1,946,924
<b>Business-Type Activities:</b>						
Compensated Absences		31,137	36,445	(31,137)	36,445	0
<b>Totals</b>		<b>\$19,293,341</b>	<b>\$16,642,648</b>	<b>(\$3,342,274)</b>	<b>\$32,593,715</b>	<b>\$1,946,924</b>

**CITY OF EASTLAKE, OHIO**

**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2004**

**NOTE 11 - LONG-TERM DEBT AND OTHER LONG-TERM OBLIGATIONS (Continued)**

**A. Principal and Interest Requirements**

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2004 are as follows:

Years	General Obligation Bonds		Ohio Public Works Commission Loans		Honeywell Project	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$1,120,000	\$1,263,487	\$21,921	\$0	\$108,718	\$4,188
2006	470,000	1,436,261	21,921	0	0	0
2007	700,000	1,418,283	21,921	0	0	0
2008	735,000	1,391,656	21,921	0	0	0
2009	765,000	1,362,006	21,921	0	0	0
2010-2014	5,085,000	6,224,890	106,151	0	0	0
2015-2019	5,925,000	4,870,400	72,570	0	0	0
2020-2024	6,565,000	3,327,883	45,810	0	0	0
2025-2031	8,445,000	1,586,604	0	0	0	0
Totals	<u>\$29,810,000</u>	<u>\$22,881,470</u>	<u>\$334,136</u>	<u>\$0</u>	<u>\$108,718</u>	<u>\$4,188</u>

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

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

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

**NOTE 12 – INTERFUND LOANS RECEIVABLE AND PAYABLE**

Following is a summary of interfund loans receivable and payable for all funds at December 31, 2004:

Fund	Interfund Loan Receivable	Interfund Loan Payable
General Fund	\$0	\$2,119,788
Road Capital Improvement Fund	1,082,423	0
Other Governmental Funds	1,037,365	0
Total All Funds	<u>\$2,119,788</u>	<u>\$2,119,788</u>

These Interfund Loans are short-term loans to cover a temporary cash deficit.

## ***CITY OF EASTLAKE, OHIO***

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2004***

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#### **NOTE 13 – CAPITAL LEASES**

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

<u>Year Ending December 31,</u>	<u>Capital Leases</u>
2005	\$27,053
2006	26,075
2007	6,900
2008	6,900
2009	<u>1,150</u>
Minimum Lease Payments	68,078
Less amount representing interest at the City's incremental borrowing rate of interest	<u>0</u>
Present value of minimum lease payments	<u><u>\$68,078</u></u>

#### **NOTE 14 – SHARED RISK POOL**

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

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

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

## ***CITY OF EASTLAKE, OHIO***

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2004***

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#### **NOTE 14 – SHARED RISK POOL (Continued)**

In 2004, the City of Eastlake paid \$144,974 in premiums from the general and special revenue funds, which represents 8.68% of total premiums. Financial information can be obtained by contacting the fiscal agent, the Finance Director at the City of Bedford Heights, 5661 Perkins Road, Bedford Heights, Ohio 44146.

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

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

Medical and prescription benefits in 2004 were provided through United Health Care of Ohio. Dental benefits are provided through MetLife. Payments are made on a monthly basis. The expenses are allocated by the number of employees multiplied by the fixed premium rate for each employee. The monthly premium for medical and prescription benefits range from \$345.49 to \$1,042.39 for single, two party, and family coverage. The monthly premium for dental benefits range from \$25.36 to \$76.59 for single, two-party, and family coverage. Employee bi-weekly premium co-pays range from \$10.44 for single to \$31.92 for a family plan.

#### **NOTE 15 - CONTINGENCIES**

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

As to the *Ohio Department of Transportation vs. Eastlake Development Company* court case, of which the City was a guarantee of a State Infrastructure Bank Loan between the above mentioned parties, the City and the Ohio Department of Transportation have been actively negotiating. Any repayment of the remaining consented sum would only be repaid upon the City reaching a financial health wherein such repayment is possible with no negative consequences to the financial health of the City. The City anticipates that the litigation will ultimately resolve itself within these parameters.



## ***CITY OF EASTLAKE, OHIO***

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2004***

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#### **NOTE 16 –NORTHEAST OHIO PUBLIC ENERGY COUNCIL**

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

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each County then elect one person to serve on the eight-member NOPEC Board of Directors. The Board of Directors oversees and manages the operation of the representation in the General Assembly and on the Board of Directors. The City of Eastlake did not contribute to NOPEC in 2004. Financial information can be obtained by contacting NOPEC, 1615 Clarke Avenue, Cleveland, Ohio, 43212.

