



**CITY OF EASTLAKE
LAKE COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2002



**Auditor of State
Betty Montgomery**

**CITY OF EASTLAKE
LAKE COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Members of City Council:

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

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

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

As described in Note 3A to the Notes to the General Purpose Financial Statements, the City restated the General and Special Revenue Funds and the General Long-Term Obligations Account Group.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 9, 2003 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying schedule of federal awards expenditures is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general-purpose financial statements. We subjected this information to the auditing procedures applied in the audit of the general-purpose financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

July 9, 2003

CITY OF EASTLAKE
LAKE COUNTY
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
FOR THE YEAR ENDED DECEMBER 31, 2002

	GOVERNMENTAL FUND TYPES				PROPRIETARY	FIDUCIARY	ACCOUNT GROUPS		
	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	FUND TYPE	FUND TYPES	General Fixed Assets	General Long Term Obligations	Totals (Memorandum Only)
					Enterprise Fund	Trust and Agency Funds			
Cash and Cash Equivalents	\$ (1,438,551)	\$ 494,525	\$ 61,504	\$ 8,127,483	\$ -	\$ 570,565	\$ -	\$ -	\$ 7,815,526
Investments	11,000	-	-	-	-	-	-	-	11,000
Receivables:									
Taxes	2,845,163	321,502	1,434,025	1,565,793	-	-	-	-	6,166,483
Accounts	164,109	-	-	555,589	70	-	-	-	719,768
Special Assessments	-	-	351,702	-	-	-	-	-	351,702
Due from Other Governments	1,499,578	380,080	59,150	230,727	-	-	-	-	2,169,535
Prepaid Items	53,489	44,603	-	1,091	30	-	-	-	99,213
Restricted Assets:									
Cash with Fiscal Agent	-	-	10,823	-	-	-	-	-	10,823
Inventory of Supplies	29,797	61,854	-	-	2,162	-	-	-	93,813
Fixed Assets (Net of Accumulated Depreciation)	-	-	-	-	2,407,046	-	30,385,624	-	32,792,670
Other Debits:									
Amount Available in Debt Service Funds	-	-	-	-	-	-	-	61,504	61,504
Amount to be Provided for	-	-	-	-	-	-	-	-	-
General Long - Term Obligations	-	-	-	-	-	-	-	19,993,979	19,993,979
TOTAL ASSETS & OTHER DEBITS:	\$ 3,164,585	\$ 1,302,564	\$ 1,917,204	\$ 9,925,094	\$ 2,964,827	\$ 570,635	\$ 30,385,624	\$ 20,055,483	\$ 70,286,016

ASSETS AND OTHER DEBITS:

ASSETS:
Cash and Cash Equivalents
Investments
Receivables:
 Taxes
 Accounts
 Special Assessments
Due from Other Governments
Prepaid Items
Restricted Assets:
 Cash with Fiscal Agent
 Inventory of Supplies
Fixed Assets (Net of Accumulated Depreciation)
Other Debits:
 Amount Available in Debt Service Funds
 Amount to be Provided for
 General Long - Term Obligations

TOTAL ASSETS & OTHER DEBITS:

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

CITY OF EASTLAKE
LAKE COUNTY
COMBINED BALANCE SHEET (Continued)
ALL FUND TYPES AND ACCOUNT GROUPS
FOR THE YEAR ENDED DECEMBER 31, 2002

	GOVERNMENTAL FUND TYPES			PROPRIETARY FUND TYPE		FIDUCIARY FUND TYPES		ACCOUNT GROUPS		Totals (Memorandum Only)
	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Enterprise Fund	Expendable Trust and Agency Funds	General Fixed Assets	General Term Obligations		
LIABILITIES, EQUITY & OTHER CREDITS:										
LIABILITIES:										
Accounts Payable	\$ 370,432	\$ 92,157	\$ -	\$ 2,769,630	\$ 7,039	\$ 14,027	\$ -	\$ -	\$ -	\$ 3,253,285
Accrued Wages and Benefits	369,972	4,776	-	-	13,822	-	-	-	-	388,570
Due to Other Governments	76,323	36,231	-	-	17,116	-	-	-	-	129,670
Due to Others	-	-	-	-	-	167,130	-	-	-	167,130
Deferred Revenue	3,032,738	607,802	1,844,877	1,763,602	-	-	-	-	-	7,249,019
Matured Bonds and Interest Payable	-	-	10,823	-	-	-	-	-	-	10,823
Compensated Absences Payable	-	-	-	-	27,374	-	-	1,490,396	-	1,517,770
Pension Payable	-	-	-	-	-	-	-	404,602	-	404,602
Notes Payable	-	-	-	10,080,000	-	-	-	-	-	10,080,000
General Obligation Bonds	-	-	-	-	-	-	-	17,590,000	-	17,590,000
Special Assessment Bonds	-	-	-	-	-	-	-	11,000	-	11,000
Capital Leases Payable	-	-	-	-	-	-	-	23,964	-	23,964
OPWC Loan Payable	-	-	-	-	-	-	-	228,343	-	228,343
Honeywell Project Loan	-	-	-	-	-	-	-	307,178	-	307,178
TOTAL LIABILITIES:	3,849,465	740,966	1,855,700	14,613,232	65,351	181,157	-	20,055,483	-	41,361,354
EQUITY & OTHER CREDITS:										
Investment in General Fixed Assets	-	-	-	-	-	-	30,385,624	-	-	30,385,624
Contributed Capital	-	-	-	-	8,550,681	-	-	-	-	8,550,681
Retained Earnings - Unreserved	-	-	-	-	(5,651,205)	-	-	-	-	(5,651,205)
Fund Balances:										
Reserve for Encumbrances	-	2,147	-	45,127	-	-	-	-	-	47,274
Reserve for Prepaid Items	53,489	44,603	-	1,091	-	-	-	-	-	99,183
Reserve for Inventory of Supplies	29,797	61,854	-	-	-	-	-	-	-	91,651
Unreserved:										
Designated for Debt Service	-	-	61,504	-	-	-	-	-	-	61,504
Undesignated	(768,166)	452,994	-	(4,734,356)	-	389,478	-	-	-	(4,660,050)
TOTAL EQUITY & OTHER CREDITS:	(684,880)	561,598	61,504	(4,688,138)	2,899,476	389,478	30,385,624	-	-	28,924,662
TOTAL LIABILITIES, EQUITY AND OTHER CREDITS:	\$ 3,164,585	\$ 1,302,564	\$ 1,917,204	\$ 9,925,094	\$ 2,964,827	\$ 570,635	\$ 30,385,624	\$ 20,055,483	\$ -	\$ 70,286,016

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

CITY OF EASTLAKE
LAKE COUNTY
COMBINED STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2002

