

**CITY OF EASTLAKE  
LAKE COUNTY**

**REGULAR AUDIT**

**FOR THE YEARS ENDED DECEMBER 31, 2007 & 2006**



**Mary Taylor, CPA**  
Auditor of State



**CITY OF EASTLAKE  
LAKE COUNTY**

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LAKE COUNTY**

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# Mary Taylor, CPA

Auditor of State

## 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, 2007 and December 31, 2006, 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.

Until December 4, 2007, the Auditor of State served as the City's financial supervisor under Ohio Revised Code § 118.05 (G). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the City because the Auditor of State may assume broad management powers, duties and functions under 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, 2007 and December 31, 2006, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2008, 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 "Mary Taylor". The signature is written in a cursive, flowing style.

**Mary Taylor, CPA**  
Auditor of State

October 27, 2008

## CITY OF EASTLAKE, OHIO

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### ***Management's Discussion and Analysis For the Year Ended December 31, 2007***

***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, 2007. 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 2007 are as follows:

In total, net assets increased \$4,716,689. Net assets of governmental activities increased \$4,590,523, which represents a 24% increase from 2006. Net assets of business-type activities increased \$126,166 or 4% from 2006.

General revenues accounted for \$15,059,612 or 62% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$9,172,133, or 38% of total revenues of \$24,231,745.

The City had \$17,577,538 in expenses related to governmental activities; only \$7,280,314 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$15,059,612 were adequate to provide for these programs.

The General fund had \$14,585,629 in revenues and \$11,868,382 in expenditures. The General fund's fund balance increased from a balance of \$3,383,051 to a balance of \$4,072,853.

### **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, 2007***

***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 programs 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, 2007**

**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 2007 compared to 2006.

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$19,639,316	\$16,288,946	\$1,070,978	\$1,420,814	\$20,710,294	\$17,709,760
Capital assets, Net	39,167,239	38,423,980	2,230,111	1,820,983	41,397,370	40,244,963
Total assets	58,806,575	54,712,926	3,301,089	3,241,797	62,107,664	57,954,723
Long-term debt outstanding	30,175,456	30,926,598	74,095	49,796	30,249,551	30,976,394
Other liabilities	5,227,609	4,973,341	15,710	106,883	5,243,319	5,080,224
Total liabilities	35,403,065	35,899,939	89,805	156,679	35,492,870	36,056,618
Net assets						
Invested in capital assets, net of related debt	11,167,876	9,667,293	2,230,111	1,820,983	13,397,987	11,488,276
Restricted	7,269,474	6,181,045	0	0	7,269,474	6,181,045
Unrestricted	4,966,160	2,964,649	981,173	1,264,135	5,947,333	4,228,784
Total net assets	<u>\$23,403,510</u>	<u>\$18,812,987</u>	<u>\$3,211,284</u>	<u>\$3,085,118</u>	<u>\$26,614,794</u>	<u>\$21,898,105</u>

Approximately 50% of the City's net assets are investment in capital assets (e.g. land, infrastructure, buildings, machinery and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses those capital assets to provide services to its citizens. Consequently, these assets are not available for future spending. Although the City's investment is reported net of related debt, it should be noted that resources needed to repay this debt must be provided from other sources, since the capital assets cannot be used to liquidate these liabilities. The table above summarizes the City's 2007 net assets. The unrestricted amount increased in 2007 by \$1,718,549 from 2006. The City is able to report positive balances in its governmental and business activities.

The City's Governmental current and other assets increased from \$16,288,946 in 2006 to \$19,639,316 in 2007. This increase is attributed to the second year of collection of the Federal Transportation grant funds. These funds are segregated in its own debt fund for long term debt retirement in 2009. Governmental capital assets increased in 2007 by \$743,279. As seen on the table on page 9, infrastructure assets increased by over \$1.3 million from 2006. This was mainly due to the Roberts Road project which began in March of 2007.

## CITY OF EASTLAKE, OHIO

### Management's Discussion and Analysis For the Year Ended December 31, 2007

*Unaudited*

Changes in Net Assets – The following table shows the changes in net assets for years 2007 and 2006:

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues						
Program Revenues:						
Charges for Services and Sales	\$2,899,431	\$3,136,178	\$1,891,819	\$1,502,348	\$4,791,250	\$4,638,526
Operating Grants and Contributions	3,823,780	2,140,969	0	0	3,823,780	2,140,969
Capital Grants and Contributions	557,103	249,000	0	0	557,103	249,000
Total Program Revenues	7,280,314	5,526,147	1,891,819	1,502,348	9,172,133	7,028,495
General Revenues:						
Property Taxes	3,163,301	3,172,900	0	0	3,163,301	3,172,900
Income Taxes	7,292,147	7,770,278	0	0	7,292,147	7,770,278
State Levied Shared Taxes	3,440,168	2,997,394	0	0	3,440,168	2,997,394
Other Local Taxes	456,760	129,917	0	0	456,760	129,917
Investment Earnings	490,518	309,460	0	0	490,518	309,460
Miscellaneous	216,718	403,576	0	0	216,718	403,576
Total General Revenues	15,059,612	14,783,525	0	0	15,059,612	14,783,525
Total Revenues	22,339,926	20,309,672	1,891,819	1,502,348	24,231,745	21,812,020
Program Expenses						
Security of Persons and Property	7,367,089	7,616,239	0	0	7,367,089	7,616,239
Public Health and Welfare Services	174,954	249,858	0	0	174,954	249,858
Leisure Time Activities	1,025,972	1,004,088	0	0	1,025,972	1,004,088
Community Environment	300,256	354,059	0	0	300,256	354,059
Basic Utility Services	2,232,480	2,031,434	0	0	2,232,480	2,031,434
Transportation	1,344,143	1,487,121	0	0	1,344,143	1,487,121
General Government	3,710,585	3,857,709	0	0	3,710,585	3,857,709
Interest and Fiscal Charges	1,422,109	1,445,615	0	0	1,422,109	1,445,615
Sewer	0	0	1,987,518	1,599,599	1,937,518	1,599,599
Total expenses	17,577,538	18,046,123	1,987,518	1,599,599	19,515,056	19,645,722
Change in Net Assets before transfers	4,762,388	2,263,549	(45,699)	(97,251)	4,716,689	2,166,298
Transfers	(171,865)	(144,000)	171,865	144,000	0	0
Total Change in Net Assets	4,590,523	2,119,549	126,166	46,749	4,716,689	2,166,298
Beginning Net Assets	18,812,987	16,693,438	3,085,118	3,038,369	21,898,105	19,731,807
Ending Net Assets	<u>\$23,403,510</u>	<u>\$18,812,987</u>	<u>\$3,211,284</u>	<u>\$3,085,118</u>	<u>\$26,614,794</u>	<u>\$21,898,105</u>

### Governmental Activities

Net assets of the City's governmental activities increased \$4,590,523. Operating grants and contributions increased by 78.6% due to the receipt of a Federal Transportation Grant. Capital grants and contributions increased due mostly to a state grant for improvements to Roberts Road. Income taxes increased in 2006 due to a stronger collection process as well as prosecution of delinquent tax payers. Income tax collections returned to previous levels in 2007, resulting in a decrease. Other local taxes increased due to increases in franchise fees received. The decrease in all other revenue can be attributed to flood damage reimbursements that were received in 2006 and not repeated in 2007. Expenses decreased more than 2.5% due to an overall decrease in expenses across all departments.

## CITY OF EASTLAKE, OHIO

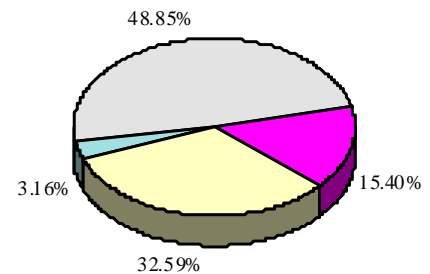
**Management's Discussion and Analysis  
For the Year Ended December 31, 2007**

**Unaudited**

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.

Income taxes and property taxes made up 33% and 14% respectively of revenues for governmental activities for the City in fiscal year 2007. The City's reliance upon tax revenues is demonstrated by the following graph indicating 49% of total revenues from general tax revenues:

Revenue Sources	2007	Percent of Total
General Tax Revenues	\$10,912,208	48.85%
Shared Revenue	3,440,168	15.40%
Program Revenues	7,280,314	32.59%
General Other	707,236	3.16%
Total Revenue	<u>\$22,339,926</u>	<u>100.00%</u>



**Business-Type Activities**

Net assets of the business-type activities increased \$126,166, or approximately 4% from the previous year. Expenses of the business-type activities increased due in part to an increase in payments to the City of Willoughby for wastewater treatment services. An increase in amounts received from customers led to an increase in charges for services.

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

The City's governmental funds reported a combined fund balance of \$10,880,098, which is an increase in fund balance from last year's balance of \$8,816,482. The schedule below indicates the fund balance and the total change in fund balance as of December 31, 2007 and 2006:

	Fund Balance December 31, 2007	Fund Balance December 31, 2006	Increase (Decrease)
General	\$4,072,853	\$3,383,051	\$689,802
Callable Bond Retirement	4,310,517	1,746,351	2,564,166
Road Capital Improvement	473,237	1,869,979	(1,396,742)
Other Governmental	2,023,491	1,817,101	206,390
Total	<u>\$10,880,098</u>	<u>\$8,816,482</u>	<u>\$2,063,616</u>

## CITY OF EASTLAKE, OHIO

**Management's Discussion and Analysis  
For the Year Ended December 31, 2007**

**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:

	2007	2006	Increase
	Revenues	Revenues	(Decrease)
Property Taxes	\$1,509,320	\$1,508,430	\$890
Municipal Income Taxes	7,336,872	7,709,460	(372,588)
State Levied Shared Taxes	2,415,389	2,469,102	(53,713)
Other Local Taxes	373,085	47,984	325,101
Intergovernmental Revenue	593,945	698,150	(104,205)
Charges for Services	1,457,971	1,427,035	30,936
Licenses, Permits and Fees	264,312	261,788	2,524
Investment Earnings	325,783	288,158	37,625
Fines and Forfeitures	193,157	203,462	(10,305)
All Other Revenue	115,795	348,519	(232,724)
<b>Total</b>	<b>\$14,585,629</b>	<b>\$14,962,088</b>	<b>(\$376,459)</b>

General fund revenues in 2007 decreased approximately 3% compared to revenues in fiscal year 2006. Income taxes increased in 2006 due to a stronger collection process as well as prosecution of delinquent tax payers. Income tax collections returned to previous levels in 2007, resulting in a decrease. Other local taxes increased due to increases in franchise fees received. The decrease in all other revenue can be attributed to flood damage reimbursements that were received in 2006 and not repeated in 2007.

	2007	2006	Increase
	Expenditures	Expenditures	(Decrease)
Security of Persons and Property	\$6,416,757	\$6,120,598	\$296,159
Public Health and Welfare Services	174,954	206,995	(32,041)
Leisure Time Activities	389,284	561,478	(172,194)
Community Environment	298,901	294,007	4,894
Basic Utility Services	784,071	712,567	71,504
Transportation	233,488	269,074	(35,586)
General Government	3,370,386	3,480,331	(109,945)
Capital Outlay	200,541	240,329	(39,788)
<b>Total</b>	<b>\$11,868,382</b>	<b>\$11,885,379</b>	<b>(\$16,997)</b>

Overall, General fund expenditures remained very stable, decreasing less than 1% from the prior year. The General fund paid a portion of pension contributions for police and fire in 2007. This contributed to the increase in security of persons and property. Decreases in costs for wages in the parks department resulted in the decrease in leisure time activities.

**CITY OF EASTLAKE, OHIO**

**Management's Discussion and Analysis  
For the Year Ended December 31, 2007**

**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 2007 the City amended its General fund budget several times, none significant.

For the General fund, final budget estimates were not significantly different from original estimates. Actual revenue of \$14.7 million was slightly higher than final budget estimates of \$14.1 million due mostly to increases in income taxes and state levied shared taxes. The General fund had an adequate fund balance to cover expenditures.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of 2007 the City had a total of \$41,397,370 net of accumulated depreciation invested in land, construction in progress, buildings, improvements, infrastructure, machinery, vehicles and equipment. Of this total, \$39,167,259 was related to governmental activities and \$2,230,111 to the business-type activities. The following table shows fiscal year 2007 and 2006 balances:

	Governmental Activities		Increase (Decrease)
	2007	2006	
Land	\$7,001,655	\$7,001,655	\$0
Construction In Progress	1,195,452	926,529	268,923
Buildings	17,181,732	17,163,232	18,500
Improvements Other than Buildings	8,463,325	8,440,862	22,463
Infrastructure	19,515,211	18,152,412	1,362,799
Machinery, Vehicles and Equipment	6,302,233	5,964,764	337,469
Less: Accumulated Depreciation	(20,492,349)	(19,225,474)	(1,266,875)
Totals	\$39,167,259	\$38,423,980	\$743,279

Increases in infrastructure can mostly be attributed to improvements to Roberts Road.

	Business-Type Activities		Increase (Decrease)
	2007	2006	
Land	\$75,556	\$75,556	\$0
Construction in Progress	0	74,966	(74,966)
Buildings and Improvements	835,391	778,221	57,170
Infrastructure	8,917,822	8,290,122	627,700
Machinery, Vehicles and Equipment	677,647	709,639	(31,992)
Less: Accumulated Depreciation	(8,276,305)	(8,107,521)	(168,784)
Totals	\$2,230,111	\$1,820,983	\$409,128

The primary increase occurred in infrastructure, which was related to sanitary sewer force main rehabilitation. 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, 2007***

***Unaudited***

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#### ***Debt***

At December 31, 2007, the City had \$27,660,000 in General Obligation bonds outstanding, \$765,000 due within one year. The following table summarizes the City's debt outstanding as of December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Governmental Activities:		
General Obligation Bonds	\$27,660,000	\$28,390,000
Ohio Public Works Commission Loans	320,752	345,583
Compensated Absences	2,176,073	2,169,911
Capital Leases	18,631	21,104
Total Governmental Activities	<u>30,175,456</u>	<u>30,926,598</u>
Business-Type Activities:		
Compensated Absences	<u>\$74,095</u>	<u>\$49,796</u>
Totals	<u><u>\$30,249,551</u></u>	<u><u>\$30,976,394</u></u>

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

#### **ECONOMIC FACTORS**

The year 2007 was another good year for the City. The City saw its General fund cash balance increase by \$1,075,407, going from \$1,520,520 to \$2,595,927 by year end. The City's personnel levels stabilized in 2007. The biggest event of the year was the termination of the fiscal emergency condition, which occurred on December 4<sup>th</sup> 2007. In addition the City received two payments of Transportation Grant funds totaling \$1,412,720, which were deposited into the Callable Bond Retirement fund. The City transferred an additional \$775,000 from its General fund to the Callable Bond Retirement fund. The City intends to utilize the Federal Transportation dollars, along with the naming rights monies due in 2009 from the Lake County Captains, together with other funds to eliminate \$10 million dollars of stadium debt in 2009. The reduced debt payments then will begin in the year 2010. The City also established an Employee Termination fund pursuant to section 5705.13 of the ORC, to pay for accrued leave upon termination. A transfer of \$100,000 was made to this fund at the end of 2007.

