



**Mary Taylor, CPA**  
Auditor of State



**CITY OF AVON LAKE  
LORAIN COUNTY**

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

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

To City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Avon Lake, Lorain County, Ohio, (the City) as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Avon Lake, Lorain County, Ohio, as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the General Fund and Income Tax Transfer Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2007, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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Independent Accountants' Report  
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Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquires of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Mary Taylor, CPA  
Auditor of State

December 19, 2007

City of Avon Lake  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Our discussion and analysis of the City of Avon Lake's financial performance provides an overview of the City's financial activities for the fiscal year ended December 31, 2006. Please read it in conjunction with the City's basic financial statements, which begin on page 15.

FINANCIAL HIGHLIGHTS

- The City's net assets increased \$5.0 million for the year ending December 31, 2006. The net assets of our governmental activities increased by \$4.2 million, or 7.4 percent, and the net assets of business-type activities increased by \$0.8 million, or 2.4 percent.

USING THIS ANNUAL FINANCIAL REPORT

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

**Reporting the City as a Whole**

*The Statement of Net Assets and the Statement of Activities*

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

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

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

*Governmental Activities:* Most of the City's basic services are reported here, including the police, fire, street and highway maintenance, capital improvement, vehicle acquisition, parks and recreation, and general administrative. Income taxes, property taxes, undivided local government,

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fees, licenses and permits, and state and federal grants finance most of these activities.

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

### **Reporting the City's Most Significant Funds**

#### *Fund Financial Statements*

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

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

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

### **THE CITY AS A WHOLE**

The City's *combined* net assets changed from a year ago, *increasing* from \$90.3 million to \$95.3 million. Looking at the net assets and net expenses of governmental and business-type activities separately, different stories emerge. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the City's governmental and business-type activities.



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Table 1  
Net Assets  
(In Millions)

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
<b>Assets</b>						
Current and Other Assets	\$ 23.9	\$ 20.4	\$ 15.5	\$ 15.4	\$ 39.4	\$ 35.8
Capital Assets, Net	<u>54.4</u>	<u>53.0</u>	<u>53.5</u>	<u>54.7</u>	<u>107.9</u>	<u>107.7</u>
Total Assets	<u>\$ 78.3</u>	<u>\$ 73.4</u>	<u>\$ 69.0</u>	<u>\$ 70.1</u>	<u>\$ 147.3</u>	<u>\$ 143.5</u>
<b>Liabilities</b>						
<b>Current and Other</b>						
Liabilities	\$ 6.8	\$ 5.4	\$ 1.1	\$ 0.9	\$ 7.9	\$ 6.3
<b>Long-Term Liabilities:</b>						
Due Within One Year	1.1	1.1	2.3	2.2	3.4	3.3
Due Within More Than One Year	<u>9.6</u>	<u>10.3</u>	<u>31.1</u>	<u>33.3</u>	<u>40.7</u>	<u>43.6</u>
Total Liabilities	<u>17.5</u>	<u>16.8</u>	<u>34.5</u>	<u>36.4</u>	<u>52.0</u>	<u>53.2</u>
<b>Net Assets</b>						
<b>Invested in Capital</b>						
Assets Net of Debt	45.7	43.8	20.5	19.6	66.2	63.4
<b>Restricted:</b>						
Special Revenue	1.8	1.6	-	-	1.8	1.6
Debt Service	0.5	0.5	1.4	1.4	1.9	1.9
Capital Projects	2.6	2.5	-	-	2.6	2.5
Unrestricted	<u>10.2</u>	<u>8.2</u>	<u>12.6</u>	<u>12.7</u>	<u>22.8</u>	<u>20.9</u>
Total Net Assets	<u>\$ 60.8</u>	<u>\$ 56.6</u>	<u>\$ 34.5</u>	<u>\$ 33.7</u>	<u>\$ 95.3</u>	<u>\$ 90.3</u>

Net assets of the City's governmental activities increased by 7.4 percent (\$60.8 million compared to \$56.6 million). Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, increased from \$8.2 million at December 31, 2005 to \$10.2 million at the end of 2006. Restricted net assets, those restricted mainly for debt services, special revenue funds and capital projects, increased from \$4.6 million at December 31, 2005 to \$4.9 million at the end of 2006. The invested in capital assets, net of debt category increased by \$1.9 million.

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The net assets of our business-type activities increased by 2.4 percent (\$34.5 million compared to \$33.7 million) in 2006 due mainly to a decrease in total liabilities as of year-end. Table 2 shows the changes in net assets for the year ended December 31, 2006.

Table 2  
Changes in Net Assets  
(In Millions)

	Governmental Activities		Business-Type Activities		Total	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenues						
Program Revenues:						
Charges for Services	\$ 1.2	\$ 1.4	\$ 11.6	\$ 12.6	\$ 12.8	\$ 14.0
Operating Grants & Contributions	0.1	0.1	0.0	0.0	0.1	0.1
Capital Grants & Contributions	<u>2.1</u>	<u>3.0</u>	<u>0.5</u>	<u>0.8</u>	<u>2.6</u>	<u>3.8</u>
Total Program Revenue	<u>3.4</u>	<u>4.5</u>	<u>12.1</u>	<u>13.4</u>	<u>15.5</u>	<u>17.9</u>
General Revenue						
City Income Tax	9.6	7.3	0.0	0.0	9.6	7.3
Property Taxes/Spec. Assessments	5.6	6.2	0.0	0.0	5.6	6.2
Intergovernmental	3.3	2.6	0.0	0.0	3.3	2.6
Interest and Investment Earnings	0.9	0.5	0.2	0.2	1.1	0.7
Miscellaneous	0.1	0.1	0.0	0.3	0.1	0.4
Transfers	<u>(0.4)</u>	<u>0.6</u>	<u>0.5</u>	<u>(0.6)</u>	<u>0.1</u>	<u>0.0</u>
Total General Revenues	<u>19.1</u>	<u>17.3</u>	<u>0.7</u>	<u>(0.1)</u>	<u>19.8</u>	<u>17.2</u>
Total Revenues	<u>\$ 22.5</u>	<u>\$ 21.8</u>	<u>\$ 12.8</u>	<u>\$ 13.3</u>	<u>\$ 35.3</u>	<u>\$ 35.1</u>

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Table 2  
Changes in Net Assets (continued)  
(In Millions)

	Governmental Activities		Business-Type Activities		Total	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Expenses						
Program Expenses						
General Government	\$2.6	\$ 2.9	\$ 0.0	\$ 0.0	\$ 2.6	\$ 2.9
Security of Persons and Property	6.9	6.8	0.0	0.0	6.9	6.8
Public Health	0.1	0.1	0.0	0.0	0.1	0.1
Transportation	7.0	6.2	0.0	0.0	7.0	6.2
Community Environment	0.3	0.3	0.0	0.0	0.3	0.3
Basic Utility Services	0.0	0.1	0.0	0.0	0.0	0.1
Leisure Time Activities	0.9	0.9	0.0	0.0	0.9	0.9
Interest on Long Term Debt	0.5	0.5	0.0	0.0	0.5	0.5
Water	0.0	0.0	8.4	7.7	8.4	7.7
Sewer	<u>0.0</u>	<u>0.0</u>	<u>3.6</u>	<u>3.9</u>	<u>3.6</u>	<u>3.9</u>
Total Program Expenses	<u>18.3</u>	<u>17.8</u>	<u>12.0</u>	<u>11.6</u>	<u>30.3</u>	<u>29.4</u>
Increase (Decrease) in Net Assets	\$ <u>4.2</u>	\$ <u>4.0</u>	\$ <u>0.8</u>	\$ <u>1.7</u>	\$ <u>5.0</u>	\$ <u>5.7</u>

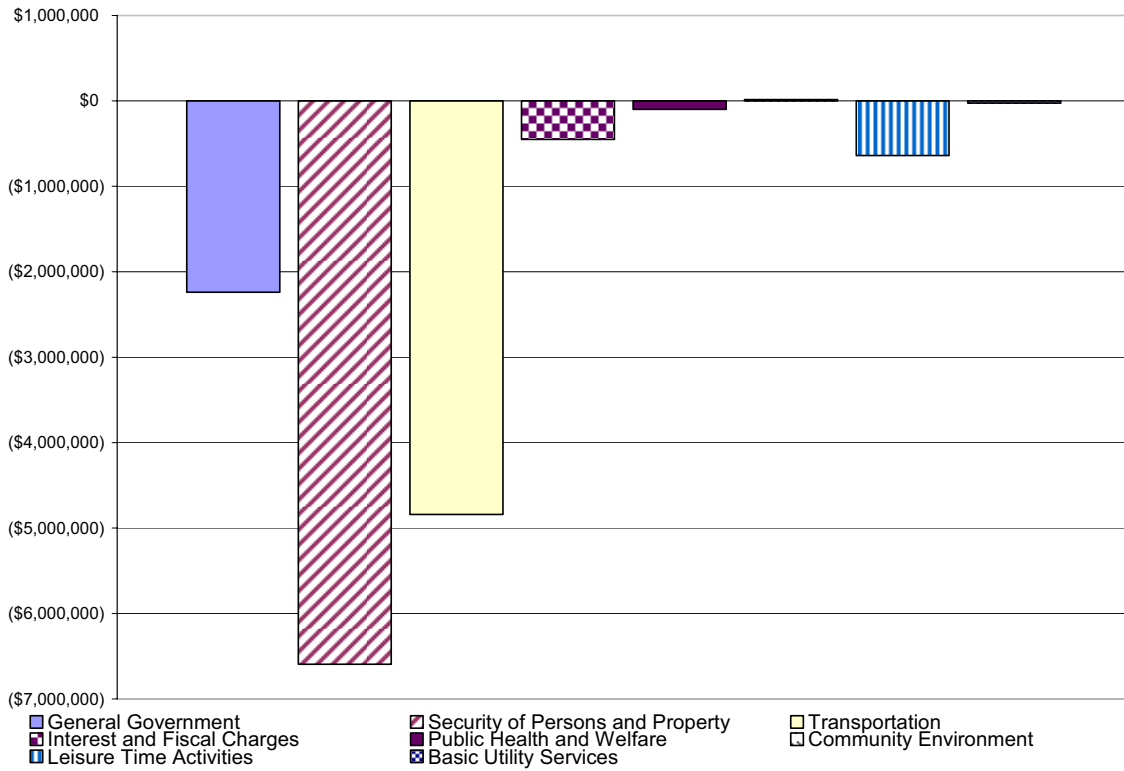
***Governmental Activities***

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

Graph 1 represents the net cost (total cost less revenues generated by the activities) of each of the City's Governmental program's – General Government, Security of Persons and Property, Transportation, Interest and Fiscal Charges, Public Health and Welfare, Community Environment, Leisure Time Activities and Basic Utility Services. The net cost shows the financial burden that was placed on the City's taxpayers by each of these functions.

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Graph 1  
 Governmental Programs Net Cost



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

When looking at sources of income to support governmental activities, it should be noted that charges for services are only 5.3 percent of revenue. Revenues provided by sources other than city residents in the form of operating and capital grants and contributions comprise another 9.8 percent. The remaining revenues are primarily generated locally through property (24.9 percent) and income taxes (42.7 percent).