GOVERNMENTAL FUND TYPES

	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Expendable Trust Funds	Totals (Memorandum Only)
REVENUES:						
Property Taxes	\$ 1,804,178	\$ 317,316	\$ 1,400,062	\$ 1,534,199	\$ -	\$ 5,055,755
Municipal Income Taxes	6,557,267	-	-	-	-	6,557,267
State Levied Shared Taxes	2,851,630	660,309	116,666	97,362	-	3,725,967
Other Local Taxes	139,089	-	-	72,863	-	211,952
Intergovernmental Revenues	271,932	211,633	-	1,186,062	-	1,669,627
Charges for Services	110,876	-	-	119,787	16,500	247,163
Licenses and Permits	242,006	-	-	-	-	242,006
Fines and Forfeitures	227,708	40,671	-	-	-	268,379
Special Assessments	-	-	12,643	21,655	-	34,298
Investment Earnings	18,769	1,283	-	78,293	-	98,345
All Other Revenues	63,390	-	-	28,290	5,045	96,725
Total Revenues	12,286,845	1,231,212	1,529,371	3,138,511	21,545	18,207,484
EXPENDITURES						
Current:						
Security of Persons and Property	6,332,476	954,493	-	-	-	7,286,969
Public Health and Welfare Services	154,103	-	-	-	-	154,103
Leisure Time Activities	1,628,469	-	-	-	22,549	1,651,018
Community Environment	410,993	-	-	-	-	410,993
Basic Utility Services	667,194	-	-	-	-	667,194
Transportation	996,732	500,788	-	-	-	1,497,520
General Government	3,146,377	-	-	-	2,384	3,148,761
Capital Outlay	60,813	76,798	16,108	14,549,688	9,000	14,712,407
Debt Service:						
Principal Retirement	-	-	963,741	31,769	-	995,510
Interest and Fiscal Charges	-	-	778,396	50,000	-	828,396
Total Expenditures	13,397,157	1,532,079	1,758,245	14,631,457	33,933	31,352,871
Excess (Deficiency) of Revenues Over Expenditures	(1,110,312)	(300,867)	(228,874)	(11,492,946)	(12,388)	(13,145,387)
Other Financing Sources (Uses):						
Sale of Bonds	-	-	-	12,560,000	-	12,560,000
Sale of Assets	4,800	-	-	-	-	4,800
Premium sale of notes	-	-	-	13,500	-	13,500
Operating Transfers-In	21,449	473,970	-	135,000	-	630,419
Operating Transfers-Out	(589,043)	-	-	(156,449)	-	(745,492)
Other Financing Sources	13,870	51,562	-	-	85,020	150,452
Other Financing Uses	(3,752)	-	-	-	(5,428)	(9,180)
Total Other Financing Sources and (Uses)	(552,676)	525,532	-	12,552,051	79,592	12,604,499
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Uses	(1,662,988)	224,665	(228,874)	1,059,105	67,204	(540,888)
Fund Balance, Beginning of Year (Restated)	981,853	351,468	290,378	(5,747,243)	322,274	(3,801,270)
Increase/(Decrease) in Inventory Reserve	(3,745)	(14,535)	-	-	-	(18,280)
Fund Balance, End of Year	\$ (684,880)	\$ 561,598	\$ 61,504	\$ (4,688,138)	\$ 389,478	\$ (4,360,438)

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

CITY OF EASTLAKE
LAKE COUNTY
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP) BUDGETARY BASIS -
ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2002

	GENERAL FUND			SPECIAL REVENUE FUNDS		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
REVENUES:						
Property Taxes	\$ 1,889,478	\$ 1,804,178	\$ (85,300)	\$ 335,040	\$ 317,316	\$ (17,724)
Municipal Income Tax	8,600,000	6,570,678	(2,029,322)	-	-	-
State Levied Shared Taxes	3,070,000	2,853,465	(216,535)	639,000	660,783	21,783
Other Local Taxes	185,100	158,507	(26,593)	-	-	-
Intergovernmental Revenues	230,000	182,704	(47,296)	107,388	216,858	109,470
Charges for Services	157,100	111,338	(45,762)	-	-	-
Licenses & Permits	316,598	240,402	(76,196)	-	-	-
Fines & Forfeitures	227,100	226,581	(519)	55,500	40,561	(14,939)
Special Assessments	-	-	-	-	-	-
Investment Earnings	31,000	18,769	(12,231)	2,000	1,283	(717)
All Other Revenues	90,300	64,249	(26,051)	-	-	-
Total Revenues	14,796,676	12,230,871	(2,565,805)	1,138,928	1,236,801	97,873
EXPENDITURES:						
Security of Persons and Property	6,462,666	6,350,328	112,338	974,370	951,890	22,480
Public Health and Welfare Services	156,600	154,103	2,497	-	-	-
Leisure Time Activities	1,844,602	1,651,802	192,800	-	-	-
Community Environment	440,639	407,321	33,318	-	-	-
Basic Utility Services	653,000	824,548	(171,548)	-	-	-
Transportation	989,982	930,216	59,766	619,500	557,349	62,151
General Government	3,292,290	3,207,815	84,475	-	-	-
Capital Outlay	149,575	66,957	82,618	90,130	76,798	13,332
Debt Service:						
Principal Retirement	-	-	-	-	-	-
Interest and Fiscal Charges	-	-	-	-	-	-
Total Expenditures	13,989,354	13,593,090	396,264	1,684,000	1,586,037	97,963
Excess (Deficiency) of Revenues Over Expenditures	807,322	(1,362,219)	(2,169,541)	(545,072)	(349,236)	195,836
OTHER FINANCING SOURCES (USES):						
Proceeds of Notes	-	-	-	-	-	-
Proceeds of Bonds	-	-	-	-	-	-
Sale Of Assets	6,000	4,800	(1,200)	-	-	-
Premium on sale of notes	-	-	-	-	-	-
Advance In	2,000,000	-	(2,000,000)	-	-	-
Operating Transfers-In	30,000	21,449	(8,551)	489,818	473,970	(15,848)
Operating Transfers-(Out)	(476,400)	(589,043)	(112,643)	-	-	-
Other Financing Sources	20,000	13,870	(6,130)	69,000	51,562	(17,438)
Other Financing (Uses)	(4,270)	(3,752)	518	-	-	-
Total Other Financing Sources (Uses)	1,575,330	(552,676)	(2,128,006)	558,818	525,532	(33,286)
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Uses	2,382,652	(1,914,895)	(4,297,547)	13,746	176,296	162,550
Fund Balance, Beginning of Year	134,158	134,158	-	226,744	226,744	-
Prior Year Encumbrances	20,551	20,551	-	2,859	2,859	-
Fund Balance, End of Year	\$ 2,537,361	\$ (1,760,186)	\$ (4,297,547)	\$ 243,349	\$ 405,899	\$ 162,550