The biggest single source of revenue collected for the City was Municipal Income tax, which showed total collections of \$7,187,736 as compared to \$7,146,123 collected in 2006. The aggressive collection efforts initiated in 2006 were sustained in 2007. Unfortunately, the amount of Municipal Income Tax collected through the State of Ohio for net profits on utilities decreased from a record high of over \$441,000 in 2006 to just \$238,586 in 2007. This decrease is reflected in the General fund Revenue Table. Other revenue highlights include investment earnings. In 2005, the City arranged with its current depository, Huntington National Bank, to establish a Money Market account that paid the federal interest rate plus 10 basis points. The federal interest rate climbed to 5.25 in May of 2006 and stayed there until September of 2007. Even with the drop, the City was able to earn \$325,765 of interest in 2007.

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

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### ***Management's Discussion and Analysis For the Year Ended December 31, 2007***

***Unaudited***

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On the expense side, overall General fund expenditures increased from \$12,458,879 in 2006 to \$13,222,541 in 2007. Of this \$763,662 increase, \$475,000 was an increase in transfers out of the General fund in 2007 to the Callable Bond fund, and the new employee Termination fund. The 2007 General fund expenditures would include a modest increase in employee wages of 2% as contained in the City's numerous Labor Contracts. The City was fortunate in 2007 when its health care renewal contract with United Health Care came in at a 30% increase, it was able to join the Lake County Commissioner health insurance plan, which was also with United Health Care. This saved the City over \$200,000 in health insurance premiums in 2007.

In 2007, the long awaited Roberts Road project was initiated. This was funded in part by OPWC funds. The project will be completed in 2008. In 2007, the City raised its sanitary sewer rates by approximately 30%. This will enable the City to accumulate funds for the repair of three of its pumping stations next year.

### **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.

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**CITY OF EASTLAKE, OHIO**

**Statement of Net Assets**  
**December 31, 2007**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Assets:</b>			
Cash and Cash Equivalents	\$ 9,733,529	\$ 212,103	\$ 9,945,632
Receivables:			
Taxes	5,528,287	0	5,528,287
Accounts	478,638	599,862	1,078,500
Intergovernmental	3,122,801	0	3,122,801
Special Assessments	0	258,904	258,904
Inventory of Supplies at Cost	20,702	0	20,702
Prepaid Items	130,999	109	131,108
Deferred Charge	624,360	0	624,360
Non-Depreciable Capital Assets	8,197,107	75,556	8,272,663
Depreciable Capital Assets, Net	30,970,152	2,154,555	33,124,707
<b>Total Assets</b>	<b>58,806,575</b>	<b>3,301,089</b>	<b>62,107,664</b>
<b>Liabilities:</b>			
Accounts Payable	111,431	4,107	115,538
Accrued Wages and Benefits	155,205	5,266	160,471
Intergovernmental Payable	556,501	6,337	562,838
Deferred Revenue	4,017,843	0	4,017,843
Compensated Absences	51,525	0	51,525
Accrued Interest Payable	335,104	0	335,104
Noncurrent liabilities:			
Due within one year	1,205,239	23,766	1,229,005
Due in more than one year	28,970,217	50,329	29,020,546
<b>Total Liabilities</b>	<b>35,403,065</b>	<b>89,805</b>	<b>35,492,870</b>
<b>Net Assets:</b>			
Invested in Capital Assets, Net of Related Debt	11,167,876	2,230,111	13,397,987
Restricted For:			
Capital Projects	1,698,857	0	1,698,857
Debt Service	4,074,362	0	4,074,362
Other Purposes	1,496,255	0	1,496,255
Unrestricted	4,966,160	981,173	5,947,333
<b>Total Net Assets</b>	<b>\$ 23,403,510</b>	<b>\$ 3,211,284</b>	<b>\$ 26,614,794</b>

See accompanying notes to the basic financial statements

**CITY OF EASTLAKE, OHIO**

**Statement of Activities**  
**For the Year Ended December 31, 2007**

	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	\$ 7,367,039	\$ 619,949	\$ 291,852	\$ 0
Public Health and Welfare Services	174,954	0	0	0
Leisure Time Activities	1,025,972	368,550	44,746	0
Community Environment	300,256	156,790	25,561	0
Basic Utility Services	2,232,480	1,161,006	0	0
Transportation	1,344,143	61,309	3,379,841	557,103
General Government	3,710,585	531,827	81,780	0
Interest and Fiscal Charges	1,422,109	0	0	0
<b>Total Governmental Activities</b>	<b>17,577,538</b>	<b>2,899,431</b>	<b>3,823,780</b>	<b>557,103</b>
<b>Business-Type Activities:</b>				
Sanitary Sewer	1,937,518	1,891,819	0	0
<b>Total Business-Type Activities</b>	<b>1,937,518</b>	<b>1,891,819</b>	<b>0</b>	<b>0</b>
<b>Totals</b>	<b>\$ 19,515,056</b>	<b>\$ 4,791,250</b>	<b>\$ 3,823,780</b>	<b>\$ 557,103</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
\$ (6,455,238)	\$ 0	\$ (6,455,238)
(174,954)	0	(174,954)
(612,676)	0	(612,676)
(117,905)	0	(117,905)
(1,071,474)	0	(1,071,474)
2,654,110	0	2,654,110
(3,096,978)	0	(3,096,978)
(1,422,109)	0	(1,422,109)
<u>(10,297,224)</u>	<u>0</u>	<u>(10,297,224)</u>
<u>0</u>	<u>(45,699)</u>	<u>(45,699)</u>
<u>0</u>	<u>(45,699)</u>	<u>(45,699)</u>
<u>(10,297,224)</u>	<u>(45,699)</u>	<u>(10,342,923)</u>
1,514,675	0	1,514,675
316,352	0	316,352
221,460	0	221,460
1,110,814	0	1,110,814
7,292,147	0	7,292,147
3,440,168	0	3,440,168
456,760	0	456,760
490,518	0	490,518
216,718	0	216,718
(171,865)	171,865	0
<u>14,887,747</u>	<u>171,865</u>	<u>15,059,612</u>
4,590,523	126,166	4,716,689
18,812,987	3,085,118	21,898,105
<u>\$ 23,403,510</u>	<u>\$ 3,211,284</u>	<u>\$ 26,614,794</u>

**CITY OF EASTLAKE, OHIO**

**Balance Sheet  
Governmental Funds  
December 31, 2007**

	General	Callable Bond Retirement	Road Capital Improvement	Other Governmental Funds	Total Governmental Funds
<b>Assets:</b>					
Cash and Cash Equivalents	\$ 2,830,369	\$ 4,310,517	\$ 495,338	\$ 2,097,305	\$ 9,733,529
Receivables:					
Taxes	3,326,988	0	1,333,597	867,702	5,528,287
Accounts	457,636	0	0	21,002	478,638
Intergovernmental	1,386,529	923,780	210,841	601,651	3,122,801
Inventory of Supplies, at Cost	0	0	0	20,702	20,702
Prepaid Items	99,847	0	0	31,152	130,999
<b>Total Assets</b>	<b>\$ 8,101,369</b>	<b>\$ 5,234,297</b>	<b>\$ 2,039,776</b>	<b>\$ 3,639,514</b>	<b>\$ 19,014,956</b>
<b>Liabilities:</b>					
Accounts Payable	\$ 90,152	\$ 0	\$ 334	\$ 20,945	\$ 111,431
Accrued Wages and Benefits Payable	142,620	0	10,784	1,801	155,205
Intergovernmental Payable	279,809	0	10,983	265,709	556,501
Deferred Revenue	3,464,410	923,780	1,544,438	1,327,568	7,260,196
Compensated Absences Payable	51,525	0	0	0	51,525
<b>Total Liabilities</b>	<b>4,028,516</b>	<b>923,780</b>	<b>1,566,539</b>	<b>1,616,023</b>	<b>8,134,858</b>
<b>Fund Balance:</b>					
Reserved for Encumbrances	233,151	0	304,571	301,282	839,004
Reserved for Prepaid Items	99,847	0	0	31,152	130,999
Reserved for Supplies Inventory	0	0	0	20,702	20,702
Reserved for Debt Service	0	4,310,517	0	78,178	4,388,695
Undesignated, Unreserved in:					
General Fund	3,739,855	0	0	0	3,739,855
Special Revenue Funds	0	0	0	746,501	746,501
Capital Projects Funds	0	0	168,666	845,676	1,014,342
<b>Total Fund Balance</b>	<b>4,072,853</b>	<b>4,310,517</b>	<b>473,237</b>	<b>2,023,491</b>	<b>10,880,098</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 8,101,369</b>	<b>\$ 5,234,297</b>	<b>\$ 2,039,776</b>	<b>\$ 3,639,514</b>	<b>\$ 19,014,956</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, 2007***

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<b>Total Governmental Fund Balances</b>		\$ 10,880,098
<b><i>Amounts reported for governmental activities in the statement of net assets are different because</i></b>		
Capital Assets used in governmental activities are not resources and therefore are not reported in the funds.		39,167,259
Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds.		3,242,353
Debt issuance costs are expended in the funds, however they are deferred in the entity-wide statements.		624,360
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	(27,660,000)	
OPWC Loan Payable	(320,752)	
Compensated Absences Payable	(2,176,073)	
Capital Leases	(18,631)	
Accrued Interest Payable	(335,104)	
	<u>                    </u>	<u>(30,510,560)</u>
<b><i>Net Assets of Governmental Activities</i></b>		<b><u><u>\$ 23,403,510</u></u></b>

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, 2007

	General	Callable Bond Retirement	Road Capital Improvement	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>					
Property Taxes	\$ 1,509,320	\$ 0	\$ 932,928	\$ 709,348	\$ 3,151,596
Municipal Income Taxes	7,336,872	0	0	0	7,336,872
State Levied Shared Taxes	2,415,389	0	126,301	1,129,255	3,670,945
Other Local Taxes	373,085	0	0	83,675	456,760
Intergovernmental Revenues	593,945	1,412,720	910,908	321,825	3,239,398
Charges for Services	1,457,971	0	0	183,751	1,641,722
Rental Revenue	0	0	0	556,491	556,491
Licenses, Permits and Fees	264,312	0	0	5,451	269,763
Investment Earnings	325,783	152,545	0	12,190	490,518
Fines and Forfeitures	193,157	0	0	59,706	252,863
All Other Revenue	115,795	144	0	90,089	206,028
<b>Total Revenue</b>	<b>14,585,629</b>	<b>1,565,409</b>	<b>1,970,137</b>	<b>3,151,781</b>	<b>21,272,956</b>
<b>Expenditures:</b>					
Current:					
Security of Persons and Property	6,416,757	0	0	534,094	6,950,851
Public Health and Welfare Services	174,954	0	0	0	174,954
Leisure Time Activities	389,284	0	0	55,710	444,994
Community Environment	298,901	0	0	0	298,901
Basic Utility Services	784,071	0	504,842	0	1,288,913
Transportation	233,488	0	0	1,000,664	1,234,152
General Government	3,370,386	0	0	138,483	3,508,869
Capital Outlay	200,541	0	2,837,206	143,800	3,181,547
Debt Service:					
Principal Retirement	0	0	24,831	730,000	754,831
Interest & Fiscal Charges	0	0	0	1,398,315	1,398,315
<b>Total Expenditures</b>	<b>11,868,382</b>	<b>0</b>	<b>3,366,879</b>	<b>4,001,066</b>	<b>19,236,327</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,717,247	1,565,409	(1,396,742)	(849,285)	2,036,629
<b>Other Financing Sources (Uses):</b>					
Sale of Capital Assets	2,000	0	0	2,120	4,120
Transfers In	0	998,757	0	1,978,000	2,976,757
Transfers Out	(2,045,000)	0	0	(931,757)	(2,976,757)
Other Financing Sources	10,605	0	0	4,266	14,871
Other Financing Uses	(4,181)	0	0	0	(4,181)
Other Financing Sources - Capital Lease	9,131	0	0	0	9,131
<b>Total Other Financing Sources (Uses)</b>	<b>(2,027,445)</b>	<b>998,757</b>	<b>0</b>	<b>1,052,629</b>	<b>23,941</b>
Net Change in Fund Balance	689,802	2,564,166	(1,396,742)	203,344	2,060,570
<b>Fund Balance at Beginning of Year</b>	<b>3,383,051</b>	<b>1,746,351</b>	<b>1,869,979</b>	<b>1,817,101</b>	<b>8,816,482</b>
Increase in Inventory Reserve	0	0	0	3,046	3,046
<b>Fund Balance End of Year</b>	<b>\$ 4,072,853</b>	<b>\$ 4,310,517</b>	<b>\$ 473,237</b>	<b>\$ 2,023,491</b>	<b>\$ 10,880,098</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, 2007***

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**Net Change in Fund Balances - Total Governmental Funds** \$ 2,060,570

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

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

Capital Outlay	2,401,041	
Depreciation Expense	<u>(1,657,762)</u>	743,279

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 1,056,280

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

General Obligation Bond Principal Payment	730,000	
OPWC Loan Principal Payment	24,831	
Capital Lease Principal Payment	11,604	
New Capital Lease	(9,131)	
Deferred Charges	<u>(28,380)</u>	728,924

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. 4,586

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	(6,162)	
Change in Inventory	<u>3,046</u>	<u>(3,116)</u>