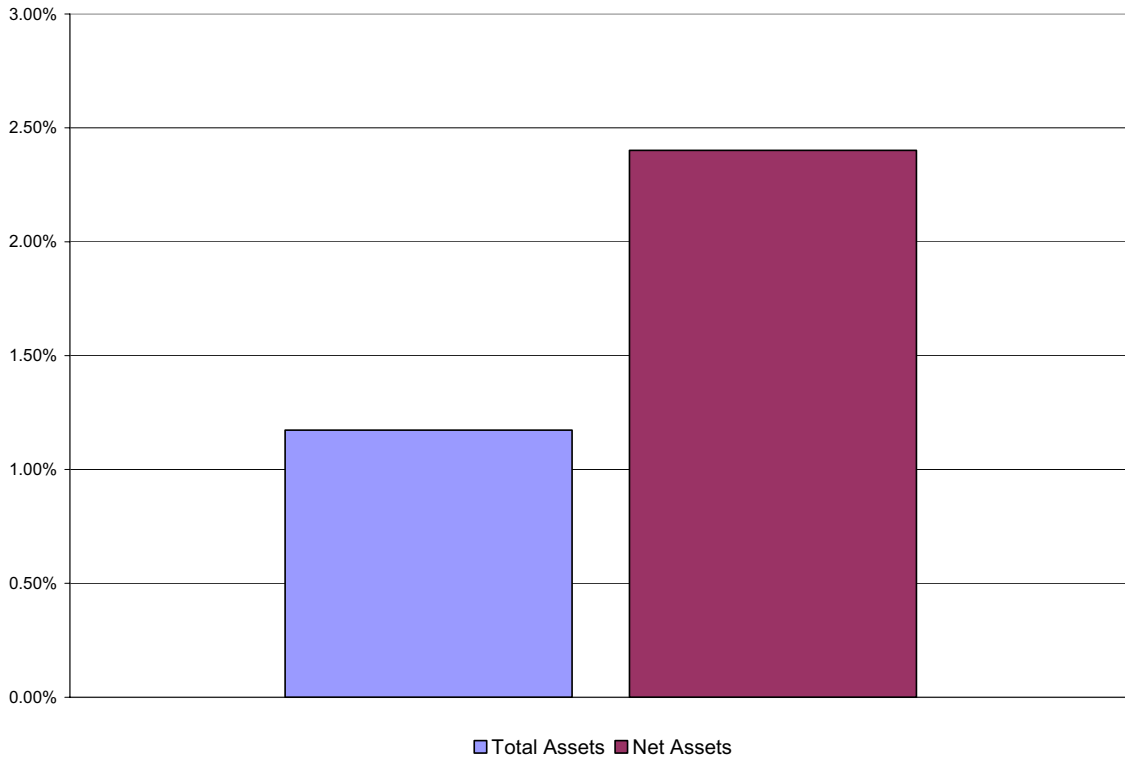
***Business-Type Funds***

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

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

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Graph 2  
Return on Assets



### The City's Funds

Information about the City's major governmental funds begins on page 17. These funds are reported using the modified accrual basis of accounting. All Governmental funds had total revenues of \$20.4 million and expenditures of \$18.6 million. The General Fund balance increased \$0.1 million. The City closely monitors its revenues and expenditures to maintain a sound fund balance.

### General Fund Budgeting Highlights

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

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

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

The General Fund variance from original estimated revenues increased by \$53,026 increasing the overall General Fund estimated revenues to \$11,864,556 as indicated on page 21. This change represents 0.4% of total final estimated revenue. The General Fund variance from original appropriations to final appropriations was \$63,933, increasing overall General Fund appropriations to \$12,795,122. This change represents 0.5% of total final appropriations. These changes reflect the City's realistic estimates based on the financial conditions in our state's economy providing effective fiscal management.

The Income Tax Transfer Fund variance from original estimated revenues increased by \$1,600,000 increasing the overall Income Tax Transfer Fund estimated revenues to \$9,374,806 as indicated on page 22. This change represents 17.1% of total estimated revenue. This reflects that employment in the City of Avon Lake maintained, and in fact, exceeded estimates.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

At the end of 2006, the City had \$107.9 million, net of depreciation, invested in a broad range of capital assets, including police, fire and radio equipment, land, vehicles, buildings, park facilities, roads, bridges, and water and sewer lines in Table 3. This amount represents a net increase over last year.

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

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Capital Assets						
Land	\$ 3.6	\$ 3.6	\$ 1.7	\$ 1.7	\$ 5.3	\$ 5.3
Construction in Progress	0.5	0.6	0.0	4.8	0.5	5.4
Building and Improvements	12.4	11.4	21.1	17.5	33.5	28.9
Machinery and Equipment	1.8	2.1	2.2	2.4	4.0	4.5
Vehicles	1.2	1.2	0.1	0.1	1.3	1.3
Infrastructure	34.9	34.1	-	-	34.9	34.1
Water and Sewer lines	<u>-</u>	<u>-</u>	<u>28.4</u>	<u>28.2</u>	<u>28.4</u>	<u>28.2</u>
Total Capital Assets	\$ <u>54.4</u>	\$ <u>53.0</u>	\$ <u>53.5</u>	\$ <u>54.7</u>	\$ <u>107.9</u>	\$ <u>107.7</u>

More detailed information about the City's capital assets is presented in Note 7 to the basic financial statements.

**Debt**

At December 31, 2006, the City had \$14.7 million in General Obligation Bonds.

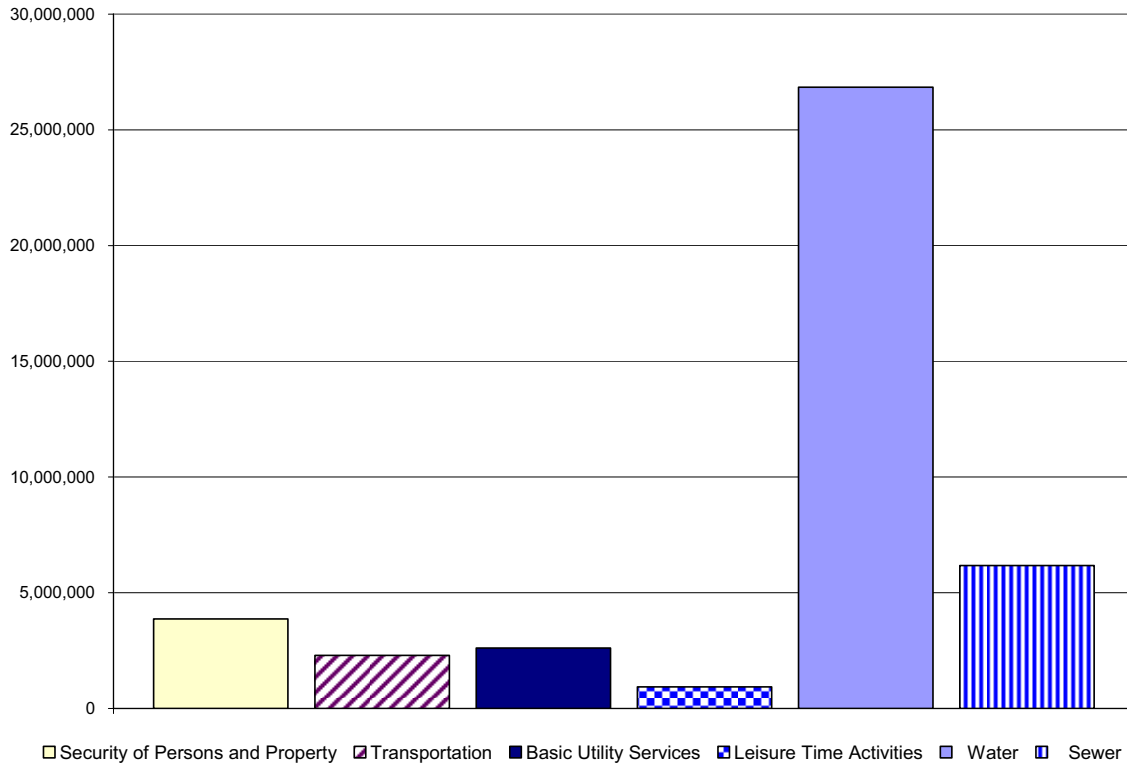
Table 4  
General Obligation Bond Debt Outstanding at Year End  
(Governmental Activities and Business-Type Activities)

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Unvoted General Obligation Bonds						
2001 Various Refunding	\$ 0.3	\$ 0.4	\$ 5.1	\$ 5.6	\$ 5.4	\$ 6.0
2001 Pin Oak Parkway	0.4	0.4	0.0	0.0	0.4	0.4
2001 Safety Center	3.9	4.0	0.0	0.0	3.9	4.0
2003 Recreational Facility	0.9	1.0	0.0	0.0	0.9	1.0
2003 Wastewater Improvement	<u>0.0</u>	<u>0.0</u>	<u>4.1</u>	<u>4.3</u>	<u>4.1</u>	<u>4.3</u>
Total Unvoted G.O. Bonds	\$ <u>5.5</u>	\$ <u>5.8</u>	\$ <u>9.2</u>	\$ <u>9.9</u>	\$ <u>14.7</u>	\$ <u>15.7</u>

At December 31, 2006, the City had outstanding long-term debt obligations in the amount of \$9.7 million for the governmental activities and \$33.0 million for business-type activities. The breakout on debt is presented in the graph below.

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Graph 3  
 Debt by Activity



Debt for Security of Persons and Property consist of \$3,869,101 for the City of Avon Lake's Safety Center. Debt for Transportation consists of \$1,010,000 for the improvements to Pin Oak Parkway, \$314,931 for Walker Rd. widening, and \$4,148 for curb and gutter improvements along Redwood Blvd. Debt for Basic Utility Services consists of \$2,324,996 for the Central Avon Lake Ditch Project, \$284,994 for storm sewers along Walker Rd. Debt for Leisure Time Activities consists of \$925,000 for improvements to Weiss Field. Debt for Water includes five improvement and expansion projects to the City of Avon Lake's water distribution plant totaling \$26,841,137. Debt for Sewer consists of \$449,468 for digester repairs and improvements, \$539,165 for sanitary sewer installation along Walker Rd., and \$5,185,490 for various sewer separation and storm sewer projects throughout the City of Avon Lake.

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



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**Current Financial Related Activities**

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

In 2006, the City added three new cruisers to its Police fleet, 2nd of two fully equipped new ambulances to our Paramedic fleet, new boat launch for the Avon Lake Boat Club, one dump truck to our Service department, continued study for a City wide Signalization project, continued improvements to a jointly owned park with the City of Bay Village along with various improvements at other City owned parks.

In early May of 2006, the Water Department's expansion project was closed out with a total of \$4,764,656 of OWDA funds increasing its capacity to 40 million gallons per day ensuring the necessary capacity for the City of Avon Lake and surrounding communities well into the future.

Also, the City continues an aggressive street repair program with \$696,739 budgeted for 2007 for resurfacing and repairs of various streets throughout the city, along with \$556,521 budgeted for the addition of an approximately 4,500 foot third (turning) lane along Walker Rd.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Director, City of Avon Lake, 150 Avon Belden Road, Avon Lake, Ohio 44012, telephone 440-933-6141 or visit our website at [www.avonlake.org](http://www.avonlake.org).

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**City of Avon Lake, Ohio**

Lorain County  
Statement of Net Assets  
December 31, 2006

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$11,113,450	\$8,955,102	\$20,068,552
Receivables:			
Taxes	8,084,362	0	8,084,362
Accounts	108,016	984,185	1,092,201
Special assessments	3,916,655	328,572	4,245,227
Due from other governments	431,502	87,000	518,502
Materials and supplies inventory	106,102	85,497	191,599
Total current assets	<u>23,760,087</u>	<u>10,440,356</u>	<u>34,200,443</u>
Noncurrent assets:			
Restricted cash and cash equivalents	158,079	1,449,347	1,607,426
Due from other governments	0	779,000	779,000
Unamortized bond issue costs and discounts	0	534,400	534,400
Investment in joint venture	0	2,257,646	2,257,646
Capital assets			
Land and construction in progress	4,090,061	1,665,385	5,755,446
Depreciable, net	50,316,966	51,839,320	102,156,286
Total noncurrent assets	<u>54,565,106</u>	<u>58,525,098</u>	<u>113,090,204</u>
Total assets	<u>78,325,193</u>	<u>68,965,454</u>	<u>147,290,647</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts and contracts payable	554,157	295,988	850,145
Retainage payable	158,079	0	158,079
Accrued wages and benefits	393,898	115,568	509,466
Intergovernmental payable	452,256	142,662	594,918
Deferred revenue	4,235,002	328,572	4,563,574
Notes payable	960,000	0	960,000
Interest payable	32,967	165,090	198,057
Long-term liabilities:			
Due within one year	1,130,632	2,312,913	3,443,545
Due in more than one year	9,656,446	31,096,111	40,752,557
Total liabilities	<u>17,573,437</u>	<u>34,456,904</u>	<u>52,030,341</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	45,673,857	20,489,445	66,163,302
Restricted for:			
Capital projects	2,578,693	0	2,578,693
Debt service	523,965	1,449,347	1,973,312
Streets and highways	563,356	0	563,356
Public Safety	961,178	0	961,178
Parks and recreation	121,278	0	121,278
Other purposes	158,079	0	158,079
Unrestricted	10,171,350	12,569,758	22,741,108
Total net assets	<u>\$60,751,756</u>	<u>\$34,508,550</u>	<u>\$95,260,306</u>