#### **NOTE 17 – RESTATEMENT OF NET ASSETS**

Certain adjustments were necessary to the beginning net asset balance of the Governmental Activities to correct errors in accounting for homestead and rollback receipts. As a result of the restatement, the City’s Governmental Activities net assets at December 31, 2003 increased \$404,585 to a restated amount of \$11,022,715.

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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***

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

To the City Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Eastlake, Lake County, Ohio, (the City) as of and for the years ended December 31, 2005 and December 31, 2004, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 3, 2006, wherein we noted the Auditor of State served during the years ended December 31, 2005 and December 31, 2004 as the City's financial supervisor in accordance with procedures established under Ohio Rev. Code §118.05 (G). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to conduct the audit of the City because the Auditor of State may assume broad management powers, duties, and functions in accordance with Ohio Rev. Code §118.04. We also noted for the year ended December 31, 2005 the City implemented GASB 40 and for the year ended December 31, 2004 restated net assets. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting to determine our auditing procedures in order 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 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 October 3, 2006, we reported other matters involving control 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 instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2005-001 through 2005-004. In a separate letter to the City's management dated October 3, 2006, we reported a matter related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the audit committee, management and City Council. It is not intended for anyone other than these specified parties.



**Betty Montgomery**  
Auditor of State

October 3, 2006

**CITY OF EASTLAKE  
LAKE COUNTY  
DECEMBER 31, 2005 AND DECEMBER 31, 2004**

**SCHEDULE OF FINDINGS**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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\* The comments with an asterisk (\*) denote comments which were previously brought to management's attention for the year ended December 31, 2003, in which no corrective action has been taken.

**FINDING NUMBER 2005-001**

**EXPENDITURES PLUS ENCUMBRANCES IN EXCESS OF APPROPRIATIONS \***

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

As of September 30, 2004, the following accounts had expenditures plus encumbrances in excess of appropriations: These accounts were corrected at year end.

<u>Fund/Program</u>	<u>Appropriations</u>	<u>Expenditures Plus Encumbrances</u>	<u>Excess</u>
<b>Special Revenue Fund:</b>			
EMS – State Grant	\$5,000	\$5,589	\$589
<b>Debt Service Fund:</b>			
General Bond Retirement	2,445,034	4,839,172	2,394,138
<b>Capital Project Fund:</b>			
Eastlake Economic Development	1,137,590	1,410,933	273,343
<b>Trust Funds**:</b>			
Senior Citizens Trust	35,000	122,107	87,107
Flag Trust Fund	800	870	70
Alarm Monitoring	1,000	2,641	1,641
Unclaimed Trust Fund	0	26,434	26,434
Recreation Land Acquisition	0	4,130	4,130
<b>Agency Funds:</b>			
Subdivision Inspection	5,000	8,184	3,184
Plan Review Deposits	35,000	38,992	3,992

**CITY OF EASTLAKE  
LAKE COUNTY  
DECEMBER 31, 2005 AND DECEMBER 31, 2004**

**SCHEDULE OF FINDINGS  
(Continued)**

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

**FINDING NUMBER 2005-001 (Continued)**

As of September 30, 2005, the following accounts had expenditures plus encumbrances in excess of appropriations: These accounts were corrected at year end.

<u>Fund/Program</u>	<u>Appropriations</u>	<u>Expenditures Plus Encumbrances</u>	<u>Excess</u>
<b>Capital Project Fund:</b>			
Roberts Road	\$55,000	\$73,187	\$18,187
<b>Trust Fund**:</b>			
Fire Ambulance Trust – Personnel Services	129,000	131,421	2,421
<b>Agency Fund:</b>			
Subdivision Inspection	4,000	7,874	3,874

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

The City should maintain a continuous budgetary process in which it maintains stringent budgetary controls from its managers or department heads over its expected operations. Budgetary compliance should be monitored throughout the fiscal period in order to identify any weaknesses at the legal level of budgetary control. In addition, the Ohio Revised Code requires the City to budget all funds at the fund, function, and object level of appropriations. Although the City budgets some funds at this level, they should budget all funds in accordance with the Ohio Revised Code.

**Officials' Response:**

The City modified the accounting system for "Other Expenses" to more easily monitor budgetary compliance. Also, the City will incorporate a review of negative balances as part of our month end procedures.