***Change in Net Assets of Governmental Activities*** \$ 4,590,523

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, 2007**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>				
Property Taxes	\$ 1,489,956	\$ 1,518,586	\$ 1,509,320	\$ (9,266)
Municipal Income Taxes	7,331,043	7,270,120	7,426,322	156,202
State Levied Shared Taxes	2,543,336	2,386,996	2,576,391	189,395
Other Local Taxes	219,983	205,102	222,842	17,740
Intergovernmental Revenue	582,481	619,090	590,051	(29,039)
Charges for Services	1,087,531	1,397,778	1,465,786	68,008
Licenses and Permits	259,766	168,721	263,142	94,421
Investment Earnings	321,603	270,611	325,783	55,172
Fines and Forfeitures	187,790	184,953	190,231	5,278
All Other Revenues	480,324	68,160	122,446	54,286
Total Revenues	<u>14,503,813</u>	<u>14,090,117</u>	<u>14,692,314</u>	<u>602,197</u>
<b>Expenditures:</b>				
Current:				
Security of Persons and Property	5,845,830	6,690,121	6,456,363	233,758
Public Health and Welfare	217,350	217,000	210,241	6,759
Leisure Time Activities	389,382	475,428	433,152	42,276
Community Environment	260,115	328,736	305,652	23,084
Basic Utility Services	820,848	809,248	808,090	1,158
Transportation	304,489	263,279	244,538	18,741
General Government	4,043,284	3,694,999	3,513,107	181,892
Capital Outlay	47,893	214,376	199,788	14,588
Total Expenditures	<u>11,929,191</u>	<u>12,693,187</u>	<u>12,170,931</u>	<u>522,256</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,574,622	1,396,930	2,521,383	1,124,453
<b>Other Financing Sources (Uses):</b>				
Sale of Capital Assets	1,974	0	2,000	2,000
Transfers Out	(1,691,701)	(2,075,000)	(2,045,000)	30,000
Other Financing Sources	10,469	11,500	10,605	(895)
Other Financing Uses	(9,920)	(13,611)	(4,381)	9,230
Total Other Financing Sources (Uses):	<u>(1,689,178)</u>	<u>(2,077,111)</u>	<u>(2,036,776)</u>	<u>40,335</u>
Net Change in Fund Balance	885,444	(680,181)	484,607	1,164,788
Fund Balance at Beginning of Year	1,490,675	1,490,675	1,490,675	0
Prior Year Encumbrances	283,397	283,397	283,397	0
Fund Balance at End of Year	<u>\$ 2,659,516</u>	<u>\$ 1,093,891</u>	<u>\$ 2,258,679</u>	<u>\$ 1,164,788</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, 2007**

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	<u>Sanitary Sewer</u>
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 212,103
Receivables:	
Accounts	599,862
Special Assessments	258,904
Prepaid Items	109
Total Current Assets	<u>1,070,978</u>
Noncurrent Assets:	
Non-Depreciable Capital Assets	75,556
Depreciable Capital Assets, Net	2,154,555
Total Noncurrent Assets	<u>2,230,111</u>
Total Assets	<u>3,301,089</u>
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts Payable	4,107
Accrued Wages and Benefits	5,266
Intergovernmental Payable	6,337
Compensated Absences Payable - Current	23,766
Total Current Liabilities	<u>39,476</u>
Noncurrent Liabilities:	
Compensated Absences Payable	50,329
Total noncurrent liabilities	<u>50,329</u>
<b>Total Liabilities</b>	<u>89,805</u>
<b>NET ASSETS</b>	
Invested in Capital Assets	2,230,111
Unrestricted	981,173
Total Net Assets	<u>\$ 3,211,284</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, 2007**

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	<u>Sanitary Sewer</u>
<b>Operating Revenues:</b>	
Charges for Services	\$ 1,891,819
<b>Total Operating Revenues</b>	<u>1,891,819</u>
<b>Operating Expenses:</b>	
Personal Services	326,963
Contractual Services	1,389,056
Depreciation	208,777
Other Operating Expenses	11,343
<b>Total Operating Expenses</b>	<u>1,936,139</u>
<b>Operating Loss</b>	(44,320)
<b>Non-Operating Revenue (Expenses):</b>	
Loss on Disposal of Capital Assets	(1,379)
<b>Total Non-Operating Revenues (Expenses)</b>	<u>(1,379)</u>
<b>Loss Before Contributions</b>	(45,699)
<b>Contributions:</b>	
Capital Contributions	<u>171,865</u>
<b>Change in Net Assets</b>	126,166
<b>Net Assets Beginning of Year</b>	<u>3,085,118</u>
<b>Net Assets End of Year</b>	<u><u>\$ 3,211,284</u></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, 2007*

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	<u>Sanitary Sewer</u>
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Customers	\$1,765,643
Cash Payments for Goods and Services	(1,418,250)
Cash Payments to Employees	(300,158)
Net Cash Provided by Operating Activities	<u>47,235</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>	
Acquisition and Construction of Assets	(522,030)
Net Cash Used by Capital and Related Financing Activities	<u>(522,030)</u>
Net Decrease in Cash and Cash Equivalents	(474,795)
Cash and Cash Equivalents at Beginning of Year	686,898
Cash and Cash Equivalents at End of Year	<u><u>\$212,103</u></u>
<u>Reconciliation of Operating Loss to Net Cash</u>	
<u>Provided by Operating Activities:</u>	
Operating Loss	(\$44,320)
Adjustments to Reconcile Operating Loss to	
Net Cash Provided by Operating Activities:	
Depreciation Expense	208,777
Changes in Assets and Liabilities:	
Increase in Accounts Receivable	(148,721)
Decrease in Special Assessments Receivable	22,545
Decrease in Prepaid Items	1,217
Decrease in Accounts Payable	(12,105)
Increase in Accrued Wages and Benefits	1,392
Decrease in Intergovernmental Payable	(5,849)
Increase in Compensated Absences	24,299
Total Adjustments	<u>91,555</u>
Net Cash Provided by Operating Activities	<u><u>\$47,235</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 Assets and Liabilities  
Fiduciary Funds  
December 31, 2007***

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	<u>Agency Funds</u>
<b>Assets:</b>	
Cash and Cash Equivalents	\$ 241,665
<b>Total Assets</b>	<u>241,665</u>
<b>Liabilities:</b>	
Due to Others	241,665
<b>Total Liabilities</b>	<u>\$ 241,665</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, 2007***

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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, 2007 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. The City was released from fiscal emergency December 4, 2007.

#### **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 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, 2007***

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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 13. 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.

Callable Bond Retirement Fund – This fund is used to account for proceeds from a federal transportation grant, as well as a cell tower easement. Proceeds will be used to call City bonds.

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, 2007***

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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 a 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, 2007***

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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, 2007*

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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, 2007 but which are not intended to finance 2007 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, 2007*

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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 2007.

## *CITY OF EASTLAKE, OHIO*

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### *Notes to the Basic Financial Statements For the Year Ended December 31, 2007*

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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 2007, several supplemental appropriations were necessary. 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 need 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, 2007**

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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)	\$689,802
Increase (Decrease):	
Accrued Revenues at December 31, 2007 received during 2008	(2,070,868)
Accrued Revenues at December 31, 2006 received during 2007	2,177,549
Accrued Expenditures at December 31, 2007 paid during 2008	564,106
Accrued Expenditures at December 31, 2006 paid during 2007	(285,921)
2006 Prepaids for 2007	81,475
2007 Prepaids for 2008	(99,847)
Outstanding Encumbrances	(571,689)
Budget Basis	<u>\$484,607</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, 2007***

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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 2007. 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, 2007. See Note 3, "Cash, Cash Equivalents and Investments." Interest earnings are allocated to City funds according to State statutes, grant requirements, or debt related restrictions. Interest receipts credited to the General fund during 2007 was \$325,783 which includes \$142,636 assigned from other City funds.

##### **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. Inventories of governmental funds are stated at cost. For all funds, cost is determined on a first-in, first-out basis. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

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

Payments made to vendors for services that will benefit periods beyond December 31, 2007, 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, 2007**

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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:

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

**K. Long-Term Obligations**

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

Obligation	Fund
General Obligation Bonds	General Obligation Bond Retirement Fund
Ohio Public Works	
Commission Loans	Road Capital Improvement Fund
Compensated Absences	General Fund, Sanitary Sewer Fund
Capital Leases	General Fund

## **CITY OF EASTLAKE, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2007***

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

##### **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 first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

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

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

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

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2007***

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

##### **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, ACCOUNTABILITY AND CHANGES IN ACCOUNTING PRINCIPLES**

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

The fund deficits at December 31, 2007 of \$54,295 in the Police Pension Fund, and \$91,124 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.

##### **B. Changes in Accounting Principles**

For 2007, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 45, "Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions", GASB Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues", and GASB Statement No. 50, "Pension Disclosures".



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

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2007***

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#### **NOTE 2 – COMPLIANCE, ACCOUNTABILITY AND CHANGES IN ACCOUNTING PRINCIPLES (Continued)**

##### **B. Changes in Accounting Principles (Continued)**

GASB Statement No. 45 improves the relevance and usefulness of financial reporting by requiring systematic, accrual basis measurement and recognition of OPEB costs over a period that approximates employee's years of service and providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan. An OPEB liability at transition was determined in accordance with this Statement for both the OPERS and the OP&F postemployment healthcare plans in the amount of \$179,330 and \$263,493 respectively, which are the same as previously reported liabilities.

GASB Statement No. 48 addresses how to account for the exchange of an interest in expected cash flows from collecting specific receivables or specific future revenues for immediate cash payments. The statement established criteria used to determine whether the transaction should be recorded as revenue or as a liability (a sale or a collateralized borrowing). The implementation of this statement did not result in any changes to the financial statements.

GASB Statement No. 50 requires employers contributing to defined pension plans to include the legal or contractual maximum contribution rates in the notes to the financial statements. The implementation of this statement did not result in any changes to the financial statements.

#### **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, or by savings or deposit accounts including, but not limited to, passbook accounts.

## *CITY OF EASTLAKE, OHIO*

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### *Notes to the Basic Financial Statements For the Year Ended December 31, 2007*

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

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).
- Commercial paper and bankers acceptances if training requirements have been met

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

**CITY OF EASTLAKE, OHIO**

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**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2007**

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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 City'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 \$9,968,119 and the bank balance was \$10,340,140. Federal depository insurance covered \$279,585 of the bank balance and \$10,060,555 was uninsured. Of the remaining uninsured bank balance, the City was exposed to custodial risk as follows:

	Balance
Uninsured and collateralized with securities held by the pledging institution's trust department not in the City's name	<u>\$10,060,555</u>
Total Balance	<u><u>\$10,060,555</u></u>

**B. Investments**

The City's investments at December 31, 2007 are summarized below:

	<u>Fair Value</u>	<u>Credit Rating</u>	<u>Investment Maturity</u>
STAR Ohio	\$219,178	AAAm	39 Days

## **CITY OF EASTLAKE, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2007***

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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	\$10,187,297	\$0
Investments:		
STAR Ohio	(219,178)	219,178
Per GASB Statement No. 3	<u>\$9,968,119</u>	<u>\$219,178</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 2007 were levied after October 1, 2006 on assessed values as of January 1, 2006, 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, 2007*

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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. In prior years, tangible personal property used in business (except for public utilities) was assessed for ad valorem taxation purposes at 25 percent of its true value. As part of a phase out of the personal property tax, the assessment percentage for personal property was reduced to 12.5 percent in 2007. The rate will be reduced to 6.25 percent for 2008 and finally to zero in 2009. 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 varying percentages 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, 2007 was \$8.30 per \$1,000 of assessed value. The assessed value upon which the 2007 tax receipts were based was \$566,571,156. This amount constitutes \$471,395,740 in real property assessed value, \$81,890,870 in public utility assessed value and \$13,284,546 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 .83% (8.3 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.

## **CITY OF EASTLAKE, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2007***

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

Receivables at December 31, 2007 consisted of taxes, accounts receivable, special assessments and intergovernmental receivables arising from shared revenues. Total receivables on an entity wide basis totaled \$9,988,492. Taxes receivable of \$5,528,287 and intergovernmental receivables of \$3,122,801 were the largest components of the City's year end receivables.

The two largest components of the taxes receivable were property tax collections for the 2007 tax year to be collected in 2008, which was estimated to be \$4,275,109 based on valuation data provided by the Lake County Auditor and municipal income tax receivables of \$1,253,178.

Amounts due from other governments included state taxes of \$927,162 and \$1,230,301 in anticipated grant funds. There was also \$599,862 in sewer charges at year end to be collected in 2008.

#### **NOTE 6 - TRANSFERS**

Following is a summary of transfers in and out for all funds for 2007:

Fund	Transfer In	Transfer Out
Governmental Funds:		
General Fund	\$0	\$2,045,000
Callable Bond Retirement Fund	998,757	0
Other Governmental Funds	1,978,000	931,757
Totals	<u>\$2,976,757</u>	<u>\$2,976,757</u>

In 2007, the City's transfers of \$2,045,000 out of the General fund consisted of a \$1,170,000 transfer to the General Bond Retirement fund to pay the City's share of current debt service obligations.

In addition, due to the City's better than expected financial year, the City transferred \$775,000 in December 2007 to the Callable Bond Retirement fund which will be utilized in 2009 to retire or defease debt. The City plans to combine General fund transfers with U.S. Department of Transportation grant funds, stadium naming rights fees and other revenues to significantly reduce its long term debt obligations by taking advantage of the 5 year call feature on the 2004, \$8.9 million tax exempt bond issue.

The City also established a new Employee Special Termination Special Revenue fund in 2007 for setting aside cash to pay accrued sick time liabilities when employees retire. The City transferred \$100,000 to this new fund in 2007, from the General fund.

The Callable Bond Retirement fund received as noted above, \$775,000 from the General fund, and also a \$223,757 transfer from the Recreational Land Acquisition fund. These were grant funds reimbursed to the City for purchasing property in 2003. The property was purchased and is to be used for maintaining a pristine "green space" area. The City borrowed in anticipation of receiving the grant funds however, the City never utilized the grant reimbursement to offset a portion of the amount borrowed.

**CITY OF EASTLAKE, OHIO**

**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2007**

**NOTE 6 – TRANSFERS (Continued)**

The initial borrowing was in the form of a one year bond anticipation note initially issued in June of 2003, then rolled in its entirety in June of 2004, and then to a \$725,000, 25 year bond in December 2004. Following the City Law Director’s advice, a transfer of \$223,757 was made to the Callable Bond Retirement fund for the future debt payment of the \$700,000, 25 year bond, which is the earliest time the debt can be retired.

The remaining \$708,000 of the total \$931,757 in transfers from Other Governmental funds consisted of transfers from the Stadium/Vine Street Capital Projects fund, which is an improvement fund related to the construction and maintenance of the minor league baseball park. Monies received from the annual rent payments, parking revenues from the City owned stadium parking lot, annual payments from the Lake County Convention and Visitors Bureau and cell tower rental payments have been designated by the City to be transferred to the General Bond Retirement fund for the payment of annual debt related to the stadium.