See Notes to the Basic Financial Statements

**City of Avon Lake**  
Lorain County

*Statement of Activities*

*For the Year Ended December 31, 2006*

	Program Revenues			Net (Expense) Revenue and Changes In Net Assets		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Functions/Programs</b>						
<b>Primary Government:</b>						
Governmental Activities:						
General Government	\$2,639,522	\$34,599	\$90,302	(\$2,258,662)	\$0	(\$2,258,662)
Security of Persons and Property	6,877,385	32,198	3,563	(6,587,953)	0	(6,587,953)
Public Health and Welfare	97,659	0	0	(97,659)	0	(97,659)
Transportation	6,898,804	0	2,004,198	(4,827,575)	0	(4,827,575)
Community Environment	343,834	0	0	14,374	0	14,374
Basic Utility Services	25,135	0	0	(25,135)	0	(25,135)
Leisure Time Activities	934,262	0	0	(638,301)	0	(638,301)
Interest and Fiscal Charges	450,294	0	0	(450,294)	0	(450,294)
<i>Total Governmental Activities</i>	<u>18,266,895</u>	<u>66,797</u>	<u>2,098,063</u>	<u>(14,871,205)</u>	<u>0</u>	<u>(14,871,205)</u>
Business-type Activities:						
Water	8,397,714	0	162,592	0	420,449	420,449
Sewer	3,595,535	0	317,511	0	(369,740)	(369,740)
<i>Total Business-type Activities</i>	<u>11,993,249</u>	<u>0</u>	<u>480,103</u>	<u>0</u>	<u>50,709</u>	<u>50,709</u>
<i>Total Primary Government</i>	<u>\$30,260,144</u>	<u>\$66,797</u>	<u>\$2,578,166</u>	<u>(14,871,205)</u>	<u>50,709</u>	<u>(14,820,496)</u>
<b>General Revenues</b>						
Property Taxes - General Purposes				5,207,484	0	5,207,484
Income Taxes				9,602,798	0	9,602,798
Special assessments				412,572	0	412,572
Intergovernmental				3,343,650	19,039	3,362,689
Investment Earnings				860,731	225,736	1,086,467
Miscellaneous				67,816	30,170	97,986
Transfers, Net				(434,854)	483,376	48,522
<i>Total General Revenues and Transfers</i>				<u>19,060,197</u>	<u>758,321</u>	<u>19,818,518</u>
Changes in Net Assets				4,188,992	809,030	4,998,022
<i>Net Assets - Beginning</i>				<u>56,562,764</u>	<u>33,699,520</u>	<u>90,262,284</u>
<i>Net Assets - Ending</i>				<u>\$60,751,756</u>	<u>\$34,508,550</u>	<u>\$95,260,306</u>

See Notes to the Basic Financial Statements

**City of Avon Lake, Ohio**

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

	General Fund	Income Tax Transfer Fund	Capital Improvement Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>						
Cash and Cash Equivalents	\$1,525,578	\$3,536,072	\$758,497	\$556,932	\$4,736,371	\$11,113,450
Cash and Cash Equivalents with Fiscal and Escrow Agents	0	0	10,231	0	147,848	158,079
Receivables:						
Taxes	4,424,879	2,112,976	0	0	1,546,507	8,084,362
Accounts	105,902	0	0	0	2,114	108,016
Special Assessments	0	0	0	3,535,325	381,330	3,916,655
Interfund	276,115	0	27,640	0	0	303,755
Intergovernmental	63,132	1,177	2,235	0	364,958	431,502
Materials and Supplies Inventory	17,243	0	0	0	88,859	106,102
<b>Total Assets</b>	<u>\$6,412,849</u>	<u>\$5,650,225</u>	<u>\$798,603</u>	<u>\$4,092,257</u>	<u>\$7,267,987</u>	<u>\$24,221,921</u>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Accounts and Contracts Payable	\$146,305	\$0	\$71,228	\$0	\$336,624	\$554,157
Retainage Payable	0	0	10,231	0	147,848	158,079
Accrued Wages and Benefits	318,912	0	0	0	74,986	393,898
Deferred Revenue	4,424,879	1,568,780	0	3,535,325	1,927,836	11,456,820
Intergovernmental Payable	174,335	0	0	0	277,921	452,256
Interfund Payables	0	0	0	0	303,755	303,755
Notes Payable	0	0	0	0	960,000	960,000
Interest Payable	0	0	0	32,967	0	32,967
Compensated Absences	25,998	0	0	0	0	25,998
Recreation Fee Credits Payable	0	0	0	0	129,805	129,805
<b>Total Liabilities</b>	<u>5,090,429</u>	<u>1,568,780</u>	<u>81,459</u>	<u>3,568,292</u>	<u>4,158,775</u>	<u>14,467,735</u>
<b>FUND BALANCES:</b>						
Reserved for:						
Inventories	17,243	0	0	0	88,859	106,102
Encumbrances	118,604	0	197,934	0	606,920	923,458
Debt Service	0	0	0	523,965	0	523,965
Unreserved	1,186,573	4,081,445	519,210	0	0	5,787,228
Unreserved reported in nonmajor:						
Special revenue funds	0	0	0	0	2,028,258	2,028,258
Capital projects funds	0	0	0	0	385,175	385,175
<b>Total fund balances</b>	<u>1,322,420</u>	<u>4,081,445</u>	<u>717,144</u>	<u>523,965</u>	<u>3,109,212</u>	<u>9,754,186</u>
<b>Total Liabilities and fund balances</b>	<u>\$6,412,849</u>	<u>\$5,650,225</u>	<u>\$798,603</u>	<u>\$4,092,257</u>	<u>\$7,267,987</u>	<u>\$24,221,921</u>

See Notes to the Basic Financial Statements

**City of Avon Lake, Ohio**  
 Lorain County  
 Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities  
 December 31, 2006

**Total fund balances - governmental funds** \$9,754,186

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

Capital assets used in governmental activities are not financial  
 resources and therefore, are not reported as assets in governmental funds.  
 The cost of the assets is \$85,009,983 and the accumulated depreciation is \$30,602,956 54,407,027

Income and special assessment taxes receivable will be collected this year, but are not  
 available soon enough to pay for the current period's expenditures, and therefore  
 are deferred in the funds. 7,221,818

Long-term liabilities, including bonds payable and compensated absences,  
 are not due and payable in the current period and therefore, are not reported as  
 liabilities in the funds. (10,631,275)

Total net assets - governmental activities \$60,751,756

See Notes to the Basic Financial Statements

**City of Avon Lake, Ohio**  
Lorain County  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended December 31, 2006

	General Fund	Income Tax Transfer Fund	Capital Improvement Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>						
Municipal Income Tax	\$0	\$9,087,129	\$0	\$0	0	\$9,087,129
Property and Other Taxes	3,488,603	0	0	0	1,399,705	4,888,308
Charges for Services	279,708	0	6,698	0	68,930	355,336
Licenses and Permits	465,873	0	0	0	100,252	566,125
Fines and Forfeits	206,686	0	0	0	31,600	238,286
Intergovernmental	1,801,595	1,177	4,379	0	2,000,278	3,807,429
Special Assessments	0	0	0	346,406	66,166	412,572
Interest	0	0	805,820	516	54,395	860,731
Contributions and Donations	34,599	0	0	11,439	49,500	95,538
Other	60,897	0	0	6,374	475	67,746
<b>Total Revenues</b>	<u>\$6,337,961</u>	<u>9,088,306</u>	<u>816,897</u>	<u>364,735</u>	<u>3,771,301</u>	<u>20,379,200</u>
<b>Expenditures</b>						
<b>Current:</b>						
General Government	2,170,710	0	(69,225)	0	79,270	2,180,755
Security of Persons and Property	4,981,924	0	49,369	0	1,484,691	6,515,984
Public Health and Welfare	67,000	0	0	0	30,659	97,659
Transportation	3,085,749	0	173,860	0	1,715,752	4,975,361
Community Environment	336,753	0	0	0	4,255	341,008
Leisure Time Activities	471,797	0	230,126	0	180,613	882,536
Capital Outlay	59,578	0	921,275	0	1,666,035	2,646,888
<b>Debt Service:</b>						
Principal Retirement	0	0	0	517,981	0	517,981
Interest and Fiscal Charges	0	0	0	474,461	0	474,461
<b>Total Expenditures</b>	<u>11,173,511</u>	<u>0</u>	<u>1,305,405</u>	<u>992,442</u>	<u>5,161,275</u>	<u>18,632,633</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>						
	<u>(4,835,550)</u>	<u>9,088,306</u>	<u>(488,508)</u>	<u>(627,707)</u>	<u>(1,389,974)</u>	<u>1,746,567</u>
<b>Other Financing Sources (Uses)</b>						
Transfers In	5,489,497	0	1,510,000	675,273	1,012,525	8,687,295
Transfers Out	(514,395)	(7,250,000)	(1,141,905)	(52,354)	(198,379)	(9,157,033)
<b>Total Other Financing Sources (Uses)</b>	<u>4,975,102</u>	<u>(7,250,000)</u>	<u>368,095</u>	<u>622,919</u>	<u>814,146</u>	<u>(469,738)</u>
<b>Net Change in Fund Balances</b>	<u>139,552</u>	<u>1,838,306</u>	<u>(120,413)</u>	<u>(4,788)</u>	<u>(575,828)</u>	<u>1,276,829</u>
<b>Fund Balances - Beginning</b>	<u>1,182,868</u>	<u>2,243,139</u>	<u>837,557</u>	<u>528,753</u>	<u>3,685,040</u>	<u>8,477,357</u>
<b>Fund Balances - Ending</b>	<u>\$1,322,420</u>	<u>\$4,081,445</u>	<u>\$717,144</u>	<u>\$523,965</u>	<u>\$3,109,212</u>	<u>\$9,754,186</u>

See Notes to the Basic Financial Statements

**City of Avon Lake, Ohio**  
 Lorain County  
 Reconciliation of the Statement of Revenues, Expenditures and Changes  
 in Fund Balances of Governmental Funds to the Statement of Activities  
 For the Year Ended December 31, 2006

**Net Changes in Fund Balances - Total Governmental Funds** \$1,276,829

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

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

Capital Asset Additions	4,929,003	
Current Year Depreciation	<u>(2,907,673)</u>	
Total		2,021,330

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (614,944)

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

Income Taxes	515,669	
Property and other taxes	<u>319,176</u>	
Total	834,845	834,845

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 517,981

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

Police and Fire Pension Payable	1,923	
Landfill Post Closure Costs	27,280	
Compensated absences	59,188	
Recreational fee credit payable	<u>64,560</u>	
Total	152,951	<u>152,951</u>

Change in Net Assets of Governmental Activities \$4,188,992

See Notes to the Basic Financial Statements



**City of Avon Lake, Ohio**  
Lorain County  
Statement of Revenues, Expenditures and Changes  
in Fund Balance - Budget (Non-GAAP Basis) and Actual  
*General Fund*  
For the Year Ended December 31, 2006