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

DEBT SERVICE FUNDS			CAPITAL PROJECTS FUNDS		
Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
\$ 1,486,312	\$ 1,400,062	\$ (86,250)	\$ 1,603,942	\$ 1,534,199	\$ (69,743)
-	-	-	-	-	-
446,133	116,666	(329,467)	81,957	97,362	15,405
-	-	-	-	72,007	72,007
-	-	-	768,000	1,513,678	745,678
-	-	-	120,600	119,787	(813)
-	-	-	-	-	-
-	-	-	-	-	-
20,000	12,643	(7,357)	22,000	21,655	(345)
-	-	-	78,000	78,294	294
-	-	-	28,300	28,290	(10)
<u>1,952,445</u>	<u>1,529,371</u>	<u>(423,074)</u>	<u>2,702,799</u>	<u>3,465,272</u>	<u>762,473</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
18,410	16,108	2,302	-	-	-
-	-	-	17,100,593	14,697,020	2,403,573
1,068,040	963,741	104,299	21,815,740	22,061,769	(246,029)
1,039,200	778,396	260,804	50,000	50,000	-
<u>2,125,650</u>	<u>1,758,245</u>	<u>367,405</u>	<u>38,966,333</u>	<u>36,808,789</u>	<u>2,157,544</u>
(173,205)	(228,874)	(55,669)	(36,263,534)	(33,343,517)	2,920,017
-	-	-	24,614,000	25,580,000	966,000
-	-	-	12,445,801	12,560,000	114,199
-	-	-	-	-	-
-	-	-	-	13,500	13,500
-	-	-	-	-	-
-	-	-	285,000	135,000	(150,000)
-	-	-	(156,450)	(156,449)	1
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	<u>37,188,351</u>	<u>38,132,051</u>	<u>943,700</u>
(173,205)	(228,874)	(55,669)	924,817	4,788,534	3,863,717
290,378	290,378	-	610,327	610,327	-
-	-	-	271	271	-
<u>\$ 117,173</u>	<u>\$ 61,504</u>	<u>\$ (55,669)</u>	<u>\$ 1,535,415</u>	<u>\$ 5,399,132</u>	<u>\$ 3,863,717</u>

EXPENDABLE TRUST FUNDS			TOTALS (MEMORANDUM ONLY)		
Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
\$ -	\$ -	\$ -	\$ 5,314,772	\$ 5,055,755	\$ (259,017)
-	-	-	8,600,000	6,570,678	(2,029,322)
-	-	-	4,237,090	3,728,276	(508,814)
-	-	-	185,100	230,514	45,414
-	-	-	1,105,388	1,913,240	807,852
10,000	16,500	6,500	287,700	247,625	(40,075)
-	-	-	316,598	240,402	(76,196)
-	-	-	282,600	267,142	(15,458)
-	-	-	42,000	34,298	(7,702)
-	-	-	111,000	98,346	(12,654)
3,240	4,975	1,735	121,840	97,514	(24,326)
13,240	21,475	8,235	20,604,088	18,483,790	(2,120,298)
400	400	-	7,437,436	7,302,618	134,818
-	-	-	156,600	154,103	2,497
43,000	32,341	10,659	1,887,602	1,684,143	203,459
-	-	-	440,639	407,321	33,318
-	-	-	653,000	824,548	(171,548)
-	-	-	1,609,482	1,487,565	121,917
4,200	2,384	1,816	3,314,900	3,226,307	88,593
9,000	9,000	-	17,349,298	14,849,775	2,499,523
-	-	-	22,883,780	23,025,510	(141,730)
-	-	-	1,089,200	828,396	260,804
56,600	44,125	12,475	56,821,937	53,790,286	3,031,651
(43,360)	(22,650)	20,710	(36,217,849)	(35,306,496)	911,353
-	-	-	24,614,000	25,580,000	966,000
-	-	-	12,445,801	12,560,000	114,199
-	-	-	6,000	4,800	(1,200)
-	-	-	-	13,500	13,500
-	-	-	2,000,000	-	(2,000,000)
-	-	-	804,818	630,419	(174,399)
-	-	-	(632,850)	(745,492)	(112,642)
32,915	85,020	52,105	121,915	150,452	28,537
(5,600)	(5,428)	172	(9,870)	(9,180)	690
27,315	79,592	52,277	39,349,814	38,184,499	(1,165,315)
(16,045)	56,942	72,987	3,131,965	2,878,003	(253,962)
324,362	324,362	-	1,585,969	1,585,969	-
9,719	9,719	-	33,400	33,400	-
\$ 318,036	\$ 391,023	\$ 72,987	\$ 4,751,334	\$ 4,497,372	\$ (253,962)

CITY OF EASTLAKE
LAKE COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
RETAINED EARNINGS - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2002

	<u>ENTERPRISE FUND</u>
OPERATING REVENUES:	
Charges for Services	\$ 1,332,385
Special Assessments	81,997
All Other Revenue	<u>3,216</u>
Total Operating Revenue	<u>1,417,598</u>
OPERATING EXPENSES:	
Personal Services	485,630
Contractual Services	1,004,350
Depreciation	200,318
Other Operating Expense	<u>925</u>
Total Operating Expenses	<u>1,691,223</u>
OPERATING (LOSS)	<u><u>(273,625)</u></u>
Other Financing Sources/Uses	
Transfers In	<u>111,570</u>
Total Other Financing Sources/uses	111,570
Net Operating (Loss) after Other financing Sources/Uses	(162,055)
DEFICIT RETAINED EARNINGS AT BEGINNING OF YEAR	<u>(5,489,150)</u>
DEFICIT RETAINED EARNINGS AT END OF YEAR	<u><u>\$ (5,651,205)</u></u>

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

CITY OF EASTLAKE
LAKE COUNTY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2002

	ENTERPRISE FUND
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash Received from Customers	\$ 1,279,867
Cash Payments to Suppliers for Goods and Services	(1,000,582)
Cash Payments to Employees for Services	<u>(480,645)</u>
Net Cash Provided by Operating Activities	<u><u>(201,360)</u></u>
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Transfers In	<u>111,570</u>
Net Cash Provided by Noncapital Financing Activities	111,570
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Purchase of Fixed Assets	(171,430)
Net Change in Contributed Capital	<u>168,608</u>
Net Cash Used for Capital and Related Financing Activities	<u>(2,822)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(92,612)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>92,612</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ -</u></u>
 RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
OPERATING INCOME (LOSS)	\$ (273,625)
 ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:	
Depreciation Expense	200,318
Increase In Accounts Receivable	(137,731)
Decrease In Supplies Inventory	1,156
Increase In Accounts Payable	3,537
Increase In Accrued Wages	1,117
Increase In Compensated Absences Payable	1,244
Increase In Due To Other Governments	<u>2,624</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ (201,360)</u></u>

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

**CITY OF EASTLAKE
LAKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002**

NOTE 1 - REPORTING ENTITY AND BASIS OF PRESENTATION

A. Reporting Entity

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

The accompanying general purpose financial statements comply with the provisions of the Government Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity", in that the financial statements include all organizations, activities and functions for which the City (the reporting entity) is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization and either the City's ability to impose its will over the organization or the possibility that the organization will provide a financial benefit to or impose a financial burden on the City. Based on the foregoing, the reporting entity of the City includes 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.

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 the 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 15. The jointly governed organization is the Northeast Ohio Public Energy Council, which is presented in Note 17.

B. Basis of Presentation - Fund Accounting

The accounts of the City are organized on the basis of funds or account groups, 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, and revenues and expenditures (expenses). The various funds are summarized by type in the general purpose financial statements. The following fund types and account groups 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 following are the City's governmental fund types:

CITY OF EASTLAKE
LAKE COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)

NOTE 1 - REPORTING ENTITY AND BASIS OF PRESENTATION (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

General Fund - This fund is the operating fund of the City and 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.