**NOTE 7 - CAPITAL ASSETS**

**A. Governmental Activities Capital Assets**

Summary by category of changes in governmental activities capital assets at December 31, 2007:

***Historical Cost:***

Class	December 31, 2006	Additions	Deletions	December 31, 2007
<b><i>Capital assets not being depreciated:</i></b>				
Land	\$7,001,655	\$0	\$0	\$7,001,655
Construction in Progress	926,529	268,923	0	1,195,452
Subtotal	<u>7,928,184</u>	<u>268,923</u>	<u>0</u>	<u>8,197,107</u>
<b><i>Capital assets being depreciated:</i></b>				
Buildings	17,163,232	18,500	0	17,181,732
Improvements Other than Buildings	8,440,862	22,463	0	8,463,325
Infrastructure	18,152,412	1,362,799	0	19,515,211
Machinery, Vehicles and Equipment	5,964,764	728,356	(390,887)	6,302,233
Subtotal	<u>49,721,270</u>	<u>2,132,118</u>	<u>(390,887)</u>	<u>51,462,501</u>
Total Cost	<u>\$57,649,454</u>	<u>\$2,401,041</u>	<u>(\$390,887)</u>	<u>\$59,659,608</u>

***Accumulated Depreciation:***

Class	December 31, 2006	Additions	Deletions	December 31, 2007
Buildings	(\$5,093,024)	(\$338,550)	\$0	(\$5,431,574)
Improvements Other than Buildings	(649,223)	(166,762)	0	(815,985)
Infrastructure	(10,312,986)	(780,608)	0	(11,093,594)
Machinery, Vehicles and Equipment	(3,170,241)	(371,842)	390,887	(3,151,196)
Total Depreciation	<u>(\$19,225,474)</u>	<u>(\$1,657,762) *</u>	<u>\$390,887</u>	<u>(\$20,492,349)</u>
<b><i>Net Value:</i></b>	<u>\$38,423,980</u>			<u>\$39,167,259</u>

**CITY OF EASTLAKE, OHIO**

**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2007**

**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	\$263,962
Leisure Time Activities	419,128
Community Environment	3,463
Basic Utility Services	780,608
Transportation	92,743
General Government	97,858
Total Depreciation Expense	\$1,657,762

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

Summary by Category at December 31, 2007:

**Historical Cost:**

Class	December 31, 2006	Additions	Deletions	December 31, 2007
<b>Capital assets not being depreciated:</b>				
Land	\$75,556	\$0	\$0	\$75,556
Construction in Progress	74,966	0	(74,966)	0
Subtotal	150,522	0	(74,966)	75,556
<b>Capital assets being depreciated:</b>				
Buildings and Improvements	778,221	57,170	0	835,391
Infrastructure	8,290,122	627,700	0	8,917,822
Machinery, Vehicles and Equipment	709,639	9,380	(41,372)	677,647
Subtotal	9,777,982	694,250	(41,372)	10,430,860
Total Cost	\$9,928,504	\$694,250	(\$116,338)	\$10,506,416

**Accumulated Depreciation:**

Class	December 31, 2006	Additions	Deletions	December 31, 2007
Buildings and Improvements	(\$729,001)	(\$4,976)	\$0	(\$733,977)
Infrastructure	(6,974,799)	(177,328)	0	(7,152,127)
Machinery, Vehicles and Equipment	(403,721)	(26,473)	39,993	(390,201)
Total Depreciation	(\$8,107,521)	(\$208,777)	\$39,993	(\$8,276,305)
<b>Net Value:</b>	\$1,820,983			\$2,230,111



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

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2007***

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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")**

Plan Description - The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan. While members in the State and local divisions may participate in all three plans, law enforcement (generally sheriffs, deputy sheriffs and township police) and public safety divisions exist only within the traditional pension plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 800-222-7377.

Funding Policy - The Ohio Revised Code provides statutory authority for member and employer contributions. For the year ended December 31, 2007, members in state and local classifications contributed 9.5% of covered payroll, public safety members contributed 9.75%, and law enforcement members contributed 10.1%.

The City's contribution rate for 2007 was 13.85 percent, except for those plan members in law enforcement or public safety, for whom the City's contribution was 17.17 percent of covered payroll. For the period January 1 through June 30, a portion of the City's contribution equal to 5 percent of covered payroll was allocated to fund the post-employment health care plan; for the period July 1 through December 31, 2007 this amount was increased to 6 percent. Employer contribution rates are actuarially determined. State Statute sets a maximum contribution rate for the City of 14 percent, except for public safety and law enforcement, where the maximum employer contribution rate is 18.1 percent.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2007, 2006, and 2005 were \$272,970, \$316,160 and \$327,746 respectively, which were equal to required contributions for the year.

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

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2007***

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

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

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations. The City’s contribution was 19.5 percent for police officers and 24 percent for firefighters. Contribution rates are established by State statute. For 2007, a portion of the City’s contribution equal to 6.75 percent of covered payroll was allocated to fund the post-employment health care plan. The City’s pension contributions to OP&F for police and firefighters were \$289,230 and \$282,060 for the year ended December 31, 2007, \$271,953 and \$280,451 for the year ended December 31, 2006, and \$265,132 and \$263,099 for the year ended December 31, 2005, which were equal to required contributions for each year.

#### **NOTE 9 - POSTEMPLOYMENT BENEFITS**

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

Plan Description - OPERS maintains a cost sharing multiple employer defined benefit postemployment health care plan for qualifying members of both the traditional and combined pension plans. Members of the member directed plan do not qualify for ancillary benefits, including postemployment health care. The plan includes a medical plan, a prescription drug program and Medicare Part B premium reimbursement.

To qualify for post-employment health care coverage, age and service retirees under the traditional and combined plans must have ten or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The Ohio Revised Code permits, but does not require, OPERS to provide health care benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 800-222-7377.

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

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2007***

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#### **NOTE 9 - POSTEMPLOYMENT BENEFITS (Continued)**

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

Funding Policy - The post-employment health care plan was established under, and is administered in accordance with, Internal Revenue Code 401 (h). State statute requires that public employers fund post-employment health care through contributions to OPERS. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of post-employment health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2007, local government employers contributed 13.85 percent of covered payroll (17.17 percent for public safety and law enforcement). Each year, the OPERS retirement board determines the portion of the employer contribution rate that will be set aside for funding post-employment health care benefits. The amount of the employer contributions which was allocated to fund post-employment health care was 5.00 percent of covered payroll from January 1 through June 30, 2007, and 6.00 percent from July 1 to December 31, 2007.

The retirement board is also authorized to establish rules for the payment of a portion of the health care benefits by the retiree or the retiree's surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the post-employment health care plan.

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2007, 2006, and 2005 were \$179,330, \$154,644 and \$137,276, which were equal to required contributions for each year.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan which was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007, and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

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

Plan Description - The City contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored healthcare program, a cost-sharing multiple-employer defined post-employment healthcare plan administered by OP&F. OP&F provides healthcare benefits including coverage for medical, prescription drugs, dental, vision, Medicare Part B Premium reimbursement and long term care to retirees, qualifying benefit recipients and their eligible dependents.

OP&F provides access to post-retirement healthcare coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check or is a spouse or eligible dependent child of such person.

## *CITY OF EASTLAKE, OHIO*

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### *Notes to the Basic Financial Statements For the Year Ended December 31, 2007*

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#### **NOTE 9 - POSTEMPLOYMENT BENEFITS (Continued)**

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

The Ohio Revised Code allows, but does not mandate, OP&F to provide OPEB benefits. Authority for the OP&F Board of Trustees to provide healthcare coverage to eligible participants and to establish and amend benefits is codified in Chapter 742 of the Ohio Revised Code.

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the Plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding policy - OP&F's post-employment healthcare plan was established and is administered as an Internal Revenue Code 401(h) account within the defined benefit pension plan, under the authority granted by the Ohio Revised code to the OP&F Board of Trustees. The Ohio Revised Code sets the contribution rates for participating employers and for plan members to the OP&F. Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.50 percent and 24.00 percent of covered payroll for police and fire employers, respectively.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made to the pension plan to the 401(h) account as the employer contribution for retiree healthcare benefits. For the year ended December 31, 2007, the employer contribution allocated to the healthcare plan was 6.75% of covered payroll. The amount of employer contributions allocated to the healthcare plan each year is subject to the trustees' primary responsibility to ensure that pension benefits are adequately funded and also is limited by the provisions of Section 401(h).

The OP&F Board of Trustees is also authorized to establish requirements for contributions to the healthcare plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the OPEB Plan.

The City's contributions to OP&F which were allocated to fund post-employment health care benefits for police and firefighters were \$153,122 and \$110,371 for the year ended December 31, 2007, \$179,373 and \$133,753 for the year ended December 31, 2006, and \$174,874 and \$119,590 for the year ended December 31, 2005 which were equal to 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, 2007***

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**NOTE 10 – COMPENSATED ABSENCES**

City employees earn vacation at varying rates based upon length of service. Vacation is earned in one year and must be used in the next two (2) years. In the case of death or retirement, an employee (or his estate) is paid for unused vacation leave and the prorated amount of vacation leave earned during the current year. At December 31, 2007, the total obligation for vacation accrual for the City as a whole amounted to \$363,210.

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 at 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, 2007, the total obligation for sick leave accrual for the City as a whole amounted to \$1,821,421.

In addition to vacation and sick leave accruals, the City also had an accrual for compensatory time in the amount of \$52,133 and an accrual for terminated employees in the Business Type Activities in the amount of \$13,404.

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**CITY OF EASTLAKE, OHIO**

**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2007**

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

Long-term debt and other long-term obligations of the City at December 31, 2007 were as follows:

	Original Issue		Balance December 31, 2006	Additions	(Reductions)	Balance December 31, 2007	Due Within One Year
<b>Governmental Activities:</b>							
General Obligation Bonds:							
Tax Exempt Municipal Stadium	\$4,380,000	2002	\$4,015,000	\$0	(\$125,000)	\$3,890,000	\$130,000
Municipal Stadium	8,180,000	2002	7,630,000	0	(195,000)	7,435,000	205,000
CityHall Construction Refunding	2,790,000	2005	2,535,000	0	(190,000)	2,345,000	200,000
Capital Facilities	4,350,000	2004	4,320,000	0	(90,000)	4,230,000	95,000
Parking Lot	1,130,000	2004	1,130,000	0	(15,000)	1,115,000	15,000
Real Estate Acquisition	700,000	2004	700,000	0	(10,000)	690,000	10,000
Stadium	8,070,000	2004	8,060,000	0	(105,000)	7,955,000	110,000
Total General Obligation Bonds			28,390,000	0	(730,000)	27,660,000	765,000
Ohio Public Works Commission Loans (OPWC):							
N Parkway Sewer	50,000	1999	30,000	0	(2,500)	27,500	2,500
E. 377th St. Road Improvement	103,600	2000	51,799	0	(6,907)	44,892	6,907
Stevens Blvd. Outfall	49,138	2000	34,396	0	(2,457)	31,939	2,457
Parkland Dr. Sewer	24,907	2000	17,437	0	(1,245)	16,192	1,245
E. Overlook Storm/Sanitary	26,254	2003	21,662	0	(1,312)	20,350	1,312
Roberts Road Improvements	150,000	2004	135,000	0	(7,500)	127,500	7,500
Plymouth Outfall Sewer	58,200	2006	55,289	0	(2,910)	52,379	2,910
Total OPWC Loans			345,583	0	(24,831)	320,752	24,831
Compensated Absences			2,169,911	2,176,073	(2,169,911)	2,176,073	404,981
Capital Leases			21,104	9,131	(11,604)	18,631	10,427
Total Governmental Activities			30,926,598	2,185,204	(2,936,346)	30,175,456	1,205,239
<b>Business-Type Activities:</b>							
Compensated Absences			49,796	74,095	(49,796)	74,095	23,766
<b>Totals</b>			<u>\$30,976,394</u>	<u>\$2,259,299</u>	<u>(\$2,986,142)</u>	<u>\$30,249,551</u>	<u>\$1,229,005</u>

**CITY OF EASTLAKE, OHIO**

**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2007**

**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, 2007 are as follows:

Years	General Obligation Bonds		Ohio Public Works Commission Loans	
	Principal	Interest	Principal	Interest
2008	\$765,000	\$1,369,249	\$24,831	\$0
2009	790,000	1,337,119	24,832	0
2010	955,000	1,302,749	24,832	0
2011	975,000	1,266,103	24,832	0
2012	1,020,000	1,227,463	24,832	0
2013-2017	5,945,000	5,411,021	99,976	0
2018-2022	5,935,000	3,940,134	72,216	0
2023-2027	7,670,000	2,240,876	24,401	0
2028-2031	3,605,000	494,253	0	0
Totals	<u>\$27,660,000</u>	<u>\$18,588,967</u>	<u>\$320,752</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.

**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 \$2,205,000 at December 31, 2007, are not included in the City's outstanding debt since the City has in-substance satisfied its obligations through the advance refunding.

**CITY OF EASTLAKE, OHIO**

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***Notes to the Basic Financial Statements  
For the Year Ended December 31, 2007***

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**NOTE 12 – 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>
2008	\$10,427
2009	4,677
2010	<u>3,527</u>
Minimum Lease Payments	18,631
Less amount representing interest at the City's incremental borrowing rate of interest	<u>0</u>
Present value of minimum lease payments	<u><u>\$18,631</u></u>

**NOTE 13 – 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 known 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, 2007***

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#### **NOTE 13 – SHARED RISK POOL (Continued)**

In 2007, the City of Eastlake paid \$215,513 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.

The City provided health insurance through the Lake County commissioners plan in 2007. Rates ranged from \$400 per month for a family plan to \$1,187 for a family plan. Dental rates ranged in 2007 from \$21.19 to \$89.88 for a family plan. Employee bi-weekly payroll contributions totaling 8% of the premium ranged from \$15.56 for a single plan to \$47.14 per pay. In addition the City assumed the \$75 spousal surcharge for Family and two party plans.

#### **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.

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

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2007***

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#### **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 2007. Financial information can be obtained by contacting NOPEC, 31320 Solon Road, Solon, Ohio, 44139.