	Budget Amounts		Actual
	Original	Final	
<b>Revenues</b>			
Property and Other Taxes	\$3,539,502	\$3,539,502	\$3,405,521
Charges for Services	299,500	\$300,529	279,708
Licenses and Permits	512,300	\$512,300	465,873
Fines and Forfeits	182,000	\$182,000	206,553
Intergovernmental	1,432,728	\$1,432,728	1,741,755
Donations	48,000	48,000	34,599
Other	43,500	43,500	60,897
<b>Total Revenues</b>	<b>6,057,530</b>	<b>6,058,559</b>	<b>6,194,906</b>
<b>Expenditures</b>			
Current:			
General Government	2,477,830	2,489,001	\$2,326,332
Security of Persons and Property	5,335,591	5,335,591	\$4,991,238
Public Health and Welfare	67,000	67,000	\$67,000
Transportation	3,106,457	3,106,457	\$3,075,059
Community Environment	384,102	384,102	\$346,147
Leisure Time Activities	585,256	585,256	\$500,829
<b>Total Expenditures</b>	<b>11,956,236</b>	<b>11,967,407</b>	<b>11,306,605</b>
Excess (Deficiency) of Revenues over Expenditures	(5,898,706)	(5,908,848)	(5,111,699)
<b>Other Financing Sources (Uses)</b>			
Transfers-In	5,437,500	5,489,497	5,489,497
Transfers-Out	(408,953)	(461,715)	(514,395)
Advances-In	316,500	316,500	253,650
Advances-Out	(366,000)	(366,000)	(321,000)
<b>Total Other Financing Sources</b>	<b>4,979,047</b>	<b>4,978,282</b>	<b>4,907,752</b>
Net change in Fund Balance	(919,659)	(930,566)	(203,947)
Fund Balance - Beginning	1,159,445	1,159,445	1,159,445
Fund Balance - Ending	<u>\$239,786</u>	<u>\$228,879</u>	<u>\$955,498</u>

See Notes to Basic Financial Statements

**City of Avon Lake, Ohio**  
Lorain County  
Statement of Revenues, Expenditures and Changes  
in Fund Balance - Budget (Non-GAAP Basis) and Actual  
*Income Tax Transfer Fund*  
For the Year Ended December 31, 2006

	<u>Budget Amounts</u>		
	<u>Original</u>	<u>Final</u>	<u>Actual</u>
<b>Revenues</b>			
Municipal Income Tax	<u>\$7,300,000</u>	<u>\$8,900,000</u>	<u>\$9,185,255</u>
Total Revenues	<u>7,300,000</u>	<u>8,900,000</u>	<u>9,185,255</u>
<b>Expenditures</b>			
Current:			
General Government	<u>150,000</u>	<u>150,000</u>	<u>122,912</u>
Total Expenditures	<u>150,000</u>	<u>150,000</u>	<u>122,912</u>
Excess (Deficiency) of Revenues over Expenditures	<u>7,150,000</u>	<u>8,750,000</u>	<u>9,062,343</u>
<b>Other Financing Sources (Uses)</b>			
Transfers-Out	(7,250,000)	(7,250,000)	(7,250,000)
Advances-In	474,806	474,806	237,829
Advances-Out	<u>(474,806)</u>	<u>(474,806)</u>	<u>(237,829)</u>
Total Other Financing Sources (Uses)	<u>(7,250,000)</u>	<u>(7,250,000)</u>	<u>(7,250,000)</u>
Net change in Fund Balance	(100,000)	1,500,000	1,812,343
Fund Balance - Beginning	<u>1,723,730</u>	<u>1,723,730</u>	<u>1,723,730</u>
Fund Balance - Ending	<u><u>\$1,623,730</u></u>	<u><u>\$3,223,730</u></u>	<u><u>\$3,536,073</u></u>

**See Notes to Basic Financial Statements**

**City of Avon Lake, Ohio**

Lorain County  
Statement of Fund Net Assets  
*Proprietary Funds*  
December 31, 2006

	Business-Type Activities		
	Water	Sewer	Total
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$5,830,731	\$3,124,371	\$8,955,102
Receivables:			
Accounts	573,085	411,100	984,185
Special Assessments	0	328,572	328,572
Due from other governments	87,000	0	87,000
Materials and supplies inventory	70,567	14,930	85,497
Total current assets	<u>6,561,383</u>	<u>3,878,973</u>	<u>10,440,356</u>
Noncurrent assets:			
Restricted cash and cash equivalents	1,449,347	0	1,449,347
Due from other governments	779,000	0	779,000
Unamortized bond issue costs and discounts	520,216	14,184	534,400
Investment in joint venture	2,257,646	0	2,257,646
Capital assets:			
Land and construction in progress	671,708	993,677	1,665,385
Depreciable capital assets	54,483,701	25,853,111	80,336,812
Less accumulated depreciation	(16,838,602)	(11,658,890)	(28,497,492)
Total noncurrent assets	<u>43,323,016</u>	<u>15,202,082</u>	<u>58,525,098</u>
Total assets	<u>49,884,399</u>	<u>19,081,055</u>	<u>68,965,454</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts and contracts payable	264,255	31,733	295,988
Accrued wages and benefits	62,104	53,464	115,568
Intergovernmental payable	84,063	58,599	142,662
Deferred revenue	0	328,572	328,572
Interest payable	147,112	17,978	165,090
General obligation bonds	474,218	248,698	722,916
OWDA general obligation debt	555,967	120,983	676,950
Revenue bonds	780,000	0	780,000
Total current liabilities	<u>2,367,719</u>	<u>860,027</u>	<u>3,227,746</u>
Noncurrent liabilities:			
Compensated Absences	198,882	194,882	393,764
General obligation bonds	3,553,021	4,936,792	8,489,813
OWDA General Obligation debt	9,652,931	867,650	10,520,581
Revenue bonds	11,825,000	0	11,825,000
Total noncurrent liabilities	<u>25,229,834</u>	<u>5,999,324</u>	<u>31,229,158</u>
Total liabilities	<u>27,597,553</u>	<u>6,859,351</u>	<u>34,456,904</u>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	11,475,670	9,013,775	20,489,445
Restricted for debt service	1,449,347	0	1,449,347
Unrestricted	9,361,829	3,207,929	12,569,758
Total net assets	<u>\$22,286,846</u>	<u>\$12,221,704</u>	<u>\$34,508,550</u>

See Notes to the Basic Financial Statements

**City of Avon Lake, Ohio**  
Lorain County  
Statement of Revenues, Expenses, and Changes in Fund Net Assets  
*Proprietary Funds*  
for the Year Ended December 31, 2006

	Business-Type Activities		
	Water	Sewer	Total
<b>OPERATING REVENUES</b>			
Charges for Services	\$8,655,571	\$2,908,284	\$11,563,855
Other	-	30,170	30,170
Total Operating Revenues	8,655,571	2,938,454	11,594,025
<b>OPERATING EXPENSES</b>			
Personal Services	1,424,306	1,435,644	2,859,950
Contractual Services	316,287	213,768	530,055
Materials and Supplies	4,173,524	1,046,898	5,220,422
Depreciation	1,081,744	610,357	1,692,101
Total Operating Expenses	6,995,861	3,306,667	10,302,528
Operating Income (Loss)	1,659,710	(368,213)	1,291,497
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Contributions to Joint Venture	19,039	0	19,039
Earnings on Investments	162,889	62,847	225,736
Interest and Fiscal Charges	(1,401,853)	(288,868)	(1,690,721)
Total Non-Operating (Expenses)	(1,219,925)	(226,021)	(1,445,946)
Income (Loss) Before Operating Transfers and Contributions	439,785	(594,234)	(154,449)
Capital Contributions	162,592	317,511	480,103
Transfers In	4,257,060	1,379,734	5,636,794
Transfers Out	(4,190,610)	(962,808)	(5,153,418)
Change in Net Assets	668,827	140,203	809,030
Total net assets - beginning	21,618,019	12,081,501	33,699,520
Total net assets - ending	\$22,286,846	\$12,221,704	\$34,508,550

See Notes to the Basic Financial Statements

**City of Avon Lake, Ohio**  
Lorain County  
Statement of Cash Flows  
*Proprietary Funds*  
For the Year Ended December 31, 2006

	<u>Business-Type Activities</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Totals</u>
<b>Cash Flows From Operating Activities</b>			
Cash Received from Customers and Users	\$8,814,488	\$2,958,126	\$11,772,614
Cash Paid to Suppliers	(4,323,375)	(1,324,225)	(5,647,600)
Cash Paid to Employees	(1,418,041)	(1,451,997)	(2,870,038)
Net Cash Provided By Operating Activities	<u>3,073,072</u>	<u>181,904</u>	<u>3,254,976</u>
<b>Cash Flows From Noncapital Financing Activities</b>			
Capital Contributions	162,592	317,511	480,103
Transfers In	4,257,060	1,379,734	5,636,794
Transfers Out	(4,190,610)	(962,808)	(5,153,418)
Net Cash Provided By Noncapital Financing Activities	<u>229,042</u>	<u>734,437</u>	<u>963,479</u>
<b>Cash Flows From Capital and Related Financing Activities</b>			
Purchase of Capital Assets	140,549	(622,181)	(481,632)
Contributions to Joint Venture	19,039	0	19,039
Principal Repaid on Capital Debt	(1,720,305)	(356,592)	(2,076,897)
Interest Paid on Capital Debt	(1,384,886)	(278,575)	(1,663,461)
Net Cash (Used For) Provided By Capital Financing Activities	<u>(2,945,603)</u>	<u>(1,257,348)</u>	<u>(4,202,951)</u>
<b>Cash Flows From Investing Activities</b>			
Interest Received	<u>106,745</u>	<u>62,847</u>	<u>169,592</u>
Net Cash Provided By Investing Activities	<u>106,745</u>	<u>62,847</u>	<u>169,592</u>
Net (Decrease) Increase in Cash and Cash Equivalents	463,256	(278,160)	185,096
Cash and Cash Equivalents, Beginning of Year	<u>6,816,822</u>	<u>3,402,531</u>	<u>10,219,353</u>
Cash and Cash Equivalents, End of Year	<u><u>\$7,280,078</u></u>	<u><u>\$3,124,371</u></u>	<u><u>\$10,404,449</u></u>
<b>Reconciliation of Operating Income to Net Cash Provided By Operating Activities</b>			
Operating Income (Loss)	\$1,659,710	(\$368,213)	\$1,291,497
<b>Adjustments:</b>			
Depreciation Expense	1,081,744	610,357	1,692,101
<b>Changes in Assets and Liabilities:</b>			
(Increase)/Decrease in Unamortized Bond Costs	24,090	1,289	25,379
(Increase)/Decrease in Materials and Supplies Inventories	(18,140)	2,156	(15,984)
(Increase)/Decrease in Accounts Receivable	19,773	19,672	39,445
(Increase)/Decrease in Intergovernmental Receivable	83,000	0	83,000
Increase/(Decrease) in Accounts and Contracts Payable	217,129	(65,715)	151,414
Increase/(Decrease) in Accrued Wages and Benefits Payable	5,197	(13,726)	(8,529)
Increase/(Decrease) in Intergovernmental Payable	569	(3,916)	(3,347)
Net cash provided by operating activities	<u><u>\$3,073,072</u></u>	<u><u>\$181,904</u></u>	<u><u>\$3,254,976</u></u>

See Notes to the Basic Financial Statements

**City of Avon Lake, Ohio**  
Lorain County  
Statement of Fiduciary Net Assets  
*Fiduciary Funds*  
December 31, 2006

	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$753,354
Total assets	<u>\$753,354</u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts and contracts payables	\$157,001
Intergovernmental payables	5,359
Due to others	<u>590,994</u>
Total liabilities	<u>\$753,354</u>

See Notes to the Basic Financial Statements

**City of Avon Lake**  
Lorain County, Ohio  
Notes to the Basic Financial Statements  
For The Year Ended December 31, 2006

**NOTE 1 - DESCRIPTION OF THE CITY AND REPORTING ENTITY**

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

**Reporting Entity**

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

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

The City is associated with the Lorain County Community Alliance Council of Governments as a jointly governed organization. The City is also a member of the Medina-Lorain Water Consortium, a joint venture (See Note 12.)

**City of Avon Lake**  
Lorain County, Ohio  
Notes to the Basic Financial Statements  
For The Year Ended December 31, 2006

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**Basis of Presentation**

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

**Government-wide Financial Statements**

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

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

**Fund Financial Statements**

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



**City of Avon Lake**  
Lorain County, Ohio  
Notes to the Basic Financial Statements  
For The Year Ended December 31, 2006

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Fund Accounting**

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

Governmental Funds

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

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

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

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

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

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

Proprietary Funds

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

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

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

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

**City of Avon Lake**  
Lorain County, Ohio  
Notes to the Basic Financial Statements  
For The Year Ended December 31, 2006

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Fiduciary Funds

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

**Measurement Focus**

Government-wide Financial Statements

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

Fund Financial Statements

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

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

**Basis of Accounting**

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

**City of Avon Lake**  
Lorain County, Ohio  
Notes to the Basic Financial Statements  
For The Year Ended December 31, 2006

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Revenues - Exchange and Non-exchange Transactions

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

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 5). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from 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 (including gasoline tax and motor vehicle license fees), fines and forfeitures, interest, grants, fees and rentals.