Special Revenue Funds - These funds are used to account for the proceeds of specific revenue sources (other than expendable trusts, or major capital projects) that are legally restricted to expenditure for specified purposes.

Debt Service Funds - These funds are used for the accumulation of resources for, and the payment of, general obligation and special assessment long-term debt principal and interest other than that accounted for in the proprietary fund.

Capital Projects Funds - These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by the proprietary fund).

Proprietary Fund - The proprietary fund is used to account for the City's ongoing activities which are similar to those found in the private sector. The following is the City's proprietary fund type.

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.

Fiduciary Funds - These funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The City's fiduciary funds include expendable trust and agency funds. Expendable trust funds are accounted for and reported in essentially the same manner as governmental funds. Agency funds are purely custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

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

General Fixed Assets Account Group - This group of accounts is established to account for all general fixed assets of the City, other than those accounted for in the proprietary fund.

General Long-Term Obligations Account Group - This group of accounts is established to account for all unmatured long-term indebtedness of the City that is not a specific liability of the proprietary fund.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

**CITY OF EASTLAKE
LAKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities, provided they do not conflict with or contradict GASB pronouncements. The more significant of the City's accounting policies are described below.

A. Basis of Accounting and Measurement Focus

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

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

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

The modified accrual basis of accounting is followed for the governmental, expendable trust and agency funds. The full accrual basis of accounting is followed for the proprietary fund.

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

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. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 6) Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: income tax, state levied locally shared taxes, interest, grants, fees, and rentals. Deferred revenue arises when assets are recognized before the revenue recognition criteria has been satisfied.

**CITY OF EASTLAKE
LAKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Accounting and Measurement Focus (Continued)

Property taxes for which there is an enforceable legal claim as of December 31, 2002, but which were levied to finance 2003 operations, have been recorded as deferred revenue. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue. On the modified accrual basis, receivables that will not be collected within the available period have also been reported as deferred revenue.

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

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

B. 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, with the legal restriction that appropriations cannot exceed estimated resources, as certified.

All funds, other than agency funds, are legally required to be budgeted and appropriated; however, only governmental funds are required to be reported. The legal level of budgetary control for the general and street construction maintenance and repair fund are at the departmental level and the fund level for all other funds. Budgetary modifications may only be made by ordinance of the City Council.

C. Tax Budget

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 20th of each year, for the period January 1 to December 31 of the following year.

D. 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 1st of each year. As part of the certification process, the City receives an official certificate of estimated resources which states 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 will not exceed the amount available, as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure.

On or about January 1, the certificate of estimated resources is amended to include any unencumbered 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 2002.

**CITY OF EASTLAKE
LAKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Appropriations

A temporary appropriation ordinance to control expenditures may be passed on or about January 1st of each year for the period January 1 through March 31. An annual appropriation ordinance must be passed by April 1st of each year for the period January 1 through December 31. The appropriation ordinance establishes spending controls at the fund, department and object level. The appropriation ordinance may be amended during the year as additional information becomes available, provided that total fund appropriations do not exceed the current estimated resources as certified. 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 appear in the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances -- Budget and Actual (Non-GAAP Budgetary Basis). All Governmental Fund Types are provided on the budgetary basis to provide a comparison of actual results with the final budget, including all amendments and modifications.

F. Encumbrances

As part of formal budgetary control, purchase orders, contracts and other commitments for expenditures are encumbered and recorded as the equivalent of expenditures in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. Encumbrances outstanding at year end, however, are reported as reservations of fund balances for subsequent year expenditures in the accompanying general purpose financial statements.

G. 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.

H. 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 are recorded when received in cash and expenditures are recorded when paid or encumbered.

Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting.

**CITY OF EASTLAKE
LAKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. 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 governmental funds:

Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses

	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust
GAAP Basis	\$(1,662,988)	\$224,665	\$(228,874)	\$1,059,105	\$67,204
Increase (Decrease):					
Accrued revenues at December 31, 2002, received during 2003	(1,476,112)	(93,780)	0	(32,918)	(70)
Accrued revenues at December 31, 2001, received during 2002	1,420,138	99,369	0	359,678	0
Accrued expenditures at December 31, 2002, paid during 2003	816,727	133,164	0	2,769,630	1,615
Accrued expenditures at December 31, 2001, paid during 2002	(680,692)	(75,553)	0	(187,808)	(11,837)
Proceeds of Notes	0	0	0	25,580,000	0
Note Retirement	0	0	0	(22,030,000)	0
2001 Prepays for 2002	54,156	21,660	0	288	30
2002 Prepays for 2003	(53,489)	(44,603)	0	(1,091)	0
2002 Outstanding Encumbrances	(332,635)	(88,626)	0	(2,728,350)	0
Budget Basis	<u>\$(1,914,895)</u>	<u>\$176,296</u>	<u>\$(228,874)</u>	<u>\$4,788,534</u>	<u>\$56,942</u>

I. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits, a money market account, the State Treasury Asset Reserve (STAR Ohio), and repurchase agreements. These investments are considered cash equivalents because they are highly liquid investments with maturity dates of three months or less. 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 had maintained its own cash and investment account. For purposes of the statement of cash flows, the proprietary fund considers its share of equity in pooled money market account, STAR Ohio and repurchase agreements to be cash equivalents.

J. Investments

Investment procedures and interest allocations are restricted by provisions of the Ohio Constitution and the Ohio Revised Code. Investments are stated at cost, which approximates market value. The City allocates interest among the various funds based upon applicable legal and administrative requirements. In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", the City records all its investments at fair value except for nonparticipating investment contracts (repurchase agreements) which are reported at cost. See Note 5 "Deposits and Investments". The City allocates all interest on pooled investments to the general fund. Interest on investments held by specific funds is credited to the specific fund.

**CITY OF EASTLAKE
LAKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Investments (Continued)

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. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on December 31, 2002.

During fiscal year 2002, investments were limited to STAROhio, repurchase agreements, and a money market account. Also, the City held an \$11,000 Manuscript Bond.

K. Inventory

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

L. Fixed Assets and Depreciation

The accounting and reporting treatment applied to a fixed asset is determined by its ultimate use. General fixed assets are long-lived assets of the City as a whole. When purchased, such assets are recorded as expenditures in the governmental type funds and capitalized (recorded and accounted for) in the general fixed assets account group. Infrastructure fixed assets such as roads, bridges, streets and drainage systems are not capitalized by the City and are not reported as part of the general fixed assets account group. The City capitalized all amounts over \$500.

The fixed asset values were initially determined at December 31, 1987, by assigning original acquisition costs when such information was available. In cases where information supporting original cost was not practicable, estimated historical costs were developed. For certain fixed assets, the estimates were calculated by indexing estimated current costs back to the estimated year of acquisition. Donated fixed assets are capitalized at fair market value at the date donated.

Fixed assets utilized in the proprietary fund are capitalized in the fund. The valuation basis for the proprietary fund fixed assets is the same as those used in the general fixed assets account group.

The City has elected not to record depreciation in the general fixed assets account group.