**FINDING NUMBER 2005-002**

**APPROPRIATIONS EXCEEDING ESTIMATED RESOURCES \***

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

**CITY OF EASTLAKE  
LAKE COUNTY  
DECEMBER 31, 2005 AND DECEMBER 31, 2004**

**SCHEDULE OF FINDINGS  
(Continued)**

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

**FINDING NUMBER 2005-002 (Continued)**

The following accounts had total appropriations exceeding total estimated revenue as of the dates tested below:

	Estimated Receipts	Total Appropriations	Variance
<b>At December 31, 2004</b>			
General Bond Retirement Fund	\$2,704,924	\$19,400,000	\$16,695,076
Eastlake Economic Development	12,528	1,373,000	1,360,472
Unclaimed Trust Fund	4,454	26,500	22,046
Plan Review Deposits	36,037	50,000	13,963
Lake County Water	366,500	438,000	71,500
<b>At September 30, 2004</b>			
Eastlake Economic Development	12,528	1,137,590	1,125,062
<b>At December 31, 2005</b>			
Fire Levy	464,113	703,200	239,087
Sanitary Sewer	1,793,785	1,803,098	9,313
<b>At September 30, 2005</b>			
Fire Levy	464,113	703,200	239,087

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

**Officials' Response:**

The City instituted new forms and procedures in September, 2006 to ensure compliance with the above requirement.

**FINDING NUMBER 2005-003**

**CERTIFICATE OF ESTIMATED RESOURCES AMENDMENTS \***

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

The City did not obtain an amended certificate of estimated resources dated June 30, 2004 for the \$9,890,000 and \$4,320,000 general obligation bonds issued on December 1, 2004 or for the \$2,250,000 various purpose notes issued on June 9, 2004.

**CITY OF EASTLAKE  
LAKE COUNTY  
DECEMBER 31, 2005 AND DECEMBER 31, 2004**

**SCHEDULE OF FINDINGS  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2005-003 (Continued)**

We recommend the City obtain an amended certificate of estimated resources on a timely basis when debt proceeds are received.

**Officials' Response:**

In the future the City will obtain all necessary amended certificates on a timely basis. Also, the City instituted new forms and procedures in September, 2006 to ensure compliance with the above requirement.

**FINDING NUMBER 2005-004**

**TIMELY DEPOSIT**

Ohio Revised Code Section 9.38 states that public money must be deposited with the treasurer of the public office or to a designated depository on the business day following the day of receipt. If the amount of daily receipts does not exceed \$1,000 and the receipts can be safeguarded, the legislative body may adopt a policy permitting their money to be held past the next business day, but the deposit must be made no later than three business days after receiving the deposit. The policy must include provisions and procedures to safeguard the money during the intervening period. If the amount exceeds \$1,000 or a lesser amount cannot be safeguarded, the public official must then deposit the money on the next business day.

During testing, we noted eleven out of twenty-one total sewer tap-in fees, which totaled \$26,640 out of \$38,700 (69%) for 2004 and twelve out of twenty-one total sewer tap-in fees, which totaled \$33,580 out of \$51,900 (65%) for 2005, were not deposited to the Finance Department or designated depository within one day of collection. We further noted the City has not established a policy during the audit period that would allow for monies to be held past the next business day.

We recommend the receipts obtained for the City's sewer tap-in fees be deposited with the Finance Department within twenty-four hours after collection. Also we recommend the City adopt a policy that includes provisions and procedures to safeguard money that will not be deposited the next business day.

**Officials' Response:**

The City will review its depositing policy to ensure all deposits are made in accordance with the Ohio Revised Code.



**CITY OF EASTLAKE  
LAKE COUNTY  
DECEMBER 31, 2005 AND DECEMBER 31, 2004**

**SCHEDULE OF PRIOR AUDIT FINDINGS**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected ?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain:</i></b>
2003-001	ORC 5705.41 (B)(D) Expenditures Plus Encumbrances in Excess of Appropriations	No	Comment reissued as 2005-001
2003-002	ORC 5705.10 Negative Unencumbered Fund Balances	No	* *
2003-003	ORC 5705.39 Appropriations Exceeding Estimated Resources	No	Comment reissued as 2005-002
2003-004	ORC 133.22 Certificate of Estimated Resources Amendments	No	Comment reissued as 2005-003

\*\* The City is in fiscal emergency; its financial operations are restricted by the provisions of Chapter 118 rather than Chapter 5705. Citations to Chapter 5705 are therefore presented only for funds which did not contribute to the City being placed in fiscal emergency.





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**CITY OF EASTLAKE**

**LAKE COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JANUARY 4, 2007**