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of December 31, 2006, but which were levied to finance fiscal year 2007 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenses/Expenditures

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

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

**City of Avon Lake**  
Lorain County, Ohio  
Notes to the Basic Financial Statements  
For The Year Ended December 31, 2006

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Budgetary Process

An annual appropriated budget is legally required by the City Charter to be prepared for all funds of the City other than agency funds. Council passes appropriations at the fund level for all funds except the General Fund and the Income Tax Capital Improvement Fund. For these funds, the legal level of control is fund/program level.

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

Tax Budget

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

Estimated Resources

The County Budget Commission determines if the tax budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by October 1. As part of this certification, the City receives the official certificate of estimated resources that states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include any unencumbered balances from the preceding year. The certificate of estimated resources can be further amended during the year if the fiscal officer determines, and the Budget Commission agrees, that an estimate needs to be either increased or decreased. The amounts reported in the budgetary statements as original represent the amounts in the official certificate of estimated resources when the original appropriations were adopted. The amounts reported in the budgetary statements as final reflect the amounts in the final amended official certificate of estimated resources issued during 2006.

Appropriations

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

**City of Avon Lake**  
Lorain County, Ohio  
Notes to the Basic Financial Statements  
For The Year Ended December 31, 2006

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Lapsing of Appropriations

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

Encumbrances

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

**Cash and Cash Equivalents**

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

Investments are reported at fair value which is based on quoted market prices, with the exception of nonparticipating repurchase agreements, which are reported at cost. For investments in open-end mutual funds, fair value is determined by the fund's share price. During the year, investments were limited to money market mutual fund accounts, manuscript debt, repurchase agreements, investments in U.S. agencies and instrumentalities and the City invested in STAROhio, an investment pool managed by the State Treasurer's Office. STAROhio 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, 2006.

Following Ohio statutes, the City has, by ordinance, specified the Capital Improvement Fund to receive an allocation of interest earnings. Interest receipts credited to the Capital Improvement Funds during 2006 amounted to \$705,462 which includes \$663,663 assigned from other City funds.

The cash of the Municipal Court is included in the "cash and cash equivalents" line item on the Statement of Fiduciary Net Assets. The balances of these accounts are presented on the balance sheet as "cash and cash equivalents" and represent checking accounts.

**City of Avon Lake**  
Lorain County, Ohio  
Notes to the Basic Financial Statements  
For The Year Ended December 31, 2006

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

The City presents "Restricted Cash and Cash Equivalents" on its Statement of Net Assets. In governmental activities, the restricted cash of \$158,079 represents cash restricted for contractor retainage. During 2006, this restricted cash was invested in money market interest bearing accounts.

In business-type activities, the restricted cash of \$1,449,347 represents cash segregated by the City from funds held by trustees in accordance with the trust agreement associated with the water system mortgage revenue refunding bonds issued on April 22, 2005. During 2006, this restricted cash was invested in U.S. Treasury obligations. See Note 9 for additional information regarding these bonds and related segregated assets.

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

**Inventory**

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

**Capital Assets**

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

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

**City of Avon Lake**  
 Lorain County, Ohio  
 Notes to the Basic Financial Statements  
 For The Year Ended December 31, 2006

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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

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

**Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." Interfund loans which do not represent available expendable resources are offset by a fund balance reserve account. These amounts are eliminated in the statement of net assets; except for any net residual amounts due between the governmental and business-type activities, which are presented as internal balances. During 2006, net transfers of \$48,522 represents a transfer from an agency fund to the water fund (see Note 17). The transfer out of the agency fund is not presented on the financial statements.

**Capitalization of Interest**

The City's policy is to delay capitalizing net interest on proprietary funds construction projects until substantial completion of the project. The amount of capitalized interest equals the difference between the interest cost associated with the tax exempt borrowing used to finance the project and the interest earned from temporary investment of the debt proceeds. Capitalized interest is amortized on the straight-line basis over the estimated useful life of the asset. For 2006, interest costs incurred on construction projects in proprietary funds were not material.

**Bond Discounts and Issuance Costs**

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

**Compensated Absences**

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

**City of Avon Lake**  
Lorain County, Ohio  
Notes to the Basic Financial Statements  
For The Year Ended December 31, 2006

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Compensated Absences (Continued)**

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

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

**Accrued Liabilities and Long-Term Obligations**

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

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

**Fund Balance Reserves**

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

**Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes represents cash restricted for contractor retainage. None of this amount was restricted by enabling legislation.

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



**City of Avon Lake**  
Lorain County, Ohio  
Notes to the Basic Financial Statements  
For The Year Ended December 31, 2006

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Operating Revenues and Expenses**

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

**Contributions of Capital**

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

**Interfund Activity**

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

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

**Extraordinary and Special Items**

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

**Estimates**

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

**City of Avon Lake**  
 Lorain County, Ohio  
 Notes to the Basic Financial Statements  
 For The Year Ended December 31, 2006

**NOTE 3 - BUDGETARY BASIS OF ACCOUNTING**

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

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

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

Net Change in Fund Balance General and Major Special Revenue Fund		
	<u>General Fund</u>	<u>Income Tax Transfer Fund</u>
GAAP Basis	\$ 139,552	\$ 1,838,306
Net Adjustment for Revenue Accruals	(143,055)	96,949
Net Adjustment for Expenditure Accruals	(88,290)	(122,912)
Encumbrances	(44,804)	0
Advances In	253,650	237,829
Advances Out	<u>(321,000)</u>	<u>(237,829)</u>
Budget Basis	\$ <u>(203,947)</u>	\$ <u>1,812,343</u>

**City of Avon Lake**  
Lorain County, Ohio  
Notes to the Basic Financial Statements  
For The Year Ended December 31, 2006

**NOTE 4 - DEPOSITS AND INVESTMENTS**

**Legal Requirements**

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

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

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

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

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

**City of Avon Lake**  
Lorain County, Ohio  
Notes to the Basic Financial Statements  
For The Year Ended December 31, 2006

**NOTE 4 - DEPOSITS AND INVESTMENTS** (Continued)

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

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

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

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

**Deposits**

***Custodial Credit Risk*** - Custodial credit risk is the risk that, in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, the carrying amount of the City's deposits was \$284,621 including \$1,595 of petty cash and the bank balance was \$343,108. Of the bank balance, \$249,114 was covered by federal depository insurance, and \$93,994 was uncollateralized and uninsured. Although the securities serving as collateral were held by the pledging financial institutions trust department or agent in the City's name and all state statutory requirements for the investment of money had been followed, noncompliance with federal requirements would potentially subject the City to a successful claim by the FDIC.

The City has no deposit policy for custodial risk beyond the requirements of the State Statute. Ohio law requires the deposits to be either insured or be protected by the eligible securities pledged to and deposited either with the City or a qualified trustee by the financial institution as security for repayment, or by collateral pool of eligible securities deposited with a qualified trustee and pledged to secure repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of all deposits being secured.

**City of Avon Lake**  
Lorain County, Ohio  
Notes to the Basic Financial Statements  
For The Year Ended December 31, 2006

**NOTE 4 - DEPOSITS AND INVESTMENTS** (Continued)

**Investments**

Investments are reported at fair value. As of December 31, 2006, the City had the following investments:

	<u>Fair Value</u>	<u>Average Maturity</u>
United States Treasury Notes	\$ 3,930,074	5/15/2007--5/15/2009
United States Treasury Bills	786,204	3/1/2007--6/21/2007
Federal Home Loan Bank Bonds	1,496,250	11/15/2007--2/27/2008
Federal National Mortgage Association Bonds	1,742,725	9/15/2007--2/27/2009
Federal Home Loan Mortgage Corporation Bonds	2,575,355	2/21/2008--9/16/2008
Federal National Mortgage Association Notes	299,010	1/26/2007
Federal Home Loan Mortgage Corporation Notes	587,610	3/9/2007--8/21/2007
Money Market Mutual Funds	2,249,423	Less than one year
Repurchase Agreement	300,000	Less than one year
STAR Ohio	8,169,555	Less than one year
Manuscript Debt	8,505	Less than one year
	<u>\$ 22,144,711</u>	

***Interest Rate Risk*** - As a means of limiting its exposure to fair value losses caused by rising interest rates, the City's investment policy requires that operating funds be invested primarily in short-term investments maturing within five years from the date of purchase and that the City's investment portfolio be structured so that the securities mature to meet cash requirements for ongoing operations and/or long-term debt payments. The stated intent of the policy is to avoid the need to sell securities prior to maturity. Currently, no investments have been purchased with a life greater than three years.

***Custodial Credit Risk*** - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Federal Home Loan Bank Bonds, Federal National Mortgage Association Bonds and Notes, and Federal Home Loan Mortgage Corporation Bonds and Notes are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent but not in the City's name. The City has no investment policy dealing with investment custodial credit risk beyond the requirement in the State statute that prohibits payments for investments prior to the delivery of the securities representing such investments to the finance director or qualified trustee.

***Credit Risk*** - The Federal Home Loan Bank Bonds, Federal National Mortgage Association Bonds and Notes, and Federal Home Loan Mortgage Corporation Bonds and Notes carry a rating of AAA by Standard & Poor's. Money market mutual funds are invested in U.S. Treasury securities and carry a rating of AAAM by Standard and Poor's. STAR Ohio carries a rating of AAA by Standard and Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

The City has no investment policy that addresses credit risk.

**City of Avon Lake**  
 Lorain County, Ohio  
 Notes to the Basic Financial Statements  
 For The Year Ended December 31, 2006

**NOTE 4 - DEPOSITS AND INVESTMENTS** (Continued)

*Concentration of Credit Risk* - The following is the City's allocation as of December 31, 2006:

	<u>Fair Value</u>	<u>Percentage of Investments</u>
United States Treasury Notes	\$ 3,930,074	17.75%
United States Treasury Bills	786,204	3.55%
Federal Home Loan Bank Bonds	1,496,250	6.76%
Federal National Mortgage Association Bonds	1,742,725	7.87%
Federal Home Loan Mortgage Corporation Bonds	2,575,355	11.63%
Federal National Mortgage Association Notes	299,010	1.35%
Federal Home Loan Mortgage Corporation Notes	587,610	2.65%
Money Market Mutual Funds	2,249,423	10.16%
Repurchase Agreement	300,000	1.35%
STAR Ohio	8,169,555	36.89%
Manuscript Debt	8,505	0.04%
	<u>\$ 22,144,711</u>	<u>100.00%</u>

To avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions, dealers, or maturities, the Finance Director will diversify the Active Portfolio per the City of Avon Lake investment policy, with the following being the maximum allowable percentages per each type of investment:

	<u>Percentage of Investments</u>
United States Treasury Obligations	100.00%
Authorized US Federal Agency Securities	50.00%
Certificates of Deposit	50.00%
STAR Ohio	90.00%
Repurchase Agreement	40.00%

**NOTE 5 - RECEIVABLES**

Receivables at December 31, 2006, consisted primarily of municipal income taxes, property and other taxes, intergovernmental receivables arising from entitlements, shared revenues, special assessments, accrued interest on investments, and accounts (billings for utility service) receivable.

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

**City of Avon Lake**  
Lorain County, Ohio  
Notes to the Basic Financial Statements  
For The Year Ended December 31, 2006

**NOTE 5 – RECEIVABLES** (Continued)

**Property Taxes**

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

Real property taxes collected were based on assessed value equal to thirty-five percent (35%) of appraised value. The Lorain County Auditor reappraises real property every six years, with a triennial update, which was last completed for 2006. Real property taxes are levied on assessed valuations as of December 31, which is the lien date. Real property taxes, billed one year in arrears, are payable annually or semiannually. The first payment is due January 20, and the remainder is payable by June 20.