#### **NOTE 16 – FEDERAL SINGLE AUDIT**

In 2007, the City was the recipient of federal funds in excess of \$500,000 from the Federal Transit Administration. However, per the Federal Transportation Administration, since a federal single audit and general audit was performed in the years 2002 and 2003 in which these funds are being reimbursed for, and because the expended funds were not Federal at the time of original disbursement, an audit in accordance with OMB Circular A-133 is not required.

## **CITY OF EASTLAKE, OHIO**

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### ***Management's Discussion and Analysis For the Year Ended December 31, 2006***

***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, 2006. 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 2006 are as follows:

In total, net assets increased \$2,166,298. Net assets of governmental activities increased \$2,119,549, which represents a 13% increase from 2005. Net assets of business-type activities increased \$46,749 or 2% from 2005.

General revenues accounted for \$14,783,525 or 68% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$7,028,495, or 32% of total revenues of \$21,812,020.

The City had \$18,046,123 in expenses related to governmental activities; only \$5,526,147 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$14,783,525 were adequate to provide for these programs.

The General fund had \$14,962,088 in revenues and \$11,885,379 in expenditures. The General fund's fund balance increased from a balance of \$1,526,362 to a balance of \$3,383,051.

### **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, 2006***

***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 programs 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, 2006

*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 2006 compared to 2005.

	Governmental Activities		Business-type Activities		Total	
	Restated		Restated			
	2006	2005	2006	2005	2006	2005
Current and other assets	\$16,288,946	\$12,804,812	\$1,420,814	\$1,185,761	\$17,709,760	\$13,990,573
Capital assets, Net	38,423,980	39,330,725	1,820,983	1,915,381	40,244,963	41,246,106
Total assets	54,712,926	52,135,537	3,241,797	3,101,142	57,954,723	55,236,679
Long-term debt outstanding	30,926,598	31,381,222	49,796	41,910	30,976,394	31,423,132
Other liabilities	4,973,341	4,060,877	106,883	20,863	5,080,224	4,081,740
Total liabilities	35,899,939	35,442,099	156,679	62,773	36,056,618	35,504,872
Net assets						
Invested in capital assets, net of related debt	9,667,293	10,108,680	1,820,983	1,915,381	11,488,276	12,024,061
Restricted	6,181,045	4,841,745	0	0	6,181,045	4,841,745
Unrestricted	2,964,649	1,743,013	1,264,135	1,122,988	4,228,784	2,866,001
Total net assets	<u>\$18,812,987</u>	<u>\$16,693,438</u>	<u>\$3,085,118</u>	<u>\$3,038,369</u>	<u>\$21,898,105</u>	<u>\$19,731,807</u>

Approximately 53% of the City's net assets are investment in capital assets (e.g. land, infrastructure, buildings, machinery and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses those capital assets to provide services to its citizens. Consequently, these assets are not available for future spending. Although the City's investment is reported net of related debt, it should be noted that resources needed to repay this debt must be provided from other sources, since the capital assets cannot be used to liquidate these liabilities. The table above summarizes the City's 2006 net assets. Unrestricted Net Assets increased in 2006 by \$1,362,783 from the prior year. Specifically, current and other assets increased from \$13,990,573 to \$17,709,760 which is mostly attributable to a significant increase in cash and cash equivalents. In 2006, the City received Federal Transportation Grant monies in the amount of \$817,000 for stadium debt retirement in the year 2009. Also, 34% of the City's net assets in the Governmental Activities represent resources that have been restricted on how they may be used. The remaining balance of unrestricted net assets in the Governmental Activities of \$2,964,649 may be used to meet the City's other obligations. As of December 31, 2006, the City reported a positive net asset balance in governmental activities. The net assets invested in capital assets for Business-type Activities decreased from 2005 to 2006 due to an increase in accumulated depreciation. As of December 31, 2006 the Business-type Activities reported a net unrestricted balance of \$1,264,135.

## CITY OF EASTLAKE, OHIO

### Management's Discussion and Analysis For the Year Ended December 31, 2006

*Unaudited*

Changes in Net Assets – The following table shows the changes in net assets for fiscal years 2005 and 2006:

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
<b>Revenues</b>						
Program Revenues:						
Charges for Services and Sales	\$3,136,178	\$2,423,281	\$1,502,348	\$1,535,160	\$4,638,526	\$3,958,441
Operating Grants and Contributions	2,140,969	1,559,029	0	0	2,140,969	1,559,029
Capital Grants and Contributions	249,000	255,274	0	0	249,000	255,274
<b>Total Program Revenues</b>	<u>5,526,147</u>	<u>4,237,584</u>	<u>1,502,348</u>	<u>1,535,160</u>	<u>7,028,495</u>	<u>5,772,744</u>
General Revenues:						
Property Taxes	3,172,900	3,518,361	0	0	3,172,900	3,518,361
Income Taxes	7,770,278	7,108,050	0	0	7,770,278	7,108,050
State Levied/Shared Taxes	2,997,394	3,809,332	0	0	2,997,394	3,809,332
Other Local Taxes	129,917	279,370	0	0	129,917	279,370
Investment Earnings	309,460	122,808	0	0	309,460	122,808
Miscellaneous	408,576	875,087	0	0	408,576	875,087
<b>Total General Revenues</b>	<u>14,783,525</u>	<u>15,708,008</u>	<u>0</u>	<u>0</u>	<u>14,783,525</u>	<u>15,708,008</u>
<b>Total Revenues</b>	<u>20,309,672</u>	<u>19,945,592</u>	<u>1,502,348</u>	<u>1,535,160</u>	<u>21,812,020</u>	<u>21,480,752</u>
<b>Program Expenses</b>						
Security of Persons and Property	7,616,239	7,323,928	0	0	7,616,239	7,323,928
Public Health and Welfare Services	249,858	175,366	0	0	249,858	175,366
Leisure Time Activities	1,004,088	1,186,161	0	0	1,004,088	1,186,161
Community Environment	354,059	217,674	0	0	354,059	217,674
Basic Utility Services	2,031,434	2,113,087	0	0	2,031,434	2,113,087
Transportation	1,487,121	1,108,307	0	0	1,487,121	1,108,307
General Government	3,857,709	3,515,385	0	0	3,857,709	3,515,385
Interest and Fiscal Charges	1,445,615	1,569,483	0	0	1,445,615	1,569,483
Sewer	0	0	1,599,599	1,719,778	1,599,599	1,719,778
<b>Total expenses</b>	<u>18,046,123</u>	<u>17,209,391</u>	<u>1,599,599</u>	<u>1,719,778</u>	<u>19,645,722</u>	<u>18,929,169</u>
<b>Change in Net Assets before transfers</b>	<u>2,263,549</u>	<u>2,736,201</u>	<u>(97,251)</u>	<u>(184,618)</u>	<u>2,166,298</u>	<u>2,551,583</u>
<b>Transfers</b>	<u>(144,000)</u>	<u>99,051</u>	<u>144,000</u>	<u>(99,051)</u>	<u>0</u>	<u>0</u>
<b>Total Change in Net Assets</b>	<u>2,119,549</u>	<u>2,835,252</u>	<u>46,749</u>	<u>(283,669)</u>	<u>2,166,298</u>	<u>2,551,583</u>
<b>Beginning Net Assets - Restated</b>	<u>16,693,438</u>	<u>13,858,186</u>	<u>3,038,369</u>	<u>3,322,038</u>	<u>19,731,807</u>	<u>17,180,224</u>
<b>Ending Net Assets</b>	<u><u>\$18,812,987</u></u>	<u><u>\$16,693,438</u></u>	<u><u>\$3,085,118</u></u>	<u><u>\$3,038,369</u></u>	<u><u>\$21,898,105</u></u>	<u><u>\$19,731,807</u></u>

### Governmental Activities

Net assets of the City's governmental activities increased \$2,119,549. Property tax receipts decreased due to an expired debt service levy. Operating grants and contributions increased 37% due to the receipt of a Federal Transportation Grant. Expenditures for general government increased due in part to a decrease in refunds of prior years expenditures from 2005 to 2006.

## CITY OF EASTLAKE, OHIO

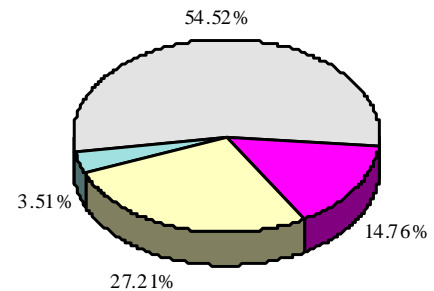
**Management's Discussion and Analysis  
For the Year Ended December 31, 2006**

**Unaudited**

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.

Income taxes and property taxes made up 38% and 16% respectively of revenues for governmental activities for the City in fiscal year 2006. The City's reliance upon tax revenues is demonstrated by the following graph indicating 55% of total revenues from general tax revenues:

Revenue Sources	2006	Percent of Total
General Tax Revenues	\$11,073,095	54.52%
Shared Revenue	2,997,394	14.76%
Program Revenues	5,526,147	27.21%
General Other	713,036	3.51%
Total Revenue	<u>\$20,309,672</u>	<u>100.00%</u>



### **Business-Type Activities**

Net assets of the business-type activities increased \$46,749, or approximately 2% from the previous year. Revenues of the business-type activities remained very stable, while expenses decreased approximately 7% due in part to a decrease in payments to the City of Willoughby for wastewater treatment services.

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

The City's governmental funds reported a combined fund balance of \$8,816,482, which is an increase in fund balance from last year's balance of \$5,701,760. The schedule below indicates the fund balance and the total change in fund balance by fund type as of December 31, 2006 and 2005:

	Fund Balance December 31, 2006	Fund Balance December 31, 2005	Increase (Decrease)
General	\$3,383,051	\$1,526,362	\$1,856,689
Callable Bond Retirement	1,746,351	0	1,746,351
Road Capital Improvement	1,869,979	1,661,373	208,606
Other Governmental	1,817,101	2,514,025	(696,924)
Total	<u>\$8,816,482</u>	<u>\$5,701,760</u>	<u>\$3,114,722</u>

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

***Management's Discussion and Analysis  
For the Year Ended December 31, 2006***

***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:

	2006 Revenues	2005 Revenues	Increase (Decrease)
Property Taxes	\$1,508,430	\$1,469,096	\$39,334
Municipal Income Taxes	7,709,460	7,057,754	651,706
State Levied Shared Taxes	2,469,102	2,409,229	59,873
Other Local Taxes	47,984	199,892	(151,908)
Intergovernmental Revenue	698,150	984,418	(286,268)
Charges for Services	1,427,035	1,043,216	383,819
Licenses, Permits and Fees	261,788	313,627	(51,839)
Investment Earnings	288,158	112,849	175,309
Fines and Forfeitures	203,462	218,636	(15,174)
All Other Revenue	348,519	432,594	(84,075)
Total	\$14,962,088	\$14,241,311	\$720,777

General fund revenues in 2006 increased approximately 5% compared to revenues in fiscal year 2005. Income taxes increased due to a stronger collection process as well as prosecution of delinquent tax payers. Other local taxes decreased due to decreases in franchise fees received. Intergovernmental revenue decreased due to an ODNR grant received in 2005 that was not repeated in 2006. Increases in interest rates resulted in increases in investment earnings.

	2006 Expenditures	2005 Expenditures	Increase (Decrease)
Security of Persons and Property	\$6,120,598	\$5,851,803	\$268,795
Public Health and Welfare Services	206,995	175,366	31,629
Leisure Time Activities	561,478	742,766	(181,288)
Community Environment	294,007	217,583	76,424
Basic Utility Services	712,567	774,162	(61,595)
Transportation	269,074	194,574	74,500
General Government	3,480,331	3,619,329	(138,998)
Capital Outlay	240,329	131,527	108,802
Total	\$11,885,379	\$11,707,110	\$178,269

General fund expenditures increased \$178,269 or 1.5% from the prior year. Leisure time activities decreased due to decreases in salaries, which was the result of department closings. The addition of a full time director and part time zoning inspector contributed to the increase in community environment.

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.



## CITY OF EASTLAKE, OHIO

**Management's Discussion and Analysis  
For the Year Ended December 31, 2006**

**Unaudited**

During the course of fiscal year 2006 the City amended its General fund budget several times, none significant.

For the General fund, actual revenue of \$14.9 million was higher than original budget estimates of \$13.9 million. This was due to increases in intergovernmental revenues received. The General fund had an adequate fund balance to cover expenditures.

### CAPITAL ASSETS AND DEBT ADMINISTRATION

#### Capital Assets

At the end of fiscal 2006 the City had a total of \$40,244,963 net of accumulated depreciation invested in land, construction in progress, buildings, improvements, infrastructure, machinery, vehicles and equipment. Of this total, \$38,423,980 was related to governmental activities and \$1,820,983 to the business-type activities. The following table shows fiscal year 2006 and 2005 balances:

	Governmental Activities		Increase (Decrease)
	2006	2005	
Land	\$7,001,655	\$7,001,655	\$0
Construction In Progress	926,529	767,172	159,357
Buildings	17,163,232	17,163,232	0
Improvements Other than Buildings	8,440,862	8,428,010	12,852
Infrastructure	18,152,412	18,152,412	0
Machinery, Vehicles and Equipment	5,964,764	5,600,411	364,353
Less: Accumulated Depreciation	(19,225,474)	(17,782,167)	(1,443,307)
Totals	\$38,423,980	\$39,330,725	(\$906,745)

Increases in machinery, vehicles and equipment can mostly be attributed to the purchase of police cruisers, fire equipment, and a fire truck.

	Business-Type Activities		Increase (Decrease)
	2006	2005	
Land	\$75,556	\$75,556	\$0
Construction in Progress	74,966	0	74,966
Buildings and Improvements	778,221	778,221	0
Infrastructure	8,290,122	8,290,122	0
Machinery, Vehicles and Equipment	709,639	664,939	44,700
Less: Accumulated Depreciation	(8,107,521)	(7,893,457)	(214,064)
Totals	\$1,820,983	\$1,915,381	(\$94,398)

The primary increase occurred in construction in progress, which was related to sanitary sewer force main rehabilitation. Additional information on the City's capital assets can be found in Note 8.