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

<u>Description</u>	<u>Estimated Lives (Years)</u>
Buildings	40
Machinery & Equipment	15
Sewer Lines	50
Vehicles	10

**CITY OF EASTLAKE
LAKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Contributed Capital

Contributed capital represents donations by developers, assets utilized by the enterprise operation which were obtained through non-proprietary funds of the City, and assets whose construction was financed by special assessments. These assets are recorded at their fair market value at the date contributed and are not subject to repayment.

It has been the policy of the City to construct and acquire capital assets used in the operation of the enterprise fund (sewer fund), with resources of the capital projects funds, by special assessment bonds or through donations by developers. Therefore, the enterprise infrastructure (sewer lines) of the City is recorded as contributed capital in the accompanying combined financial statements. All other fund equity amounts pertaining to the proprietary fund are classified as retained earnings.

N. Compensated Absences

The City reports compensated absences in accordance with the provisions of Government Accounting Standards Board (GASB) Statement No. 16, "Accounting for Compensated Absences". 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 it is probable 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. The liability is an estimate based on the City's past experience of making termination payments.

For governmental funds, compensated absences are recorded in the account "compensated absences payable" in the general long-term obligations accounts group. In proprietary funds, compensated absences are reported as a fund liability.

O. Long-Term Obligations

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the general long-term obligations account group. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

P. Interfund Transactions

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

Non-recurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other transfers are reported as operating transfers.

**CITY OF EASTLAKE
LAKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Q. 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 and materials, prepaid items and encumbered amounts that are not accrued at year end.

R. Memorandum Only - Total Columns

Total columns on the general purpose financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

S. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2002 are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure in the year in which it was consumed.

NOTE 3 – RESTATEMENT OF PRIOR YEAR FUND EQUITY

Restatement of Prior Year Fund Equity

The City had the following adjustment to beginning fund balance which was due to the overstatement of due to other governments payable that was reflected as a fund liability instead of a general long term obligation.

	<u>General</u>	<u>Special Revenue</u>
Fund Balances as Previously Recorded	\$809,925	\$135,130
Due To Other Government	<u>171,928</u>	<u>216,338</u>
Restated Fund Balances at December 31, 2001	<u>\$981,853</u>	<u>\$351,468</u>

NOTE 4 – ACCOUNTABILITY AND COMPLIANCE

A. Fund Deficits

The General Fund had a fund deficit of \$684,880 which was the result of significantly higher delinquent taxes. Also, there was a fund deficit in the Capital Projects fund of \$4,688,138 which was the result of recognition of accruals on the modified accrual basis. The following funds in the Capital Project fund had negative fund balances: Eastlake Economic Development fund \$4,742,225 and Capital Projects fund \$898,577. Also, there was a fund deficit in the Sanitary Sewer fund of \$5,651,205 which arose from the recognition of expenditures on the full accrual basis, which is greater than expenditures recognized on the budgetary basis. The general fund provides operating transfers when cash is required, not when accruals occur.

**CITY OF EASTLAKE
LAKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

NOTE 4 – ACCOUNTABILITY AND COMPLIANCE (Continued)

B. Expenditures Plus Encumbrances in Excess of Appropriations

Contrary to section 5705.41(B) & (D), Ohio Revised Code, the following accounts had expenditures plus encumbrances in excess of appropriations as of December 31, 2002:

<u>Fund/Program</u>	<u>Appropriations</u>	<u>Expenditures Plus Encumbrances</u>	<u>Excess</u>
General Fund:			
General Government:			
Municipal Court	\$42,500	\$68,795	(\$26,295)
Engineering	53,200	71,514	(18,314)
Security of Persons and Property:			
Street Lighting	185,000	218,854	(33,854)
Basic Utility			
Solid Waste	653,000	824,548	(171,548)
Transfers Out	476,400	589,043	(112,643)
Capital Projects Fund:			
Road Improvement	2,087,983	2,971,419	(883,436)

Contrary to section 5705.41(B) & (D), Ohio Revised Code, the following accounts had expenditures plus encumbrances in excess appropriations as of August 31, 2002:

<u>Fund/Program</u>	<u>Appropriations</u>	<u>Expenditures Plus Encumbrances</u>	<u>Excess</u>
Capital Projects Fund:			
Capital Projects	\$0	\$127,513	(\$127,513)
Agency Fund:			
Inspection Deposits	60,000	88,383	(28,383)

**CITY OF EASTLAKE
LAKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

NOTE 4 – ACCOUNTABILITY AND COMPLIANCE (Continued)

C. Negative Unencumbered Fund Balances

Contrary to section 5705.10, Ohio Revised Code, the following funds had negative unencumbered fund balances from January through November 2002:

	Average from January through <u>November</u>
General Fund:	(\$1,039,655)
Special Revenue Funds:	
Federal Grants	(6,923)
Police Pension	(196,600)
Fire Pension	(117,097)
Law Enforcement	(10,944)
Capital Project Fund:	
Capital Projects	(65,198)
Enterprise Fund:	
Sanitary Sewer	(246,352)
Agency Fund:	
Subdivision Inspections	(6,185)

Also, the General Fund had a negative unencumbered fund balance of (\$1,760,186) at December 31, 2002.

NOTE 5 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the City into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the City Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that Council has identified as not required for use within the current two-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not 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.

Interim deposits are deposits of interim moneys. Interim moneys are those moneys which are not needed for immediate use, but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the finance director by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution. Interim monies may be deposited or invested in the following securities:

**CITY OF EASTLAKE
LAKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

NOTE 5 - DEPOSITS AND INVESTMENTS (Continued)

1. 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;
2. 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;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement exceeds 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;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions, and;
6. The State Treasurer's investment pool (STAR Ohio).

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. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity.

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

A. Investments

GASB Statement No. 3 "Deposits with Financial Institutions, Investments, (including Repurchase Agreements) and Reverse Repurchase Agreements" requires disclosure to help assess actual and potential future deposit and investment market and credit risk. The following information regarding deposits and investments is presented using the categories of risk identified in GASB Statement No. 3. Category 1 includes investments that are insured or registered or are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments which are held by the counterparty, or by its trust department or agent, but not in the City's name.

STAR Ohio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

**CITY OF EASTLAKE
LAKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

NOTE 5 - DEPOSITS AND INVESTMENTS (Continued)

B. Deposits

At year-end, the carrying amount of the City's deposits was \$1,166,254 (including \$1,825 in petty cash), and the bank balance was \$1,363,179. Of the bank balance, \$201,796 was covered by federal depository insurance and \$1,161,383 was uninsured and uncollateralized. Although the pledging banks have investment and securities pools used to collateralize all public deposits which are held in the financial institution's name, noncompliance with federal requirements would potentially subject the City to a successful claim by the FDIC.