Taxpayers (other than public utilities) become liable for tangible personal property taxes on January 1 of the current calendar year based on tax rates determined in the preceding year and assessed values determined at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of that calendar year. In prior years, tangible personal property assessments were twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Tangible personal property tax is being phased out - the assessment percentage for property, including inventory, is 18.75% for 2006. This percentage will be reduced to 12.5% for 2007, 6.25% for 2008, and zero for 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30 with the remainder payable by September 20. Under Ohio law, personal property taxes do not attach as a lien on the personal property.

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

The full tax rate for all City operations for the year ended December 31, 2006 was \$6.95 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2006 property tax receipts were based are as follows:

Real Property	\$ 639,000,320
Public Utility Personal	89,484,090
Tangible Personal Property	<u>52,701,113</u>
Total	\$ <u>781,185,523</u>

**City of Avon Lake**  
 Lorain County, Ohio  
 Notes to the Basic Financial Statements  
 For The Year Ended December 31, 2006

**NOTE 5 – RECEIVABLES** (Continued)

**Income Taxes**

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

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

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

**NOTE 6 - RISK MANAGEMENT**

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

During 2006, the City contracted for various types of insurance as follows:

<b><u>Company</u></b>	<b><u>Type of Coverage</u></b>	<b><u>Deductible</u></b>
AXIS Reinsurance	Property	\$ 5,000
Redland	Inland Marine	5,000
Hartford Fire	Crime	1,000
Redland	Auto	5,000
Redland	General Liability	5,000
Redland	Law Enforcement	5,000
Redland	Employment Practices	25,000
Redland	Public Officials	25,000
AXIS Reinsurance	Boiler & Machinery	1,000

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

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



**City of Avon Lake**  
**Lorain County, Ohio**  
Notes to the Basic Financial Statements  
For The Year Ended December 31, 2006

**NOTE 7 - CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2006, was as follows:

	Balance 1/1/06	Additions	Disposals	Balance 12/31/06
<b>Governmental Activities</b>				
Capital assets, not being depreciated:				
Land	\$3,602,302	\$31,416	\$0	\$3,633,718
Construction in progress	572,362	444,154	(560,173)	456,343
Total capital asset, not being depreciated	<u>4,174,664</u>	<u>475,570</u>	<u>(560,173)</u>	<u>4,090,061</u>
Capital assets, being depreciated:				
Buildings and improvements	13,755,710	1,339,495	(500)	15,094,705
Machinery and equipment	5,001,539	181,683	(63,382)	5,119,840
Vehicles	3,096,765	293,944	(259,084)	3,131,625
Infrastructure	55,464,936	2,638,311	(529,495)	57,573,752
Total capital asset, being depreciated	<u>77,318,950</u>	<u>4,453,433</u>	<u>(852,461)</u>	<u>80,919,922</u>
Less accumulated depreciation:				
Buildings and improvements	(2,385,131)	(333,625)	276	(2,718,480)
Machinery and equipment	(2,945,834)	(370,575)	55,960	(3,260,449)
Vehicles	(1,885,045)	(243,244)	238,435	(1,889,854)
Infrastructure	(21,276,963)	(1,960,229)	503,019	(22,734,173)
Total accumulated depreciation	<u>(28,492,973)</u>	<u>(2,907,673)</u>	<u>797,690</u>	<u>(30,602,956)</u>
Total capital asset, being depreciated, net	48,825,977	1,545,760	(54,771)	50,316,966
Total governmental capital assets, net	<u>\$53,000,641</u>	<u>\$2,021,330</u>	<u>(\$614,944)</u>	<u>\$54,407,027</u>
<b>Business-Type Activities</b>				
Capital assets, not being depreciated:				
Land	\$1,660,385	\$5,000	\$0	\$1,665,385
Construction in progress	4,764,656	0	(4,764,656)	0
Total capital asset, not being depreciated	<u>6,425,041</u>	<u>5,000</u>	<u>(4,764,656)</u>	<u>1,665,385</u>
Capital assets, being depreciated:				
Buildings and improvements	31,845,918	4,220,280	0	36,066,198
Machinery and equipment	3,594,812	25,593	0	3,620,405
Vehicles	430,775	0	0	430,775
Water and Sewer Lines	39,280,220	1,012,642	(73,428)	40,219,434
Total capital asset, being depreciated	<u>75,151,725</u>	<u>5,258,515</u>	<u>(73,428)</u>	<u>80,336,812</u>
Less accumulated depreciation:				
Buildings and improvements	(14,398,702)	(612,353)	0	(15,011,055)
Machinery and equipment	(1,205,392)	(165,526)	0	(1,370,918)
Vehicles	(309,809)	(22,554)	0	(332,363)
Water and Sewer Lines	(10,948,984)	(891,668)	57,496	(11,783,156)
Total accumulated depreciation	<u>(26,862,887)</u>	<u>(1,692,101)</u>	<u>57,496</u>	<u>(28,497,492)</u>
Total capital asset, being depreciated, net	48,288,838	3,566,414	(15,932)	51,839,320
Business-type capital assets, net	<u>\$54,713,879</u>	<u>\$3,571,414</u>	<u>(\$4,780,588)</u>	<u>\$53,504,705</u>

**City of Avon Lake**  
Lorain County, Ohio  
Notes to the Basic Financial Statements  
For The Year Ended December 31, 2006

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

\* Depreciation expense was charged to governmental functions as follows:

General Government	\$ 449,725
Security of Persons and Property	334,333
Transportation	1,924,640
Community and Environment	2,826
Basic Utility Services	22,193
Leisure Time Activities	173,956
Total Depreciation Expense	<u>\$2,907,673</u>

\* Depreciation expense was charged to business-type functions as follows:

Water	\$1,081,744
Sewer	610,357
Total Depreciation Expense	<u>\$1,692,101</u>

**NOTE 8 - COMPENSATED ABSENCES**

**Accumulated Unpaid Vacation**

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

**Accumulated Unpaid Sick Leave**

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

**Accumulated Unpaid Compensatory Time**

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

**City of Avon Lake**  
Lorain County, Ohio  
Notes to the Basic Financial Statements  
For The Year Ended December 31, 2006

**NOTE 9 - LONG-TERM OBLIGATIONS**

Changes in long-term obligations were as follows:

	<u>Balance</u> <u>1/01/2006</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance</u> <u>12/31/2006</u>	<u>Amounts Due</u> <u>In One Year</u>
<b>GOVERNMENTAL ACTIVITIES:</b>					
<b>GENERAL OBLIGATION BONDS</b>					
2001 Refunding Bonds 3.3%-5.5%	\$ 350,555	\$ 0	\$ 35,624	\$ 314,931	\$ 37,084
2001 Pin Oak Parkway 2.75%-4.75%	392,459	0	28,800	363,659	30,600
2001 Safety Center 3.3%-5.5%	4,074,101	0	205,000	3,869,101	215,000
2003 Recreational Facility 3%-5%	<u>950,000</u>	<u>0</u>	<u>25,000</u>	<u>925,000</u>	<u>30,000</u>
Total	5,767,115	0	294,424	5,472,691	312,684
<b>SPECIAL ASSESSMENT BONDS</b>					
2001 Pin Oak Parkway 3.3%-5.5%	697,541	0	51,200	646,341	54,400
2001 CALDP 3.3%-5.5%	2,449,996	0	125,000	2,324,996	125,000
1993 Redwood Curbs 6.0%					
Manuscript	<u>6,222</u>	<u>0</u>	<u>2,074</u>	<u>4,148</u>	<u>2,074</u>
Total	3,153,759	0	178,274	2,975,485	181,474
<b>OHIO WATER DEVELOPMENT AUTHORITY LOANS</b>					
1990 Walker Road 7.76%	<u>330,277</u>	<u>0</u>	<u>45,283</u>	<u>284,994</u>	<u>48,802</u>
Total	330,277	0	45,283	284,994	48,802
RECREATIONAL FEE CREDIT	279,805	0	64,560	215,245	129,805
LANDFILL POSTCLOSURE COSTS	865,211	23,615	50,895	837,931	50,895
COMPENSATED ABSENCES	926,101	458,614	491,807	892,908	404,966
POLICE AND FIRE PENSION	<u>109,747</u>	<u>0</u>	<u>1,923</u>	<u>107,824</u>	<u>2,006</u>
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>\$ <u>11,432,015</u></b>	<b>\$ <u>1,442,229</u></b>	<b>\$ <u>1,127,166</u></b>	<b>\$ <u>10,787,078</u></b>	<b>\$ <u>1,130,632</u></b>
<b>BUSINESS-TYPE ACTIVITIES:</b>					
<b>GENERAL OBLIGATION BONDS</b>					
2001 Refunding Bonds 3.3%-5.5%	\$ 5,652,105	\$ 0	\$ 574,376	\$ 5,077,729	\$ 597,916
2003 Wastewater Collection System System Improvement 3%-5%	<u>4,260,000</u>	<u>0</u>	<u>125,000</u>	<u>4,135,000</u>	<u>125,000</u>
	9,912,105	0	699,376	9,212,729	722,916

**City of Avon Lake**  
Lorain County, Ohio  
Notes to the Basic Financial Statements  
For The Year Ended December 31, 2006

**NOTE 9 - LONG-TERM OBLIGATIONS (Continued)**

	<u>Balance</u> <u>1/01/2006</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance</u> <u>12/31/2006</u>	<u>Amounts Due</u> <u>In One Year</u>
OHIO WATER DEVELOPMENT					
AUTHORITY LOANS					
1990 Walker Road 7.76%	624,833	0	85,668	539,165	92,325
1990 Water Plant Expansion 7.84%	6,039,097	0	365,923	5,673,174	394,612
1998 Wastewater Improvement 5.76%	476,565	0	27,097	449,468	28,658
2003 Water System Improvement 4.51%	<u>4,679,557</u>	<u>0</u>	<u>143,833</u>	<u>4,535,724</u>	<u>161,355</u>
Total	11,820,052	0	622,521	11,197,531	676,950
MORTGAGE REVENUE BONDS					
2005 Water System Revenue					
Refunding Bonds 3.0 -5.0%	<u>13,360,000</u>	<u>0</u>	<u>755,000</u>	<u>12,605,000</u>	<u>780,000</u>
Total	<u>13,360,000</u>	<u>0</u>	<u>755,000</u>	<u>12,605,000</u>	<u>780,000</u>
COMPENSATED ABSENCES	<u>405,876</u>	<u>145,992</u>	<u>158,104</u>	<u>393,764</u>	<u>133,047</u>
TOTAL BUSINESS TYPE					
ACTIVITIES	<u>\$ 35,498,033</u>	<u>\$ 145,992</u>	<u>\$ 2,235,001</u>	<u>\$ 33,409,024</u>	<u>\$ 2,312,913</u>

General obligation bonds, other than the enterprise general obligation and mortgage revenue bonds, will be paid from the general bond retirement debt service fund from special assessment taxes. Ohio Water Development Authority loans other than those paid from the enterprise funds will be paid from the general bond retirement debt service fund from special assessments. Special assessment bonds will be paid from the proceeds of special assessments levied against benefited property owners. In the event that a property owner would fail to pay the assessment, payment would be made by the City. The police and fire pension liability will be paid from taxes receipted in the police and fire pension special revenue funds. Landfill postclosure costs are based on estimates as of December 31, 2006. The actual costs may be higher due to inflation, changes in technology, or changes in regulations and they will be paid from the general fund. Compensated absences will be paid from the fund which the employees' salaries are paid.

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

Commencing July 1, 2003, for a five-year period, the developer will receive up to \$100,000 per year credit on any Recreational Fees due to the City of Avon Lake. In the event that the developer receives less than \$100,000 per year, the City of Avon Lake will issue payment for the difference within 60 days of the end of the given year. If during the first four years of the agreement, the developer receives in excess of \$100,000 credit, that balance will be carried forward to the following year. On January 22, 2007 the developer agreed to defer payment of \$35,440 owed in 2006 until April of 2009 to facilitate the City of Avon Lake contribution for the purchase of additional land for this project.