## **CITY OF EASTLAKE, OHIO**

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### ***Management's Discussion and Analysis For the Year Ended December 31, 2006***

***Unaudited***

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#### ***Debt***

At December 31, 2006, the City had \$28,390,000 in General Obligation bonds outstanding, \$730,000 due within one year. The following table summarizes the City's debt outstanding as of December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Governmental Activities:		
General Obligation Bonds	\$28,390,000	\$28,885,000
Ohio Public Works Commission Loans	345,583	312,215
Compensated Absences	2,169,911	2,159,177
Capital Leases	21,104	24,830
Total Governmental Activities	<u>30,926,598</u>	<u>31,381,222</u>
Business-Type Activities:		
Compensated Absences	<u>\$49,796</u>	<u>\$41,910</u>
Totals	<u><u>\$30,976,394</u></u>	<u><u>\$31,423,132</u></u>

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

#### **ECONOMIC FACTORS**

The year 2006 was a challenging year for the City. The City began the year with a negative cash balance of (\$533,298) in its General fund, and ended the year with a cash balance of \$1,520,520. Unfortunately the City paid a heavy price in personnel and service cuts which were made necessary by the failure of a 6 mill levy in May of 2006. Layoff's occurred in the police, recreation, and City hall. The City's pools and local access channel were closed.

The biggest single source of revenue collected for the City was municipal income tax, which showed total collections of \$7,146,123 as compared to the \$6,694,421, which represents an increase of 6.7% over 2005 collections. Part of the reason for the City's success was aggressive collection of delinquent taxes. In particular, the City entered into an agreement with a company where it would receive \$15,000 per month in delinquent taxes owed. Other revenue highlights include investment earnings. In 2005, the City arranged with its current depository, Huntington National Bank to establish a Money Market account that paid the federal interest rate plus 10 basis points. The federal interest rate climbed to 5.25% in May of 2006 and stayed there the rest of the year, resulting in an increase of \$175,295 over the \$112,827 collected in 2006.

On the expense side overall General fund expenditures approximated 2005 expenditure levels. Total General fund expenditures on a cash basis were \$12,458,879, which includes a \$400,000 transfer in December of 2006 to the City's new Callable Bond fund to capture revenues for the early redemption of Stadium Bonds. Excluding this transfer in 2006, General fund expenditures actually decreased by \$79,535 from the \$12,138,414 expended in 2005. The 2006 General fund expenditure include the settlement of the City's labor contracts to the year 2007, which provided for a modest increase in wages of 2% for the period 2005-2007. The City was fortunate in 2006 when its health care renewal came in at a 0% increase.

## **CITY OF EASTLAKE, OHIO**

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### ***Management's Discussion and Analysis For the Year Ended December 31, 2006***

***Unaudited***

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#### ***Infrastructure Projects***

The City was awarded over \$1 million dollars in State Issue 2 funds to assist in the repair of Roberts Road, which will begin in 2007. Also, the City let a \$159,000 contract for concrete repair on various City streets. In addition, the City let a contract in late 2006 for the repair of the Bruce Yee Pump Station, and obligated another \$400,000 at the end of 2006 for its share of a Force Main Project, to the Waste Water Treatment Facilities it operates along with the City of Willoughby.

#### **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.

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**CITY OF EASTLAKE, OHIO**

**Statement of Net Assets**  
**December 31, 2006**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Assets:</b>			
Cash and Cash Equivalents	\$ 7,323,673	\$ 686,898	\$ 8,010,571
Receivables:			
Taxes	5,762,155	0	5,762,155
Accounts	88,468	451,141	539,609
Intergovernmental	2,317,111	0	2,317,111
Special Assessments	0	281,449	281,449
Inventory of Supplies at Cost	17,656	0	17,656
Prepaid Items	127,143	1,326	128,469
Deferred Charge	652,740	0	652,740
Non-Depreciable Capital Assets	7,928,184	150,522	8,078,706
Depreciable Capital Assets, Net	<u>30,495,796</u>	<u>1,670,461</u>	<u>32,166,257</u>
<b>Total Assets</b>	<u>54,712,926</u>	<u>3,241,797</u>	<u>57,954,723</u>
<b>Liabilities:</b>			
Accounts Payable	116,767	90,823	207,590
Accrued Wages and Benefits	126,664	3,874	130,538
Intergovernmental Payable	350,890	12,186	363,076
Deferred Revenue	4,039,330	0	4,039,330
Accrued Interest Payable	339,690	0	339,690
Noncurrent liabilities:			
Due within one year	1,122,888	0	1,122,888
Due in more than one year	<u>29,803,710</u>	<u>49,796</u>	<u>29,853,506</u>
<b>Total Liabilities</b>	<u>35,899,939</u>	<u>156,679</u>	<u>36,056,618</u>
<b>Net Assets:</b>			
Invested in Capital Assets, Net of Related Debt	9,667,293	1,820,983	11,488,276
Restricted For:			
Capital Projects	2,922,786	0	2,922,786
Debt Service	1,790,184	0	1,790,184
Other Purposes	1,468,075	0	1,468,075
Unrestricted	<u>2,964,649</u>	<u>1,264,135</u>	<u>4,228,784</u>
<b>Total Net Assets</b>	<u>\$ 18,812,987</u>	<u>\$ 3,085,118</u>	<u>\$ 21,898,105</u>

See accompanying notes to the basic financial statements

**CITY OF EASTLAKE, OHIO**

**Statement of Activities**  
**For the Year Ended December 31, 2006**

	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	\$ 7,616,239	\$ 623,237	\$ 247,281	\$ 0
Public Health and Welfare Services	249,858	0	0	0
Leisure Time Activities	1,004,088	365,915	0	0
Community Environment	354,059	182,277	19,930	0
Basic Utility Services	2,031,434	1,140,166	0	0
Transportation	1,487,121	135,460	1,798,758	249,000
General Government	3,857,709	165,536	75,000	0
Interest and Fiscal Charges	1,445,615	523,587	0	0
<b>Total Governmental Activities</b>	<b>18,046,123</b>	<b>3,136,178</b>	<b>2,140,969</b>	<b>249,000</b>
<b>Business-Type Activities:</b>				
Sanitary Sewer	1,599,599	1,502,348	0	0
<b>Total Business-Type Activities</b>	<b>1,599,599</b>	<b>1,502,348</b>	<b>0</b>	<b>0</b>
<b>Totals</b>	<b>\$ 19,645,722</b>	<b>\$ 4,638,526</b>	<b>\$ 2,140,969</b>	<b>\$ 249,000</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

**CITY OF EASTLAKE, OHIO**

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Net (Expense) Revenue  
and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
\$ (6,745,721)	\$ 0	\$ (6,745,721)
(249,858)	0	(249,858)
(638,173)	0	(638,173)
(151,852)	0	(151,852)
(891,268)	0	(891,268)
696,097	0	696,097
(3,617,173)	0	(3,617,173)
(922,028)	0	(922,028)
<u>(12,519,976)</u>	<u>0</u>	<u>(12,519,976)</u>
<u>0</u>	<u>(97,251)</u>	<u>(97,251)</u>
<u>0</u>	<u>(97,251)</u>	<u>(97,251)</u>
<u>(12,519,976)</u>	<u>(97,251)</u>	<u>(12,617,227)</u>
1,517,846	0	1,517,846
291,153	0	291,153
203,824	0	203,824
1,160,077	0	1,160,077
7,770,278	0	7,770,278
2,997,394	0	2,997,394
129,917	0	129,917
309,460	0	309,460
403,576	0	403,576
(144,000)	144,000	0
<u>14,639,525</u>	<u>144,000</u>	<u>14,783,525</u>
2,119,549	46,749	2,166,298
<u>16,693,438</u>	<u>3,038,369</u>	<u>19,731,807</u>
<u>\$ 18,812,987</u>	<u>\$ 3,085,118</u>	<u>\$ 21,898,105</u>

**CITY OF EASTLAKE, OHIO**

**Balance Sheet  
Governmental Funds  
December 31, 2006**

	General	Callable Bond Retirement	Road Capital Improvement	Other Governmental Funds	Total Governmental Funds
<b>Assets:</b>					
Cash and Cash Equivalents	\$ 1,774,069	\$ 1,746,351	\$ 1,896,766	\$ 1,906,487	\$ 7,323,673
Receivables:					
Taxes	3,562,629	0	1,334,961	864,565	5,762,155
Accounts	83,766	0	0	4,702	88,468
Intergovernmental	1,507,307	0	278,967	530,837	2,317,111
Inventory of Supplies, at Cost	0	0	0	17,656	17,656
Prepaid Items	81,475	0	13,200	32,468	127,143
<b>Total Assets</b>	<b>\$ 7,009,246</b>	<b>\$ 1,746,351</b>	<b>\$ 3,523,894</b>	<b>\$ 3,356,715</b>	<b>\$ 15,636,206</b>
<b>Liabilities:</b>					
Accounts Payable	\$ 69,684	\$ 0	\$ 23,185	\$ 23,898	\$ 116,767
Accrued Wages and Benefits Payable	118,042	0	7,437	1,185	126,664
Intergovernmental Payable	98,195	0	9,365	243,330	350,890
Deferred Revenue	3,340,274	0	1,613,928	1,271,201	6,225,403
<b>Total Liabilities</b>	<b>3,626,195</b>	<b>0</b>	<b>1,653,915</b>	<b>1,539,614</b>	<b>6,819,724</b>
<b>Fund Balance:</b>					
Reserved for Encumbrances	268,430	0	331,728	71,078	671,236
Reserved for Prepaid Items	81,475	0	13,200	32,468	127,143
Reserved for Supplies Inventory	0	0	0	17,656	17,656
Reserved for Debt Service	0	1,746,351	0	82,898	1,829,249
Undesignated, Unreserved in:					
General Fund	3,033,146	0	0	0	3,033,146
Special Revenue Funds	0	0	0	940,745	940,745
Capital Projects Funds	0	0	1,525,051	672,256	2,197,307
<b>Total Fund Balance</b>	<b>3,383,051</b>	<b>1,746,351</b>	<b>1,869,979</b>	<b>1,817,101</b>	<b>8,816,482</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 7,009,246</b>	<b>\$ 1,746,351</b>	<b>\$ 3,523,894</b>	<b>\$ 3,356,715</b>	<b>\$ 15,636,206</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, 2006***

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<b>Total Governmental Fund Balances</b>		\$ 8,816,482
<b><i>Amounts reported for governmental activities in the statement of net assets are different because</i></b>		
Capital Assets used in governmental activities are not resources and therefore are not reported in the funds.		38,423,980
Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds.		2,186,073
Debt issuance costs are expended in the funds, however they are deferred in the entity-wide statements.		652,740
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	(28,390,000)	
OPWC Loan Payable	(345,583)	
Compensated Absences Payable	(2,169,911)	
Capital Leases	(21,104)	
Accrued Interest Payable	(339,690)	
	<u>(31,266,288)</u>	<u>(31,266,288)</u>
<b><i>Net Assets of Governmental Activities</i></b>		<b><u>\$ 18,812,987</u></b>

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, 2006

	General	Callable Bond Retirement	Road Capital Improvement	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>					
Property Taxes	\$ 1,508,430	\$ 0	\$ 971,696	\$ 672,144	\$ 3,152,270
Municipal Income Taxes	7,709,460	0	0	0	7,709,460
State Levied Shared Taxes	2,469,102	0	59,937	1,028,370	3,557,409
Other Local Taxes	47,984	0	0	81,933	129,917
Intergovernmental Revenues	698,150	809,018	392,830	312,516	2,212,514
Charges for Services	1,427,035	0	0	286,520	1,713,555
Rental Revenue	0	0	0	592,126	592,126
Licenses, Permits and Fees	261,788	523,587	0	0	785,375
Investment Earnings	288,158	13,746	0	7,556	309,460
Fines and Forfeitures	203,462	0	0	56,940	260,402
All Other Revenue	348,519	0	0	47,499	396,018
<b>Total Revenue</b>	<b>14,962,088</b>	<b>1,346,351</b>	<b>1,424,463</b>	<b>3,085,604</b>	<b>20,818,506</b>
<b>Expenditures:</b>					
Current:					
Security of Persons and Property	6,120,598	0	0	1,121,204	7,241,802
Public Health and Welfare Services	206,995	0	0	0	206,995
Leisure Time Activities	561,478	0	0	0	561,478
Community Environment	294,007	0	0	0	294,007
Basic Utility Services	712,567	0	549,908	0	1,262,475
Transportation	269,074	0	0	1,087,973	1,357,047
General Government	3,480,331	0	0	63,679	3,544,010
Capital Outlay	240,329	0	655,317	306,519	1,202,165
Debt Service:					
Principal Retirement	0	0	24,832	495,000	519,832
Interest & Fiscal Charges	0	0	0	1,418,955	1,418,955
<b>Total Expenditures</b>	<b>11,885,379</b>	<b>0</b>	<b>1,230,057</b>	<b>4,493,330</b>	<b>17,608,766</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	3,076,709	1,346,351	194,406	(1,407,726)	3,209,740
<b>Other Financing Sources (Uses):</b>					
OPWC Loan Issued	0	0	58,200	0	58,200
Transfers In	0	400,000	0	2,300,522	2,700,522
Transfers Out	(1,235,916)	0	(44,000)	(1,564,606)	(2,844,522)
Other Financing Sources	9,739	0	0	0	9,739
Other Financing Uses	(2,181)	0	0	0	(2,181)
Other Financing Sources - Capital Lease	8,338	0	0	0	8,338
<b>Total Other Financing Sources (Uses)</b>	<b>(1,220,020)</b>	<b>400,000</b>	<b>14,200</b>	<b>735,916</b>	<b>(69,904)</b>
Net Change in Fund Balance	1,856,689	1,746,351	208,606	(671,810)	3,139,836
<b>Fund Balance at Beginning of Year</b>	<b>1,526,362</b>	<b>0</b>	<b>1,661,373</b>	<b>2,514,025</b>	<b>5,701,760</b>
Decrease in Inventory Reserve	0	0	0	(25,114)	(25,114)
<b>Fund Balance End of Year</b>	<b>\$ 3,383,051</b>	<b>\$ 1,746,351</b>	<b>\$ 1,869,979</b>	<b>\$ 1,817,101</b>	<b>\$ 8,816,482</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, 2006***

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**Net Change in Fund Balances - Total Governmental Funds** \$ 3,139,836

***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	783,006	
Depreciation Expense	<u>(1,593,269)</u>	(810,263)

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.		(96,482)
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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.		(516,392)
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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 an expenditure in the governmental funds, but reduces long-term liabilities in the statement of net assets.