	Category 1	Category 3	Carrying Amount
Breakwall Imp. Bonds	\$11,000	\$ -	\$11,000
Repurchase Agreement		1,033,770	1,033,770
State Treasurer's Asset Reserve (STAROhio) (Non Categorized)			5,626,325
Total Investments	\$11,000	\$1,033,770	\$6,671,095

The classification of cash, cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classification of cash and investments on the combined financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents	Investment
GASB Statement No. 9	\$7,826,349	\$11,000
Investments:		
Repurchase Agreements	(1,033,770)	1,033,770
STAR Ohio	(5,626,325)	5,626,325
Per GASB Statement No. 3	\$1,166,254	\$6,671,095

NOTE 6 - TAXES

A. Property Taxes

Property taxes include amounts levied against all real estate and public utility property, and tangible personal property which is used in business, located in the City. Real property taxes collected during 2002 were levied after October 1, 2001 on assessed values as of January 1, 2001, the lien date. Assessed values for real property are established by the county auditor at 35 percent of appraised market value. All property is required to be reappraised every six years. The last revaluation was completed in 1998. Real property taxes are payable annually or semi-annually. The first payment is due January 20th, with the remainder payable by July 20th.

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 that ended on or before March 31 of that calendar year, and at the tax rates determined in the preceding year. Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25 percent of its true value. Amounts paid by multi-county taxpayers are due September 20 of the year assessed. Single county taxpayers may pay annually or semi-annually. The first payment is due April 30, with the remainder payable by September 20.

**CITY OF EASTLAKE
LAKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

NOTE 6 – TAXES (Continued)

A. Property Taxes (Continued)

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property is currently assessed at 88 percent of its true value. With probable deregulation, this public utility assessment percentage may change to 25 percent of true value. Public utility property taxes are payable on the same dates as real property 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, 2002, was \$10.8 per \$1,000 of assessed value. The assessed value upon which the 2002 levy was based was \$469,911,236. This amount constitutes \$339,720,470 in real property assessed value, \$77,581,880 in public utility assessed value and \$52,608,886 in tangible personal property 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 the incomes of residents earned outside the City. In the latter case, the City allows a credit of 100% of the tax paid to another municipality to a maximum of the total amount assessed.

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

NOTE 7 - OPERATING TRANSFERS

The following is a summary of operating transfers for all funds for 2002:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund:	\$21,449	\$(589,043)
Special Revenue Funds:		
Federal Grants Fund	16,375	0
Police Pension Fund	293,715	0
Fire Pension Fund	163,880	0
Total Special Revenue Funds	<u>473,970</u>	<u>0</u>
Capital Projects Funds:		
Road Improvement Fund	0	(21,449)
Fire Levy Fund	0	(135,000)
Capital Projects Fund	135,000	0
Economic Development Fund	0	0
Total Capital Projects Funds	<u>135,000</u>	<u>(156,449)</u>
Enterprise Fund:		
Sanitary Sewer Fund	111,570	0
Agency Funds:		
Subdivision Inspection Fund	3,503	0
Total All Funds	<u>\$745,492</u>	<u>\$(745,492)</u>

**CITY OF EASTLAKE
LAKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

NOTES 8 - RECEIVABLES

Receivables at December 31, 2002 consisted of taxes, accounts receivable, special assessments and intergovernmental receivables arising from grants and shared revenues. All receivables are considered fully collectible

NOTE 9 - FIXED ASSETS

The following is a summary of changes in General Fixed Assets:

	Balance 1/1/02	Additions	Deductions	Balance 12/31/02
Land	\$5,447,249	\$924,663	\$0	\$6,371,912
Buildings and Improvements	9,954,709	8,789,619	(840,163)	17,904,165
Machinery, Vehicles and Equipment	6,089,437	250,698	(230,588)	6,109,547
Total	\$21,491,395	\$9,964,980	(\$1,070,751)	\$30,385,624

Schedule of General Fixed Assets at December 31, 2002:

<u>Investment in General Fixed Assets</u>	
General Fund	\$5,636,755
Special Revenue Funds	4,799,543
Capital Projects Funds	19,949,326
	<u>\$30,385,624</u>

The following is a summary of changes in Proprietary Fund fixed assets at December 31, 2002:

	Historical Cost	Accumulated Depreciation	Book Value
Land	\$92,676	\$0	\$92,676
Building	768,000	(721,167)	46,833
Utility Structures in Service	8,291,358	(6,317,402)	1,973,956
Machinery and Equipment	555,882	(262,301)	293,581
Totals	\$9,707,916	\$(7,300,870)	\$2,407,046

NOTE 10 - 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 following information was provided by the Ohio Public Employees Retirement System (OPERS) to assist the City in complying with GASB Statement No. 27, "Accounting of Pensions by State and Local Government Employers."

**CITY OF EASTLAKE
LAKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

NOTE 10 - DEFINED BENEFIT PENSION PLANS (Continued)

A. Ohio Public Employees Retirement System (Continued)

All employees of the City, except full time uniformed police officers and full time firefighters, participate in OPERS, a cost-sharing multiple-employer public employee retirement system administered by the Ohio Public Employees Retirement Board. OPERS provides basic retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. The authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is set at 8.5% of their annual covered salary to fund pension obligations. The 2002 employer contribution rate for local government employer units was 13.55% of covered payroll, 8.55% to fund the pension and 5% to fund health care. The 2001 contribution rate was 13.55% of covered payroll 9.25% to fund the pension and 4.3% 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 PERS of Ohio for the years ending December 31, 2002, 2001, and 2000 were \$446,545, \$480,753, and \$332,817 respectively. The full amount has been contributed for 2001 and 2000. For 2002, 73.27 percent has been contributed with the remainder being reported in the General Long Term Account Group.

In addition to the pension benefit obligation described above, the PERS of Ohio provides post employment health care benefits to age and service retirees with ten or more years of qualifying service credit and to primary survivor recipients of such retirees. Health care coverage for disability recipients and primary survivor recipients is also available. The health care coverage provided by the PERS of Ohio is considered an Other Postemployment Benefit (OPEB), as described in GASB Statement No. 12. A portion of each employer's contribution to the PERS of Ohio is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority requiring public employers to fund post employment health care through their contributions to the PERS of Ohio.

The portion of the 2002 employer contribution rate (identified above) that was used to fund health care for the year 2002 was \$261,137.

The significant actuarial assumptions and calculations relating to postemployment health care benefits were based on the PERS of Ohio's latest actuarial review performed as of December 31, 2001 and include a rate of return on investments of 8%. 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. 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.

Benefits are advanced-funded on an actuarially determined basis. The number of active contributing participants was 402,041. The actuarial value of the PERS of Ohio net assets available for OPEB at December 31, 2001 (the latest information available) is \$11.6 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$16.4 billion and \$4.8 billion, respectively.

**CITY OF EASTLAKE
LAKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

NOTE 10 - 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.

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, 2002, 2001, and 2000 were \$271,209, \$241,952, and \$237,207 for police and \$220,952, \$194,798, and \$170,990 for firefighters, respectively. The full amount has been contributed for 2001 and 2000. For 2002, 71.85 and 68.18 percent, respectively, have been contributed with the remainder being reported as a liability in the general long-term obligations account group.

The OP&F Fund provides post employment 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 Ohio Revised Code provides that health care costs paid from the funds of the Police and Firemen's Disability and Pension 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 post employment health care coverage to all eligible individuals from the employer's contributions to the OP&F Fund.