**City of Avon Lake**  
**Lorain County, Ohio**  
**Notes to the Basic Financial Statements**  
**For The Year Ended December 31, 2006**

**NOTE 9 - LONG-TERM DEBT** (Continued)

Principal and interest requirements to retire long-term obligations, except landfill post-closure costs, recreation fee credits, compensated absences, and police and fire pension, at December 31, 2006 are as follows:

	General Obligation Bonds		Special Assessment Bonds		OWDA Loans		Total Governmental Activities	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
	2007	\$ 312,684	\$ 255,860	\$ 181,474	\$ 139,991	\$ 48,802	\$ 19,950	\$ 542,960
2008	318,852	243,870	191,474	132,916	52,593	16,534	562,919	393,320
2009	332,404	231,333	197,600	125,230	56,680	12,852	586,684	369,415
2010	193,944	365,576	128,996	192,119	61,084	8,884	384,024	566,579
2011	352,464	215,481	209,000	114,492	65,835	4,603	627,299	334,576
2012-2016	1,932,343	790,586	1,206,941	402,947			3,139,284	1,193,533
2017-2021	1,635,000	305,743	860,000	110,000			2,495,000	415,743
2022-2026	270,000	71,090					270,000	71,090
2027-2028	125,000	9,440					125,000	9,440
	<u>\$ 5,472,691</u>	<u>\$ 2,488,979</u>	<u>\$ 2,975,485</u>	<u>\$ 1,217,695</u>	<u>\$ 284,994</u>	<u>\$ 62,823</u>	<u>\$ 8,733,170</u>	<u>\$ 3,769,497</u>

	General Obligation Bonds		OWDA Loans		Revenue Bonds		Total Business-Type Activities	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
	2007	\$ 722,916	\$ 410,068	\$ 676,949	\$ 663,515	\$ 780,000	\$ 526,590	\$ 2,179,865
2008	741,748	382,701	724,070	620,420	805,000	503,190	2,270,818	1,506,311
2009	774,996	353,972	774,605	574,226	825,000	477,028	2,374,601	1,405,226
2010	438,817	673,900	828,808	524,704	855,000	450,215	2,122,625	1,648,819
2011	808,536	318,918	886,962	471,596	880,000	420,290	2,575,498	1,210,804
2012-2016	3,030,716	972,425	4,682,834	1,518,364	3,060,000	1,640,450	10,773,550	4,131,239
2017-2021	955,000	548,608	1,456,486	445,920	2,370,000	1,107,625	4,781,486	2,102,153
2022-2026	1,180,000	313,843	1,166,817	107,593	3,030,000	452,375	5,376,817	873,811
2027-2028	560,000	41,975					560,000	41,975
	<u>\$ 9,212,729</u>	<u>\$ 4,016,410</u>	<u>\$ 11,197,531</u>	<u>\$ 4,926,338</u>	<u>\$ 12,605,000</u>	<u>\$ 5,577,763</u>	<u>\$ 33,015,260</u>	<u>\$ 14,520,511</u>

**City of Avon Lake**  
Lorain County, Ohio  
Notes to the Basic Financial Statements  
For The Year Ended December 31, 2006

**NOTE 9 - LONG-TERM DEBT** (Continued)

**Mortgage Revenue Bonds**

On April 22, 2005, the City of Avon Lake issued \$14,075,000 water system mortgage revenue refunding serial bonds series 2005. The bonds were issued in order to (i) currently refund certain Water System Mortgage Revenue Refunding Bonds, Series 1993A of the City, dated March 1, 1993 with aggregate outstanding principal amount of \$4,250,000, (ii) advance refund certain Water System Mortgage Revenue Refunding Bonds, Series 2000A of the City, dated July 1, 2000 with aggregate outstanding principal amount of \$9,115,000. The present value of these to refunding issues will save approximately \$502,300 in interest combined.

The serial bonds maturing on or after October 1, 2016 are subject to early redemption, by and at the option of the City in whole at any time or in part on any interest payment date on or after April 1, 2015 in multiples of \$5,000 at the redemption price of 100% of the principal amount redeemed plus accrued interest to the redemption date.

Mandatory Sinking Fund Redemption. None of the Bonds are subject to mandatory redemption pursuant to sinking fund requirements.

In conjunction with the issuance of the water system mortgage revenue refunding bonds and the requirements of the indenture agreement, the City entered into a trust agreement with a commercial bank. The debt covenant requires that the City establish various funds for the construction, replacement, and the repayment of debt relating to the construction and improvement of the waterworks system.

The restricted assets balance in the water fund segregates funds held by the City from funds held by the trustees in accordance with the trust agreement. Restricted assets relating to the water system mortgage revenue refunding bonds consisted of the following at December 31, 2006:

Revenue Bond Future Debt Service	\$ 1,449,347
----------------------------------	--------------

**General Obligation Bonds**

On March 28, 2001, the City issued \$16,746,758 in Various Purpose Improvement and Refunding Bonds, Series 2001. These bonds are unvoted General Obligations of the City, issued to finance the permanent improvements described in the Bonds, and to advance refund existing 1994 Various Purpose General Obligation Bonds debt at a more favorable borrowing rate. \$8,752,661 of the proceeds were used to refund all of the Series 1994 outstanding in the amount of \$8,465,000. Enterprise funds are responsible for \$8,227,501, and \$525,160 is the responsibility of the governmental debt service fund. The original bonds were issued for the purpose of paying the costs of (a) constructing improvements, additions or extensions to the City's water distribution system within and without the City, including acquiring real estate and easements therefore; (b) construction improvements to the City's sewerage system; (c) widening and resurfacing portions of Walker Road; and (d) issuing the bonds. All the reissued debt consists of serial bonds with final maturity in 2014, with the exception of 2010 which are capital appreciation bonds in the amount of \$695,000.

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

**City of Avon Lake**  
 Lorain County, Ohio  
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 For The Year Ended December 31, 2006

**NOTE 9 - LONG-TERM DEBT (Continued)**

storm sewer (CALDP 2001).

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

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

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

On September 12, 2001, the City issued \$1,385,000 in new bonds to cover the cost of retiring \$1,000,000 in 2001 Notes, maturing on October 4, 2001. In anticipation of Bonds, \$2,000,000 in notes were originally issued in 1999 to pay for property owners' portion of the construction cost to extend Pin Oak Parkway approximately 5,000 feet easterly paving, storm and sanitary sewers along with waterlines. The City anticipates debt service of \$886,341 to be paid through special assessments levied to the property owners. The Bonds are not subject to redemption prior to their stated maturities. On October 7, 2003, the City issued \$5,500,000 in Various Purpose Improvement Bonds, Series 2003. These bonds are unvoted General Obligations of the City, issued to finance the permanent improvements described in the Bonds. \$4,500,000 of the proceeds will be used to pay for improvements to the wastewater collection system. \$1,000,000 of the proceeds will be used to pay for constructing outdoor recreational facilities.

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

**OWDA**

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

**City of Avon Lake**  
Lorain County, Ohio  
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For The Year Ended December 31, 2006

**NOTE 9 - LONG-TERM DEBT (Continued)**

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

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

On August 24, 1990 the City of Avon Lake entered into a loan agreement with OWDA for \$1,950,000 (capitalized interest of \$99,278 was added at the end of the construction period for a total of \$2,049,278). These funds were used to install approximately 15,427 feet of sanitary sewers and related laterals along Walker Rd. providing sanitary sewer service to the southern half of the City of Avon Lake. This debt has a fixed rate of 7.76% interest over a twenty-year period beginning 7/1/1992 through 1/1/2012.

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

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

On December 11, 2003 an OWDA loan agreement for \$4,585,637 was entered into by the City (capitalized interest of \$179,019 was added at the end of the construction period for a total of \$4,764,656). These funds were used to increase its capacity to 40 million gallons per day ensuring the necessary capacity for the City of Avon Lake and surrounding communities well into the future. This debt has a fixed rate of 4.51% interest over a twenty-year period beginning 1/1/2006 through 7/1/2025.

**MANUSCRIPT DEBT**

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



**City of Avon Lake**  
Lorain County, Ohio  
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For The Year Ended December 31, 2006

**NOTE 10 - DEFINED BENEFIT PENSION PLANS**

**A. Ohio Public Employees Retirement System**

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

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-6705 or (800) 222-7377.

For the year ended December 31, 2006, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 9.0 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The City's contribution rate for pension benefits for 2006 was 13.7 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 16.93 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2006, 2005, and 2004 were \$502,223, \$536,830 and \$522,134 respectively; 73 percent has been contributed for 2006 and 100 percent for 2005 and 2004.

**B. Ohio Police and Fire Pension Fund**

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

Plan members are required to contribute 10 percent of their annual covered salary to fund pension benefits while the City is required to contribute 19.5 percent for police officers and 24 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the fund for police and firefighters were \$228,421 and \$315,661 for the year ended December 31, 2006; \$228,284 and \$313,945 for the year ended December 31, 2005; \$216,703 and \$303,431 for the year ended December 31, 2004, equal to the required contributions for each year. The full amount has been contributed for 2005 and 2004. 72 percent has

**City of Avon Lake**  
Lorain County, Ohio  
Notes to the Basic Financial Statements  
For The Year Ended December 31, 2006

**NOTE 10 - DEFINED BENEFIT PENSION PLANS (Continued)**

been contributed for 2005 with the remainder being reported as a liability.

**NOTE 11 – POSTEMPLOYMENT BENEFITS**

**A. Ohio Public Employees Retirement System**

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor benefit recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2006 local government employer contribution rate was 13.7 percent of covered payroll (16.93 percent for public safety and law enforcement); 4.50 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's actuarial review performed as of December 31, 2005, include a rate of return on investments of 6.5 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between 0.50 percent and 6.3 percent based on additional annual pay increases. Health care costs were assumed to increase between .5 and 6 percent annually for the next nine years and 4 percent annually after nine years.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12 percent corridor.

The number of active contributing participants in the traditional and combined plans was 369,214. The number of active contributing participants for both plans used in the December 31, 2005, actuarial valuation was 358,804. Actual employer contributions for 2006 which were used to fund postemployment benefits were \$245,652. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2005 were \$11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$31.3 billion and \$20.2 billion, respectively.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. To improve the solvency of the Health Care Fund, OPERS created a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006, and January 1, 2007, which will allow additional funds to be allocated to the healthcare plan.

**City of Avon Lake**  
Lorain County, Ohio  
Notes to the Basic Financial Statements  
For The Year Ended December 31, 2006

**NOTE 11 – POSTEMPLOYMENT BENEFITS** (Continued)

**B. Ohio Police and Fire Pension Fund**

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

The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24.0 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2006 and 2005. In addition, since July 1, 1992, most retirees and survivors have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2006 that were used to fund postemployment benefits for police and fire were \$150,660 and \$150,546. The OP&F's total health care expense for the year ended December 31, 2005 was \$108,039,449, which was net of member contributions of \$55,271,881. The number of OP&F participants eligible to receive health care benefits as of December 31, 2005, was 13,922 for police and 10,537 for firefighters.

**NOTE 12 – JOINTLY GOVERNED ORGANIZATIONS/JOINT VENTURES**

**A. Lorain County Community Alliance Council of Governments**

The City is a member of the Lorain County Community Alliance (Alliance) which is a council of governments formed under Ohio Revised Code Section 167. The Alliance is comprised of public members that have voting privileges and other citizen, business, and agency members that have no voting privileges. While the agreement establishing the Alliance designates members, the Alliance has expanded membership to include the following public members and their respective Board representatives:

**City of Avon Lake**  
 Lorain County, Ohio  
 Notes to the Basic Financial Statements  
 For The Year Ended December 31, 2006

**NOTE 12 – JOINTLY GOVERNED ORGANIZATIONS/JOINT VENTURES (Continued)**

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

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

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

Member cities, villages, and townships are eligible to cast votes equivalent to the total population of the member jurisdictions which they represent and Lorain County members are eligible to cast votes equivalent to twenty-five percent of the total population of Lorain County. The City of Avon Lake contributed \$125 to the Alliance during 2006. Financial information can be obtained by contacting Mark R. Stewart, Lorain County Auditor, at 226 Middle Avenue, Elyria, Ohio 44035, who serves as fiscal agent.