General Obligation Bond Principal Payment	495,000	
OPWC Loan Principal Payment	24,832	
OPWC Loan Proceeds	(58,200)	
Capital Lease Principal Payment	12,064	
New Capital Lease	(8,338)	
Deferred Charges	<u>(28,380)</u>	436,978

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		1,720
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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	(10,734)	
Change in Inventory	<u>(25,114)</u>	<u>(35,848)</u>

<b><i>Change in Net Assets of Governmental Activities</i></b>		<b><u><u>\$ 2,119,549</u></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, 2006**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>				
Property Taxes	\$ 1,940,799	\$ 1,390,028	\$ 1,508,430	\$ 118,402
Municipal Income Taxes	7,213,950	7,237,065	7,587,825	350,760
State Levied Shared Taxes	2,416,678	2,368,720	2,427,939	59,219
Other Local Taxes	188,088	198,883	199,869	986
Intergovernmental Revenue	124,800	694,466	694,406	(60)
Charges for Services	1,425,003	1,413,438	1,437,367	23,929
Licenses and Permits	252,450	260,190	256,246	(3,944)
Investment Earnings	75,000	287,972	288,158	186
Fines and Forfeitures	216,015	199,015	204,089	5,074
All Other Revenues	136,395	136,395	329,780	193,385
Total Revenues	<u>13,989,178</u>	<u>14,186,172</u>	<u>14,934,109</u>	<u>747,937</u>
<b>Expenditures:</b>				
Current:				
Security of Persons and Property	6,493,403	6,391,441	6,178,253	213,188
Public Health and Welfare	207,000	207,000	206,994	6
Leisure Time Activities	888,341	679,755	586,008	93,747
Community Environment	303,238	307,781	301,721	6,060
Basic Utility Services	740,064	747,164	727,551	19,613
Transportation	306,391	310,028	275,348	34,680
General Government	3,551,184	3,740,486	3,609,807	130,679
Capital Outlay	306,340	263,640	244,823	18,817
Total Expenditures	<u>12,795,961</u>	<u>12,647,295</u>	<u>12,130,505</u>	<u>516,790</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,193,217	1,538,877	2,803,604	1,264,727
<b>Other Financing Sources (Uses):</b>				
Transfers Out	(742,916)	(1,247,916)	(1,235,916)	12,000
Sale of Capital Assets	9,500	9,500	9,739	239
Other Financing Uses	(55,900)	(55,900)	(4,317)	51,583
Total Other Financing Sources (Uses):	<u>(789,316)</u>	<u>(1,294,316)</u>	<u>(1,230,494)</u>	<u>63,822</u>
Net Change in Fund Balance	403,901	244,561	1,573,110	1,328,549
Fund Balance at Beginning of Year	(97,402)	(97,402)	(97,402)	0
Prior Year Encumbrances	14,967	14,967	14,967	0
Fund Balance at End of Year	<u>\$ 321,466</u>	<u>\$ 162,126</u>	<u>\$ 1,490,675</u>	<u>\$ 1,328,549</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, 2006**

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	<u>Sanitary Sewer</u>
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 686,898
Receivables:	
Accounts	451,141
Special Assessments	281,449
Prepaid Items	<u>1,326</u>
Total Current Assets	<u>1,420,814</u>
Noncurrent Assets:	
Non-Depreciable Capital Assets	150,522
Depreciable Capital Assets, Net	<u>1,670,461</u>
Total Noncurrent Assets	<u>1,820,983</u>
Total Assets	<u>3,241,797</u>
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts Payable	90,823
Accrued Wages and Benefits	3,874
Intergovernmental Payable	<u>12,186</u>
Total Current Liabilities	<u>106,883</u>
Noncurrent Liabilities:	
Compensated Absences Payable	<u>49,796</u>
Total noncurrent liabilities	<u>49,796</u>
<b>Total Liabilities</b>	<u>156,679</u>
<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	1,820,983
Unrestricted	<u>1,264,135</u>
Total Net Assets	<u>\$ 3,085,118</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, 2006**

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	<u>Sanitary Sewer</u>
<b>Operating Revenues:</b>	
Charges for Services	\$ 1,481,090
Other Operating Revenues	21,258
<b>Total Operating Revenues</b>	<u>1,502,348</u>
<b>Operating Expenses:</b>	
Personal Services	303,815
Contractual Services	1,121,656
Depreciation	169,364
Other Operating Expenses	4,764
<b>Total Operating Expenses</b>	<u>1,599,599</u>
<b>Operating Loss</b>	(97,251)
<b>Transfers:</b>	
Transfers-In	244,000
Transfers-Out	(100,000)
<b>Total Transfers</b>	<u>144,000</u>
<b>Change in Net Assets</b>	46,749
<b>Net Assets Beginning of Year - Restated</b>	<u>3,038,369</u>
<b>Net Assets End of Year</b>	<u><u>\$ 3,085,118</u></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, 2006**

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	<u>Sanitary Sewer</u>
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Customers	\$1,590,539
Cash Payments for Goods and Services	(1,119,176)
Cash Payments to Employees	(293,445)
Net Cash Provided by Operating Activities	<u>177,918</u>
 <u>Cash Flows from Noncapital Financing Activities:</u>	
Transfers in from Other Funds	244,000
Transfers Out to Other Funds	(100,000)
Net Cash Provided by Noncapital Financing Activities	<u>144,000</u>
 Net Increase in Cash and Cash Equivalents	321,918
Cash and Cash Equivalents at Beginning of Year	<u>364,980</u>
Cash and Cash Equivalents at End of Year	<u><u>\$686,898</u></u>
 <u>Reconciliation of Operating Loss to Net Cash</u>	
<u>Provided by Operating Activities:</u>	
Operating Loss	(\$97,251)
Adjustments to Reconcile Operating Loss to	
Net Cash Provided by Operating Activities:	
Depreciation Expense	169,364
Changes in Assets and Liabilities:	
Decrease in Accounts Receivable	63,702
Decrease in Special Assessments Receivable	24,489
Increase in Prepaid Items	(1,326)
Increase in Accounts Payable	1,702
Increase in Accrued Wages and Benefits	107
Increase in Intergovernmental Payable	9,245
Increase in Compensated Absences	7,886
Total Adjustments	<u>275,169</u>
Net Cash Provided by Operating Activities	<u><u>\$177,918</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 Assets and Liabilities  
Fiduciary Funds  
December 31, 2006***

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	<u>Agency Funds</u>
<b>Assets:</b>	
Cash and Cash Equivalents	\$ 264,135
<b>Total Assets</b>	<u><u>\$ 264,135</u></u>
<b>Liabilities:</b>	
Due to Others	\$ 264,135
<b>Total Liabilities</b>	<u><u>\$ 264,135</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, 2006***

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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, 2006 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 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, 2006***

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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 13. 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.

Callable Bond Retirement Fund – This fund is used to account for proceeds from a federal transportation grant, as well as a cell tower easement. Proceeds will be used to call City bonds.

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, 2006*

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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 a 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, 2006***

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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, 2006*

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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, 2006 but which are not intended to finance 2006 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, 2006*

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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 2006.

## *CITY OF EASTLAKE, OHIO*

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### *Notes to the Basic Financial Statements For the Year Ended December 31, 2006*

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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 2006, several supplemental appropriations were necessary. 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 need 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, 2006**

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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)	\$ 1,856,689
Increase (Decrease):	
Accrued Revenues at December 31, 2006 received during 2007	(1,813,428)
Accrued Revenues at December 31, 2005 received during 2006	1,785,449
Accrued Expenditures at December 31, 2006 paid during 2007	285,925
Accrued Expenditures at December 31, 2005 paid during 2006	(241,280)
2005 Prepaids for 2006	64,627
2006 Prepaids for 2007	(81,475)
Outstanding Encumbrances	(283,397)
Budget Basis	<u>\$ 1,573,110</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 4, "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, 2006***

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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 2006. 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, 2006. See Note 4, "Cash, Cash Equivalents and Investments." Interest earnings are allocated to City funds according to State statutes, grant requirements, or debt related restrictions. Interest receipts credited to the General fund during 2006 was \$288,158 which includes \$74,963 assigned from other City funds.

##### **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. Inventories of governmental funds are stated at cost. For all funds, cost is determined on a first-in, first-out basis. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

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

Payments made to vendors for services that will benefit periods beyond December 31, 2006, 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, 2006**

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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:

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

**K. Long-Term Obligations**

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

Obligation	Fund
General Obligation Bonds	General Obligation Bond Retirement Fund
Ohio Public Works	
Commission Loans	Road Capital Improvement Fund
Compensated Absences	General Fund, Sanitary Sewer Fund
Capital Leases	General Fund

## **CITY OF EASTLAKE, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2006***

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

##### **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 first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

##### **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.

**CITY OF EASTLAKE, OHIO**

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**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2006**

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

**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**

**Fund Deficits**

The fund deficits at December 31, 2006 of \$95,444 in the Police Pension Fund, and \$99,134 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.

**NOTE 3 – RESTATEMENT OF NET ASSETS/FUND BALANCE AND CHANGES IN ACCOUNTING PRINCIPLES**

**A. Restatement of Net Assets/Fund Balance**

Certain adjustments were made to the Governmental and Business-Type Activities net asset beginning balance as well as the Governmental and Proprietary Fund beginning fund balance due to the reclassification of a fund as well as accounting changes for special assessment receivables, capital assets and pension liabilities.

This reclassification had the following effect on beginning of year net assets/fund balance:

<u>Net Assets/Fund Balance</u>	<u>Governmental Funds</u>	<u>Governmental Activities</u>	<u>Proprietary Fund</u>	<u>Business-Type Activities</u>
Reported December 31, 2005	\$5,937,583	\$16,797,935	\$2,496,608	\$2,496,608
Sewer Rehabilitation Fund	(235,823)	(235,823)	235,823	235,823
Special Assessment Receivables	0	(305,938)	305,938	305,938
Pension Liability	0	285,950	0	0
Capital Asset Correction	0	(359,576)	0	0
Accumulated Depreciation Correction	0	510,890	0	0
Restated December 31, 2005	<u>\$5,701,760</u>	<u>\$16,693,438</u>	<u>\$3,038,369</u>	<u>\$3,038,369</u>

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

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2006***

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#### **NOTE 3 – RESTATEMENT OF NET ASSETS/FUND BALANCE AND CHANGES IN ACCOUNTING PRINCIPLES (Continued)**

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

For fiscal year 2006, the City has implemented GASB Statement No. 47, “*Accounting for Termination Benefits.*” GASB Statement No. 47 establishes standards of accounting and financial reporting for termination benefits. The implementation of GASB Statement No. 47 did not materially affect the presentation of the financial statements of the City.

#### **NOTE 4 - 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, or by savings or deposit accounts including, but not limited to, passbook accounts.

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;

**CITY OF EASTLAKE, OHIO**

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**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2006**

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

- 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).
- Commercial paper and bankers acceptances if training requirements have been met

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

**A. Deposits**

Custodial credit risk is the risk that in the event of bank failure, the City'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 \$8,041,913 and the bank balance was \$8,547,357. Federal depository insurance covered \$276,494 of the bank balance and \$8,270,863 was uninsured. Of the remaining uninsured bank balance, the City was exposed to custodial risk as follows:

	Balance
Uninsured and collateralized with securities held by the pledging institution's trust department not in the City's name	<u>\$8,270,863</u>
Total Balance	<u><u>\$8,270,863</u></u>

**B. Investments**

The City's investments at December 31, 2006 are summarized below:

	<u>Fair Value</u>	<u>Credit Rating</u>	<u>Investment Maturity</u>
STAR Ohio	\$232,793	A AAm	39 Days

**CITY OF EASTLAKE, OHIO**

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**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2006**

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**NOTE 4 - 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	\$8,274,706	\$0
Investments:		
STAR Ohio	(232,793)	232,793
Per GASB Statement No. 3	<u>\$8,041,913</u>	<u>\$232,793</u>

**NOTE 5 - TAXES**

**A. Property Taxes**

Property taxes include amounts levied against all real estate and public utility property, and tangible personal property located in the City and used in business. Real property taxes (other than public utility) collected during 2006 were levied after October 1, 2005 on assessed values as of January 1, 2005, 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, 2006*

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#### **NOTE 5 - 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 varying percentages 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, 2006 was \$10.80 per \$1,000 of assessed value. The assessed value upon which the 2006 tax receipts were based was \$522,592,756. This amount constitutes \$410,081,560 in real property assessed value, \$81,820,810 in public utility assessed value and \$30,690,386 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.



## *CITY OF EASTLAKE, OHIO*

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### *Notes to the Basic Financial Statements For the Year Ended December 31, 2006*

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#### **NOTE 6 - RECEIVABLES**

Receivables at December 31, 2006 consisted of taxes, accounts receivable, special assessments and intergovernmental receivables arising from shared revenues. Total receivables on an entity wide basis totaled \$8,900,324. Taxes receivable of \$5,762,155 and intergovernmental receivables of \$2,317,111 were the largest components of the City's year end receivables.

The two largest components of the taxes receivable were property tax collections for the 2006 tax year to be collected in 2007, which was estimated to be \$4,374,802 based on valuation data provided by the Lake County Auditor and income tax receivables of \$1,387,353.

Amounts due from other governments included state taxes of \$933,927 and \$320,037 in anticipated grant funds. There was also \$451,141 in sewer charges at year end to be collected in 2007.

#### **NOTE 7 - TRANSFERS**

Following is a summary of transfers in and out for all funds for 2006:

Fund	Transfer In	Transfer Out
Governmental Funds:		
General Fund	\$0	\$1,235,916
Callable Bond Retirement Fund	400,000	0
Road Capital Improvement Fund	0	44,000
Other Governmental Funds	2,300,522	1,564,606
Total Governmental Funds	<u>2,700,522</u>	<u>2,844,522</u>
Proprietary Fund:		
Sanitary Sewer Fund	244,000	100,000
Totals	<u><u>\$2,944,522</u></u>	<u><u>\$2,944,522</u></u>

In 2006, the City's transfers of \$1,235,916 out of the General fund consisted of a \$205,916 transfer to the General Bond Retirement fund for payment of current debt service, a \$320,000 transfer to the Police Pension fund to pay the City's share of pension obligations and a \$210,000 transfer to the Fire pension fund to pay the City's share of pension obligations.

In addition, due to the City's better than expected financial year, the City decided in December 2006 to transfer \$400,000 to a newly established Callable Bond Retirement fund which will be utilized in 2009 to retire or defease debt. The City plans to combine General Fund transfers with U.S. Department of Transportation grant funds, stadium naming rights fees and other revenues to significantly reduce its long term debt obligations by taking advantage of the 5 year call feature on the 2004, \$8.9 million tax exempt bond issue. The General fund also transferred \$100,000 to the Sewer Rehab fund to help finance the City's \$400,000 share of a major capital improvement project to its waste water treatment plant which is jointly operating with the City of Willoughby.