The portion of the 2002 covered payroll that was used to fund post employment health care benefits was \$178,883 representing 7.75% of covered payroll for police and \$105,377 representing 7.75% of covered payroll for fire. Health care funding and accounting were on a pay-as-you-go basis.

The total police employer contribution is 19.5% of covered payroll and total firefighter employer contribution rate is 24% of covered payroll. For 2001, the percent used to fund health care was 7.5%. 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. As of December 31, 2001, the date of the last actuarial available, the number of participants eligible to receive health care benefits was 13,174 for police and 10,239 for firefighters. The OP&F Fund does not provide separate data on the funded status and funding progress of post employment health care benefits. The Fund's total health care expenses for the year ended December 31, 2001 were \$122,298,771, which was net of member contributions of \$6,874,699.

NOTE 11 - COMPENSATED ABSENCES

A. Accumulated Vacation

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, 2002, the total obligation for vacation accrual for the City as a whole amounted to \$442,660.

**CITY OF EASTLAKE
LAKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

NOTE 11 - COMPENSATED ABSENCES (Continued)

B. Accumulated Sick Leave

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) hours of pay, excluding overtime. Each employee with the City is paid a minimum of 25% after 8 or more years of service, or a maximum of one thousand three hundred forty-four (1,344) hours, or the employee's unused sick leave upon retirement from the City. At December 31, 2002, the total obligation for sick leave accrual for the City as a whole amounted to \$1,075,110.

NOTE 12 - CAPITAL LEASES

The City leases five (5) copiers and one (1) vehicle, under capital leases. Capital lease obligations recorded in the General long-term debt account group relate to items leased under a long-term agreement which meets the criteria of a capital lease, as defined by Financial Accounting Standards Board Statement No. 13 "Accounting for Leases", and have been recorded in the General long-term debt account group.

The agreements provide for minimum annual rental payments as follows:

Year	Total
2003	\$14,003
2004	9,961
Total minimum lease payments	23,964
Less: Amount representing interest	-0-
Present value of net minimum lease payments	\$23,964

The leases have been capitalized in the general fixed assets account group.

NOTE 13 - NOTE DEBT AND LONG-TERM OBLIGATIONS

The City's note activity for the year ended December 31, 2002 is as shown below. All liabilities for outstanding notes are being shown in the capital projects fund.

	Balance 12/31/01	Additions	Reductions	Outstanding 12/31/02
2.55% Economic Development	\$980,000	\$980,000	\$980,000	\$980,000
2.5% Municipal Stadium	0	4,000,000	0	4,000,000
2.25% Municipal Stadium	0	5,100,000	0	5,100,000
4% Economic Development	5,550,000	0	5,550,000	0
3% Municipal Stadium	0	7,500,000	7,500,000	0
3% Municipal Stadium	0	8,000,000	8,000,000	0
Total Notes	\$6,530,000	\$25,580,000	\$22,030,000	\$10,800,000

All notes are backed by the full faith and credit of the City of Eastlake and mature within one year. The note liability is reflected in the fund which received the proceeds. The notes are generally issued in anticipation of long-term bond financing and are refinanced until such bonds are issued. Activity in the general long-term obligations account group in 2002 was as follows:

**CITY OF EASTLAKE
LAKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

NOTE 13 – NOTE DEBT AND LONG-TERM OBLIGATIONS (Continued)

	<u>Balance 12/31/01</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding 12/31/02</u>
General Obligations Bonds Payable:				
2002 Tax Exempt Municipal Stadium	\$0	\$4,380,000	\$0	\$4,380,000
2002 Non taxable Municipal Stadium	0	8,180,000	0	8,180,000
1993 City Hall Construction	3,065,000	0	125,000	2,940,000
1993 Various	2,515,000	0	585,000	1,930,000
1993 Various	315,000	0	155,000	160,000
Total General Obligation Bonds	<u>5,895,000</u>	<u>12,560,000</u>	<u>865,000</u>	<u>17,590,000</u>
Special Assessment Bond:				
1993 Breakwall Imp.	17,000	0	6,000	11,000
OPWC Loans:				
1995 Sewer Imp.	63,414	0	21,139	42,275
1999 N. Parkway Sewer	42,500	0	2,500	40,000
2000 E. 377 th St. Road Imp.	86,334	0	6,907	79,427
2000 Stevens Blvd. Outfall	46,681	0	2,457	44,224
2000 Parkland Dr. Sewer	23,662	0	1,245	22,417
Total OPWC Loans	<u>262,591</u>	<u>0</u>	<u>34,248</u>	<u>228,343</u>
Honeywell Project Loan	397,441		90,263	307,178
Other Long-Term Obligations:				
Pension Liability	400,878	404,602	400,878	404,602
Compensated Absences	1,283,734	206,662	0	1,490,396
Capital Leases	48,010	0	24,046	23,964
Total General Long-Term Debt	<u>\$8,304,654</u>	<u>\$13,171,264</u>	<u>\$1,420,435</u>	<u>\$20,055,483</u>

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2002 are as follows:

Year(s)	General Obligation Bonds	Special Assessment Bonds	OPWC Loans	Honeywell Project
2003	\$1,811,839	\$6,773	\$34,248	\$111,310
2004	1,948,429	5,352	34,248	111,310
2005	1,937,159	0	13,109	111,310
2006	1,236,769	0	13,109	0
2007	1,228,791	0	13,109	0
2008-2012	6,153,590	0	65,543	0
2013-2017	6,253,138	0	41,371	0
2018-2022	4,779,860	0	13,606	0
2023-2027	4,782,950	0	0	0
Total	<u>\$30,132,525</u>	<u>\$12,125</u>	<u>\$228,343</u>	<u>\$333,930</u>

**CITY OF EASTLAKE
LAKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

NOTE 13 – NOTE DEBT AND LONG-TERM OBLIGATIONS (Continued)

General obligation bonds will be paid from property taxes collected in the general bond retirement debt service fund. Special assessment bonds will be paid from the proceeds of special assessments levied against benefited property owners. In the event that a property owner would fail to pay the assessment, payment would be made by the City. The OPWC loans will be paid by revenues from the capital projects fund.

The capital lease obligations will be paid from the general fund. Compensated absences reported in the “compensated absences payable” account will be paid from the fund from which the employees’ salaries are paid.

NOTE 14 - SEGMENT INFORMATION FOR THE ENTERPRISE FUND

Included in the services provided by the City, which are financed primarily by user charges, is wastewater collection. The key financial information for the year ended December 31, 2002 for this enterprise activity is as follows:

Operating revenues	\$1,417,598
Depreciation	200,318
Operating loss	(273,625)
Assets	2,964,827
Net working capital	517,612
Additions to fixed assets	171,430
Compensated absences	27,374
Total equity	\$2,899,476

NOTE 15 - 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 \$100,000 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.

In 2002, the City of Eastlake paid \$161,536 in premiums from the general and special Revenue funds, which represents 10.02 percent 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.