**B. Medina-Lorain Water Consortium**

The City is a member of the Medina-Lorain Water Consortium (the Consortium), which is a joint venture between the City of Avon Lake, the Rural Lorain County Water Authority, Medina County, and the City of Medina. The Consortium was created in 1999 for the purpose of construction, operation and maintenance of a water transmission line to serve the members of the Consortium, and for the purpose of bulk water delivery from the City of Avon Lake. There is an ongoing financial responsibility for all parties for the maintenance and repair of the project. The Consortium is governed by representatives of the member parties. The City of Avon Lake serves as the fiscal agent for the Consortium. As of December 31, 2006, the City's equity interest in the Consortium was \$2,257,646. Financial information can be obtained from the City of Avon Lake Finance Director, 150 Avon Belden Road, Avon Lake, Ohio 44012.

**City of Avon Lake**  
 Lorain County, Ohio  
 Notes to the Basic Financial Statements  
 For The Year Ended December 31, 2006

**NOTE 13 - CONTRACTUAL COMMITMENTS**

As of December 31, 2006, the City had two significant contractual commitments outstanding; Krebs Rd. Improvements \$126,395 and Cove Ave. Improvements \$489,836.

**NOTE 14 - CONTINGENT LIABILITIES**

**Litigation**

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

**NOTE 15 – ACCOUNTABILITY AND COMPLIANCE**

The City was in violation of Ohio Revised Code Section 5705.41(D). The City had 4 out of 20 transactions (20%) which were entered into prior to receiving the Finance Director’s certification. One of these four instances involved expenditures made by the Board on Municipal Utilities, in which certification from the Finance Director was not obtained at all. In order to address the violations of the Ohio Revised Code Section 5705.41(D), the City intends to closely monitor expenditures and encumbrances to eliminate these weaknesses in future periods.

**NOTE 16 – NOTES PAYABLE**

The City had the following note activity for the year ended December 31, 2006.

	<u>Outstanding</u> <u>1/01/2006</u>	<u>Issued</u>	<u>Retired</u>	<u>Outstanding</u> <u>12/31/2006</u>
Other Governmental Funds				
BAN 2006 Street Improvement 4.75%	0	960,000	0	960,000
Issued July 25, 2006, 12 month term				

**NOTE 17 – INTERFUND BALANCES AND TRANSFERS**

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

**City of Avon Lake**  
 Lorain County, Ohio  
 Notes to the Basic Financial Statements  
 For The Year Ended December 31, 2006

**NOTE 17 – INTERFUND BALANCES AND TRANSFERS (Continued)**

Interfund balances at December 31, 2006 consist of the following individual fund receivables and payables:

<u>Interfund Payable</u>	<u>General Fund</u>	<u>Major Capital Improvement Fund</u>
<i>Governmental Activities</i>		
<b>Non-Major Funds</b>		
Cove Avenue Improvement	15,000	
COPS	11,615	
Avon Lake Boat Club Improvements	49,500	
Krebs Road Improvements	200,000	
City Wide Signalization	_____	<u>\$27,640</u>
<i>Total Governmental Activities</i>	<u>\$276,115</u>	<u>\$27,640</u>

Interfund transfers during 2006 were as follows:

<u>Transfer To</u>	<u>Transfer From</u>								Totals
	General Fund	Income Tax Transfer Fund	Capital Improvement Fund	Debt Service Fund	Other Governmental Funds	Water Fund	Sewer Fund	Agency Fund	
<i>Governmental Activities</i>									
General Fund	\$ -	\$ 5,437,500	\$ -	\$ -	\$ 51,997	\$ -	\$ -	\$ -	\$ 5,489,497
Capital Improvement Fund	-	1,450,000	-	-	60,000	-	-	-	1,510,000
Debt Service Fund	263,449	-	300,000	-	86,382	-	25,442	-	675,273
Other Governmental Funds	198,266	-	761,905	52,354	-	-	-	-	1,012,525
Total	461,715	6,887,500	1,061,905	52,354	198,379	-	25,442	-	8,687,295
<i>Business-Type Activities</i>									
Water	52,680	-	-	-	-	-	-	48,522	101,202
Sewer	-	362,500	80,000	-	-	-	-	-	442,500
Total	\$ 514,395	\$ 7,250,000	\$ 1,141,905	\$ 52,354	\$ 198,379	\$ -	\$ 25,442	\$ 48,522	\$ 9,230,997

Not apparent in the basic financial statements was the transfer of \$48,522 from the Agency Fund to the Water Fund.

Transfers in to and out of the Water and Sewer Funds, as presented in this schedule, do not include intra-fund transfers within the Water and Sewer Funds. Therefore, these transfers may not agree to the amounts presented in the Statement of Revenues, Expenses, and Changes in Fund Net Assets or the Statement of Cash Flows.

**City of Avon Lake**  
Lorain County, Ohio  
Notes to the Basic Financial Statements  
For The Year Ended December 31, 2006

**NOTE 17 – INTERFUND BALANCES AND TRANSFERS (Continued)**

Net governmental transfers per the Statement of Revenues, Expenditures, and Changes in Fund Balance (Governmental Funds) and the Statement of Activities differ by \$34,884. This amount represents sewer separations being reassigned from business-type activities to the government-type activities. The amount is reported as a transfer out of the Sewer Fund and a transfer in to the General Fund. However, the transfer in to the General Fund is not presented on the Statement of Revenues, Expenditures, and Changes in Fund Balance (Governmental Funds) because this fund does not report capital assets.

**NOTE 18 – LANDFILL POSTCLOSURE COSTS**

State and federal laws and regulations required the City to place a final cover on the municipal landfill when it stopped accepting waste and perform certain maintenance and monitoring functions at the site for 30 years after closure. The City closed the landfill on December 31, 1990. The Landfill Postclosure Costs liability reflects an estimate of the remaining costs to perform the required maintenance and monitoring functions for approximately 15 years. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

**NOTE 19 – SUBSEQUENT EVENTS**

On July 24, 2007, the City of Avon Lake issued \$1,005,000 of Street Improvement Notes, maturing on October 23, 2007. The notes have a 4.25% interest rate. These notes were issued in anticipation of the issuance of bonds to pay the property owners' portion, in anticipation of the levy and collection of special assessments, and the City's portion of the costs of improving Cove Avenue approximately 1,700 feet south of Lake Road by constructing storm and sanitary sewers, water lines and concrete pavement.

On October 22, 2007, the City of Avon Lake issued \$252,352 of Street Improvement Bonds. The bonds are payable over a period of 20 years. The bonds have a 4.40% interest rate. These bonds were issued to pay the property owners' portion, in anticipation of the collection of special assessments, of the costs of improving Cove Avenue approximately 1,700 feet south of Lake Road by constructing storm and sanitary sewers, water lines and concrete pavement.

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# Mary Taylor, CPA

Auditor of State

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

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

To the City Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Avon Lake, Lorain County, Ohio, (the City) as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 19, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the City's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

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

We consider the following deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting: 2006-003.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We believe finding number 2006-003 is also a material weakness.

We also noted certain internal control matters that we reported to the City's management in a separate letter dated December 19, 2007.

#### **Compliance and Other Matters**

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2006-001 and 2006-002.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated December 19, 2007.

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



Mary Taylor, CPA  
Auditor of State

December 19, 2007

**CITY OF AVON LAKE  
LORAIN COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2006**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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<b>Finding Number</b>	<b>2006—001</b>
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**Material Noncompliance**

**Proper Encumbering**

Ohio Rev. Code Section 5705.41(D) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Further, contracts and orders for expenditures lacking prior certification shall be null and void.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. "Then and Now" certificate – If the fiscal officer can certify that both at the time the contract or order was made ("then"), and at the time the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the City Council can authorize the drawing of a warrant for the payment of the amount due. The City Council has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the City Council.

2. Blanket Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

3. Super Blanket Certificate – The City Council may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expenses. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

CITY OF AVON LAKE  
LORAIN COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2006

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

Finding Number

2006—001

**Material Noncompliance (Continued)**

**Proper Encumbering (Continued)**

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

Testing indicated four out of 20 transactions (20%) requiring certification from the Director of Finance, those in excess of \$250, were not properly certified by the Director of Finance. One of the four instances involved expenditures made by the Board of Municipal Utilities, in which certification from the Finance Director was not obtained at all.

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the City's funds exceeding budgetary spending limitations, we recommend the City properly certify the availability of funds for any orders or contracts involving the expenditure of money to ensure compliance with this requirement. Where prior certification is not feasible, we encourage the City to utilize then and now certificates or blanket certificates.

We recommend the City certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The Director of Finance should sign the certification at the time the City incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The Director of Finance should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

**Officials' Response:**

We did not receive a response from officials to this finding.

Finding Number

2006—002

**Material Noncompliance**

**Timely Deposit of Public Monies**

Ohio Revised Code Section 9.38 provides that any public official and/or employee who receives public monies shall deposit said monies with the Treasurer or with a properly designated depository on the next business day following the day of receipt, if the total received exceeds one thousand dollars. If the total amount of the public money received does not exceed one thousand dollars, the person shall deposit the monies on the business day next following the day of the receipt, unless the public office of which that person is a public official adopts a policy permitting a different time period, not to exceed three business days next following the day of receipt, for making such deposits, and the person is able to safeguard the monies until such time as the monies are deposited. The policy shall include provisions and procedures to safeguard the public monies until they are deposited.

CITY OF AVON LAKE  
LORAIN COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2006

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

<b>Finding Number</b>	<b>2006—002</b>
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**Material Noncompliance (Continued)**

**Timely Deposit of Public Monies (Continued)**

Twenty-six out of the 58 receipts (45%) tested for licenses and permits were not deposited in accordance with the above provisions. Of the 26 receipts not deposited timely, 10 were from the Engineering Department and 16 were from the Building Department. The range of those receipts not deposited in a timely manner varied between \$15 and \$2,458.

We recommend the City take the necessary steps to comply with the aforementioned Ohio Revised Code section, specifically, that all deposits be made in a timely manner. We recommend all City departments either deposit monies collected with the Finance Director or its local depository on the next business day following the day of receipt or the City adopt a policy requiring all monies collected to be deposited with the Finance Director or properly designated depository within three business days following the day of receipt, if the total amount of such monies is less than \$1,000. Additionally, such a policy must include procedures to safeguard the monies until the time of deposit.

**Officials' Response:**

We did not receive a response from officials to this finding.

<b>Finding Number</b>	<b>2006—003</b>
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**Material Weakness**

**Municipal Court Cash Reconciliations**

Reconciliation of the Court's bank accounts with its cash ledgers is a necessary control procedure to adequately safeguard cash and to provide an accurate cash balance for the Court. The Court manually maintains division cash balances and outstanding check lists from which monthly bank reconciliations are prepared. However, Civil division bank reconciliations for 2006 were not completed for the months of June through December until after we began the audit. The Traffic/Criminal division 2006 bank reconciliations were prepared throughout the audit period, but the December 31, 2006 check book balance, as recorded on the bank reconciliation, could not be verified to a system or manual report because the manual check book was not totaled.

If the Court is going to rely on manually prepared cash balances and outstanding check lists, it must be diligent in maintaining the records each month and in performing bank reconciliations that agree to the manually prepared cash balances. We recommend bank reconciliations be prepared within a reasonable amount of time from when the bank statements are received. The check book balance on the bank reconciliations should agree to the manually prepared cash balances in the check registers for each division. Differences that remain after outstanding checks are deducted must be reconciled timely by considering deposits-in-transit, bank fees, and other legitimate reconciling items.

In addition, we recommend the bank reconciliations be reviewed by an individual other than the person who prepared the reconciliation. The reviewer should include his or her initials and date of review as evidence of review.

CITY OF AVON LAKE  
LORAIN COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2006

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

Finding Number	2006—003
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**Material Weakness (Continued)**

**Municipal Court Cash Reconciliations (Continued)**

**Officials' Response:**

We did not receive a response from officials to this finding.

**CITY OF AVON LAKE  
LORAIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2005-001	Proper Encumbering	No	Reissued as 2006-001
2005-002	Timely Deposit of Public Monies	No	Reissued as 2006-002







Mary Taylor, CPA  
Auditor of State

CITY OF AVON LAKE

LORAIN COUNTY

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
MARCH 18, 2008