The Force Main capital project also required assistance from the Capital Projects Road fund and the Sanitary Sewer Enterprise fund. The City originally budgeted a transfer of \$100,000 from the Capital Projects Road fund. However in March 2006, after reviewing the amount of road work required for the project, the City engineer reduced the amount required to \$44,000. The \$100,000 transfer out of the Sanitary Sewer Enterprise fund was also for the City's portion of the Force Main capital project.

**CITY OF EASTLAKE, OHIO**

**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2006**

**NOTE 7 – TRANSFERS (Continued)**

The City of Willoughby is the contracting authority per a 1955 agreement for the operation of the joint waste water facility. The City of Willoughby was also the contracting authority for the Force main project, and billed the City its share of the project. The City decided to transfer the proportionate amounts from all the funds participating in the project so it could pay its invoices from a single cost center, which was the Sanitary Sewer Rehab Enterprise fund.

The \$1,564,606 in transfers from Other Governmental funds consisted primarily of transfers from the Stadium/Vine Street Capital Projects fund, which is an improvement fund related to the construction and maintenance of the minor league baseball park. Monies received from annual rent payments, parking revenues from the City owned stadium parking lot, annual payments from the Lake County Convention and Visitors Bureau and cell tower rental payments have been designated by the City to be transferred to the General Bond Retirement fund for the payment of annual debt related to the Stadium.

**NOTE 8 - CAPITAL ASSETS**

**A. Governmental Activities Capital Assets**

Summary by category of changes in governmental activities capital assets at December 31, 2006:

<i>Historical Cost:</i>	Restated December 31, 2005	Additions	Deletions	December 31, 2006
Class				
<i>Capital assets not being depreciated:</i>				
Land	\$7,001,655	\$0	\$0	\$7,001,655
Construction in Progress	767,172	159,357	0	926,529
Subtotal	7,768,827	159,357	0	7,928,184
<i>Capital assets being depreciated:</i>				
Buildings	17,163,232	0	0	17,163,232
Improvements Other than Buildings	8,428,010	12,852	0	8,440,862
Infrastructure	18,152,412	0	0	18,152,412
Machinery, Vehicles and Equipment	5,600,411	610,797	(246,444)	5,964,764
Subtotal	49,344,065	623,649	(246,444)	49,721,270
Total Cost	<u>\$57,112,892</u>	<u>\$783,006</u>	<u>(\$246,444)</u>	<u>\$57,649,454</u>
<i>Accumulated Depreciation:</i>				
Class	December 31, 2005	Additions	Deletions	December 31, 2006
Buildings	(\$4,749,868)	(\$343,156)	\$0	(\$5,093,024)
Improvements Other than Buildings	(480,459)	(168,764)	0	(649,223)
Infrastructure	(9,586,890)	(726,096)	0	(10,312,986)
Machinery, Vehicles and Equipment	(2,964,950)	(355,253)	149,962	(3,170,241)
Total Depreciation	<u>(\$17,782,167)</u>	<u>(\$1,593,269) *</u>	<u>\$149,962</u>	<u>(\$19,225,474)</u>
<i>Net Value:</i>	<u>\$39,330,725</u>			<u>\$38,423,980</u>

**CITY OF EASTLAKE, OHIO**

**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2006**

**NOTE 8 – CAPITAL ASSETS (Continued)**

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

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

Security of Persons and Property	\$267,250
Leisure Time Activities	419,379
Community Environment	4,247
Basic Utility Services	726,096
Transportation	82,821
General Government	93,476
Total Depreciation Expense	<u>\$1,593,269</u>

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

Summary by Category at December 31, 2006:

**Historical Cost:**

Class	December 31, 2005	Additions	Deletions	December 31, 2006
<i>Capital assets not being depreciated:</i>				
Land	\$75,556	\$0	\$0	\$75,556
Construction in Progress	0	74,966	0	74,966
Subtotal	75,556	74,966	0	150,522
<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	664,939	44,700	0	709,639
Subtotal	9,733,282	44,700	0	9,777,982
Total Cost	<u>\$9,808,838</u>	<u>\$119,666</u>	<u>\$0</u>	<u>\$9,928,504</u>

**Accumulated Depreciation:**

Class	December 31, 2005	Additions	Deletions	December 31, 2006
Buildings and Improvements	(\$727,167)	(\$1,834)	\$0	(\$729,001)
Infrastructure	(6,814,039)	(160,760)	0	(6,974,799)
Machinery, Vehicles and Equipment	(352,251)	(51,470)	0	(403,721)
Total Depreciation	<u>(\$7,893,457)</u>	<u>(\$214,064)</u>	<u>\$0</u>	<u>(\$8,107,521)</u>
<b>Net Value:</b>	<u>\$1,915,381</u>			<u>\$1,820,983</u>

## *CITY OF EASTLAKE, OHIO*

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### *Notes to the Basic Financial Statements For the Year Ended December 31, 2006*

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#### **NOTE 9 – DEFINED BENEFIT PENSION PLANS**

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

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

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

All employees of the City, except full-time uniformed police officers and full-time firefighters, participate in one of the three pension plans administered by the Ohio PERS: the Traditional Pension Plan (TP), the Member-Directed Plan (MD), and the Combined Plan (CO). The TP Plan is a cost-sharing multiple employer defined benefit pension plan. The MD Plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the MD Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon. The CO Plan is a cost-sharing multiple-employer defined benefit pension plan 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) 222-5601 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2006, employee and employer contribution rates were consistent across all three plans (TP, MD and CO). The employee contribution rate is 9.0%. The 2006 employer contribution rate for local government employer units was 13.70%, of covered payroll, 9.20% to fund the pension and 4.5% 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, 2006, 2005, and 2004 were \$316,160, \$327,746 and \$360,973, 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, 2006*

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#### **NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)**

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

The Ohio PERS provides postemployment health care benefits to age and service 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 2006 employer contribution rate (identified above) that was used to fund health care for the year 2006 was 4.5% of covered payroll which amounted to \$154,644.

The significant actuarial assumptions and calculations relating to postemployment health care benefits were based on the Ohio Public Employees Retirement System's actuarial review performed as of December 31, 2005. The individual entry age 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 annually, not to exceed a 12% corridor. The investment assumption rate for 2005 was 6.5%. 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 .50% to 6% for the next 9 years. In subsequent years (10 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 358,804. The actuarial value of the Ohio PERS net assets available for OPEB at December 31, 2005 is \$11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$31.3 billion and \$20.2 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, 2006*

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#### **NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)**

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

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

Plan members are required to contribute 10.0% of their annual covered salary, while employers are required to contribute 19.5% and 24.0% respectively for police officers and firefighters. The City's contributions to the OP&F Fund for the years ending December 31, 2006, 2005, and 2004 were \$271,953, \$265,132 and \$265,339 for police and \$280,451, \$263,099 and \$246,487 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 2006 covered payroll that was used to fund postemployment health care benefits was \$179,373 representing 7.75% of covered payroll for police and \$133,753 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, 2005, the date of the last actuarial evaluation available, the number of participants eligible to receive health care benefits was 13,922 for police and 10,537 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, 2005 were \$108,039,449, which was net of member contributions of \$55,271,881.

**CITY OF EASTLAKE, OHIO**

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***Notes to the Basic Financial Statements  
For the Year Ended December 31, 2006***

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**NOTE 10 – COMPENSATED ABSENCES**

City employees earn vacation at varying rates based upon length of service. Vacation is earned in one year and must be used in the next two (2) years. In the case of death or retirement, an employee (or his estate) is paid for unused vacation leave and the prorated amount of vacation leave earned during the current year. At December 31, 2006, the total obligation for vacation accrual for the City as a whole amounted to \$366,174.

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, 2006, the total obligation for sick leave accrual for the City as a whole amounted to \$1,795,156.

In addition to vacation and sick leave accruals, the City also had an accrual for compensatory time in the amount of \$58,377.

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## CITY OF EASTLAKE, OHIO

### *Notes to the Basic Financial Statements For the Year Ended December 31, 2006*

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

Long-term debt and other long-term obligations of the City at December 31, 2006 were as follows:

	Original Issue		Balance December 31, 2005	Additions	(Reductions)	Balance December 31, 2006	Due Within One Year
<b>Governmental Activities:</b>							
General Obligation Bonds:							
Tax Exempt Municipal Stadium	\$4,380,000	2002	\$4,140,000	\$0	(\$125,000)	\$4,015,000	\$125,000
Municipal Stadium	8,180,000	2002	7,820,000	0	(190,000)	7,630,000	195,000
City Hall Construction Refunding	2,790,000	2005	2,715,000	0	(180,000)	2,535,000	190,000
Capital Facilities	4,350,000	2004	4,320,000	0	0	4,320,000	90,000
Parking Lot	1,130,000	2004	1,130,000	0	0	1,130,000	15,000
Real Estate Acquisition	700,000	2004	700,000	0	0	700,000	10,000
Stadium	8,070,000	2004	8,060,000	0	0	8,060,000	105,000
Total General Obligation Bonds			28,885,000	0	(495,000)	28,390,000	730,000
Ohio Public Works Commission Loans (CPWC):							
N Parkway Sewer	50,000	1999	32,500	0	(2,500)	30,000	2,500
E 377th St. Road Improvement	103,600	2000	58,706	0	(6,907)	51,799	6,907
Stevens Blvd. Outfall	49,138	2000	36,853	0	(2,457)	34,396	2,457
Parkland Dr. Sewer	24,907	2000	18,682	0	(1,245)	17,437	1,245
E Overlook Storm/Sanitary	26,254	2003	22,974	0	(1,312)	21,662	1,312
Roberts Road Improvements	150,000	2004	142,500	0	(7,500)	135,000	7,500
Plymouth Outfall Sewer	58,200	2006	0	58,200	(2,911)	55,289	2,910
Total OPWC Loans			312,215	58,200	(24,832)	345,583	24,831
Compensated Absences			2,159,177	2,169,911	(2,159,177)	2,169,911	356,453
Capital Leases			24,830	8,338	(12,064)	21,104	11,604
Total Governmental Activities			31,381,222	2,236,449	(2,691,073)	30,926,598	1,122,888
<b>Business-Type Activities:</b>							
Compensated Absences			41,910	49,796	(41,910)	49,796	0
<b>Totals</b>			<u>\$31,423,132</u>	<u>\$2,286,245</u>	<u>(\$2,732,983)</u>	<u>\$30,976,394</u>	<u>\$1,122,888</u>



**CITY OF EASTLAKE, OHIO**

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**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2006**

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**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, 2006 are as follows:

Years	General Obligation Bonds		Ohio Public Works Commission Loans	
	Principal	Interest	Principal	Interest
2007	\$730,000	\$1,398,316	\$24,831	\$0
2008	765,000	1,369,249	24,831	0
2009	790,000	1,337,119	24,832	0
2010	955,000	1,302,749	24,832	0
2011	975,000	1,266,103	24,832	0
2012-2016	5,665,000	5,667,160	106,892	0
2017-2021	5,925,000	4,260,470	78,424	0
2022-2026	7,275,000	2,620,646	36,109	0
2027-2031	5,310,000	765,464	0	0
Totals	<u>\$28,390,000</u>	<u>\$19,987,276</u>	<u>\$345,583</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.

**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 \$2,365,000 at December 31, 2006, are not included in the City's outstanding debt since the City has in-substance satisfied its obligations through the advance refunding.

**CITY OF EASTLAKE, OHIO**

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***Notes to the Basic Financial Statements  
For the Year Ended December 31, 2006***

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**NOTE 12 – 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>
2007	\$11,604
2008	7,625
2009	<u>1,875</u>
Minimum Lease Payments	21,104
Less amount representing interest at the City's incremental borrowing rate of interest	<u>0</u>
Present value of minimum lease payments	<u><u>\$21,104</u></u>

**NOTE 13 – 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 known 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, 2006***

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#### **NOTE 13 – SHARED RISK POOL (Continued)**

In 2006, the City of Eastlake paid \$152,807 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 2006 were provided through United Health Care of Ohio. Dental benefits are provided through Guardian. 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 \$21.19 to \$89.88 for single, two-party, and family coverage. Employee bi-weekly premium co-pays range from \$14.52 for single to \$44.53 for a family plan.

#### **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.

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

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2006***

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#### **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 2006. Financial information can be obtained by contacting NOPEC, 31320 Solon Road, Solon, Ohio, 44139.

#### **NOTE 16 – SUBSEQUENT EVENTS**

On March 27, 2007 the State Planning and Financial Supervisory Commission recommended the State Auditor begin the process to end fiscal emergency in the City of Eastlake.

#### **NOTE 17 – FEDERAL SINGLE AUDIT**

In 2006, the City was the recipient of federal funds in excess of \$500,000 from the Federal Transit Administration. However, per the Federal Transportation Administration, since a federal single audit and general audit was performed in the years 2002 and 2003 in which these funds are being reimbursed for, and because the expended funds were not Federal at the time of original disbursement, an audit in accordance with OMB Circular A-133 is not required.



# Mary Taylor, CPA

Auditor of State

## 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 Lakehore 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, (the City) as of and for the years ended December 31, 2007 and December 31, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 27, 2008, wherein we noted until December 4, 2007, the Auditor of State served as the City's financial supervisor under Ohio Revised Code § 118.05 (G). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the City because the Auditor of State may assume broad management powers, duties, and functions under Ohio Revised Code § 118.04. 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 as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the City's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the City's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the City's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the City's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

We noted certain matters that we reported to the City's management in a separate letter dated October 27, 2008.

### **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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note a certain noncompliance or other matter that we reported to the City's management in a separate letter dated October 27, 2008.

We intend this report solely for the information and use of the audit committee, management, and City Council. We intend it for no one other than these specified parties.

A handwritten signature in cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

October 27, 2008

**CITY OF EASTLAKE  
LAKE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2007 and 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2005-001	ORC 5705.41(B),(D)(1) and 5705.38 – Expenditures and Encumbrances exceeding Appropriations	Yes	Finding no longer valid
2005-002	ORC 5705.39 – Appropriations exceeding Estimated Resources	Yes	Finding no longer valid
2005-003	ORC 133.22(B) – Certificate of Estimated Resource Amendments	Yes	Finding no longer valid
2005-004	ORC 9.38 – Timely Deposits	Yes	Finding no longer valid







**Mary Taylor, CPA**  
Auditor of State

**CITY OF EASTLAKE**

**LAKE COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
DECEMBER 24, 2008**