**CITY OF EASTLAKE
LAKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)**

NOTE 15 - SHARED RISK POOL (Continued)

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 Workers 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 2002 were provided through Medical Mutual of Ohio. Dental benefits as well, are provided through Medical Mutual of Ohio and Prudential Insurance Company. Payments are made on a monthly basis. The expenses are allocated by the number of employees multiplied by the fixed premium rate for each employee. The monthly premium for medical and prescription benefits range from \$244.94 to \$698.31 for single, two-party, and family coverage. The monthly premium for dental benefits range from \$21.81 to \$65.87 for single, two-party, and family coverage.

NOTE 16 - 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.

NOTE 17 - 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 of 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 aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board of Directors. The City of Eastlake did not contribute to NOPEC in 2002. Financial information can be obtained by contacting Dan DiLiberto, Chairman, 1615 Clarke Avenue, Cleveland, Ohio, 43212

NOTE 18 – SUBSEQUENT EVENTS

On May 27, 2003, the City issued \$670,000, \$2,500,000, and \$1,080,000 of bond anticipation notes to pay costs of acquiring real estate in furtherance of the City's parks and recreational purposes; to pay costs of constructing, furnishing, equipping, and otherwise improving the municipal baseball stadium, providing utilities and acquiring and improving its site; and to pay costs of acquiring and improving real estate and interests in real estate and improving the same by constructing surface areas for off-street parking purposes respectively.

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**CITY OF EASTLAKE
LAKE COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2002**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Revenues	Disbursements
<u>U.S. DEPARTMENT OF HIGHWAY PLANNING AND CONSTRUCTION</u>				
<i>Passed Through Ohio Department of Transportation</i>				
Highway Planning and Construction Grant - Erie Road	LAK-Erie Road	20.205	\$581,049	\$366,608
Total U.S. Department of Highway Planning and Construction			581,049	366,608
<u>U.S. DEPARTMENT OF JUSTICE</u>				
<i>Direct Programs:</i>				
COPS Fast	1999-SH-WX-0610	16.710	117,421	103,999
<i>Passed Through Ohio Attorney General</i>				
Victims of Crime Assistance	2001VAGENE038	16.575	47,616	56,385
Total U.S. Department of Justice			165,037	160,384
<u>U.S. DEPARTMENT OF THE TREASURY</u>				
<i>Direct Program</i>				
Gang Resistance Education and Training (G.R.E.A.T.)	ATC 010034	21.053	15,369	8,293
Total U.S. Department of the Treasury			15,369	8,293
<u>FEDERAL EMERGENCY MANAGEMENT AGENCY (FEMA)</u>				
<i>Direct Program</i>				
Assistance to Firefighters Grant Program		83.554	12,204	12,204
Total FEMA			12,204	12,204
Total Federal Assistance			\$ 773,659	\$ 547,489

**CITY OF EASTLAKE
LAKE COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2002**

NOTE A --SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B -- MATCHING REQUIREMENTS

Certain Federal programs require that the City contribute non-Federal funds (matching funds) to support the Federally-funded programs. The City has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.

N/A – Not applicable

CFDA – Catalog of Federal Domestic Assistance



**Auditor of State
Betty Montgomery**

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

Members of City Council
City of Eastlake
Lake County
35150 Lakeshore Blvd.
Eastlake, Ohio 44095

We have audited the financial statements of the City of Eastlake, Lake County, Ohio, (the City) as of and for the year ended December 31, 2002, and have issued our report thereon dated July 9, 2003, wherein we noted the City restated the General and Special Revenue Funds and the General Obligations Account Group. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2002-001 and 2002-002. We also noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated July 9, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the City in a separate letter dated July 9, 2003.

City of Eastlake
Lake County
Independent Accountants' Report on Compliance and on Internal Control
Required by *Government Auditing Standards*
Page 2

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

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

Betty Montgomery
Auditor of State

July 9, 2003



Auditor of State Betty Montgomery

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

Members of City Council
City of Eastlake
Lake County
35150 Lakeshore Blvd.
Eastlake, Ohio 44095

Compliance

We have audited the compliance of the City of Eastlake, Lake County, Ohio, (the City) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2002. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2002.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

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

Betty Montgomery
Auditor of State

July 9, 2003

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505**

**CITY OF EASTLAKE
LAKE COUNTY
DECEMBER 31, 2002**

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

**CITY OF EASTLAKE
LAKE COUNTY
DECEMBER 31, 2002**

SCHEDULE OF FINDINGS

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

Finding Number	2002-001
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Ohio Rev. Code § 5705.41(B), prohibits a subdivision from making an expenditure unless it has been appropriated. Ohio Rev. Code § 5705.41(D), provides that no subdivision shall make any contract or order any expenditure of money unless the certificate of the fiscal officer is attached. The fiscal officer must certify that the amount required to meet such a commitment has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Further, contracts and orders for expenditure lacking prior certification shall be void.

As of December 31, 2002, the following accounts had expenditures plus encumbrances in excess of appropriations:

Fund/Program	Appropriations	Expenditures Plus Encumbrances	Excess
General Fund:			
General Government:			
Municipal Court	\$42,500	\$68,795	(\$26,295)
Engineering	53,200	71,514	(18,314)
Security of Persons and Property:			
Street Lighting	185,000	218,854	(33,854)
Basic Utility			
Solid Waste	653,000	824,548	(171,548)
Transfer Out	476,400	589,043	(112,643)
Capital Projects Fund:			
Road Improvement	2,087,983	2,971,419	(883,436)

As of August 31, 2002, the following accounts had expenditures plus encumbrances in excess of appropriations:

Fund/Program	Appropriations	Expenditures Plus Encumbrances	Excess
Capital Projects Fund:			
Capital Projects	\$0	\$127,513	(\$127,513)
Agency Fund:			
Inspection Deposits	60,000	88,383	(28,383)

**CITY OF EASTLAKE
LAKE COUNTY
DECEMBER 31, 2002**

**SCHEDULE OF FINDINGS
(Continued)**

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

Finding Number	2002-002
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Ohio Rev. Code Section 5705.10, provides that money paid into any fund shall be used only for the purposes for which such fund was established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund.

The following funds had negative unencumbered fund balances from January through November 2002:

	Average from January through November
General Fund:	(\$1,039,655)
Special Revenue Funds:	
Federal Grants	(6,923)
Police Pension	(196,600)
Fire Pension	(117,097)
Law Enforcement	(10,944)
Capital Project Fund:	
Capital Projects	(65,198)
Enterprise Fund:	
Sanitary Sewer	(246,352)
Agency Fund:	
Subdivision Inspections	(6,185)

Also, the General Fund had a negative unencumbered fund balance of (\$1,760,186) at December 31, 2002. The negative unencumbered fund balance was the result of an advance from the Road Improvement and the Economic Development Funds, which were not permitted. The use of these funds in the General Fund were not consistent with the purpose of the Road Improvement and Economic Development Funds.

CITY OF EASTLAKE
LAKE COUNTY
DECEMBER 31, 2002

SCHEDULE OF PRIOR AUDIT FINDINGS

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2001-20843-001	Wedding Performance Fees	Yes	



**Auditor of State
Betty Montgomery**

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CITY OF EASTLAKE

LAKE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 30, 2003**