

**Auditor of State
Betty Montgomery**

**CITY OF WILLOWICK
LAKE COUNTY**

For The Year Ended December 31, 2005

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

City of Willowick
Lake County
30435 Lakeshore Boulevard
Willowick, Ohio 44095

To the City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Willowick, Lake County, Ohio, (the City) as of and for the year ended December 31, 2005, 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.

As described in Note 17 to the basic financial statements, the City restated capital assets.

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 Willowick, Lake County, Ohio, as of December 31, 2005, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparisons for the General and Fire Emergency funds 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 August 21, 2006, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

Betty Montgomery
Auditor of State

August 21, 2006

City of Willowick
Management's Discussion and Analysis (Unaudited)
For The Fiscal Year Ended December 31, 2005

The discussion and analysis of the City of Willowick's financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2005. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers are encouraged to consider the information presented here in conjunction with the additional information contained in the financial statements and the notes thereof.

Financial Highlights

Key financial highlights for 2005 are as follows:

- ◆ The assets of the City of Willowick exceeded its liabilities at the close of the most recent fiscal year by \$44,563,690. Of this amount, \$4,360,362 may be used to meet the City's ongoing obligations to citizens and creditors.
- ◆ Total assets increased by \$226,639, which represents an increase of .4 percent over 2004. Other significant change was a decrease in intergovernmental receivables of \$324,937.
- ◆ Total liabilities decreased by \$513,110, which represents a decrease of 6.3 percent over 2004. The main factors contributing to this decrease was a decrease of \$429,389 in current liabilities. The most significant changes were due to a decrease in accounts payable of \$310,462 and an increase in intergovernmental payables of \$169,435.
- ◆ In total, net assets in governmental activities increased by \$503,295 during 2005, which represents a 1.3 percent increase from 2004. Net assets in business-type activities increased \$236,454 or 3.6 percent from 2004.

Using this Annual Financial Report

This discussion and analysis is intended to serve as an introduction to the City of Willowick's basic financial statements. The City of Willowick's basic financial statements are comprised of three components:

- 1) Government-wide financial statements
- 2) Fund financial statements, and
- 3) Notes to the financial statements

Government-wide Financial Statements – Reporting the City of Willowick as a Whole

Statement of Net Assets and the Statement of Activities

The Statement of Net Assets presents information on all the City of Willowick's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increase or decrease in net assets may serve as a useful indicator of whether the financial position of the City of Willowick is improving or deteriorating. However, in evaluating the overall position of the City, nonfinancial factors such as the City's tax base, change in property and income tax laws, and the condition of the capital assets should also be considered.

City of Willowick
Management's Discussion and Analysis (Unaudited)
For The Fiscal Year Ended December 31, 2005

The statement of activities presents information showing how the City's net assets changed during the recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned, but unused vacation leave).

Both the Statement of Net Assets and the Statement of Activities use the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

In the Statement of Net Assets and the Statement of Activities, we divide the City into two kinds of activities:

- **Governmental activities:** most of the City's basic services are reported here, including the police, fire, street maintenance, parks and recreation, and general administration. Income tax, state and county taxes, licenses, permits and charges for services finance most of these activities.
- **Business-type activities:** the City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's sewer system is reported here.

Fund Financial Statements - Reporting the City of Willowick's Most Significant Funds

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objects. The City of Willowick, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Willowick can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balance of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. 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. Both the governmental fund balance sheet and the government fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate a comparison between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds.

City of Willowick
Management's Discussion and Analysis (Unaudited)
For The Fiscal Year Ended December 31, 2005

The City of Willowick maintains 27 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances, for the General fund, Fire Emergency Special Revenue fund, and the Capital Improvement Capital Projects fund, all of which are considered to be major funds.

Proprietary Funds

The City of Willowick maintains one proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses the enterprise fund to account for its sewer operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The basic proprietary fund financial statements can be found starting on page 27 of this report.

Fiduciary Funds

Fiduciary Funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources are not available to support the City's own programs. The City of Willowick has only one agency fund to report within the fiduciary fund category. Agency funds are reported on a full accrual basis and only present statements of assets and liabilities.

Notes to the Financial Statements

The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found starting on page 31 of this report.

Government-wide Financial Analysis - City of Willowick as a Whole

As noted earlier, the Statement of Net Assets looks at the City as a Whole and can prove to be a useful indicator of the City's financial position.

The Statement of Net Assets and the Statement of Activities are divided into the following categories:

- Assets
- Liabilities
- Net Assets (Assets minus Liabilities)
- Program Expenses and Revenues
- General Revenues
- Net Assets Beginning and End of Year

City of Willowick
Management's Discussion and Analysis (Unaudited)
For The Fiscal Year Ended December 31, 2005

Table 1 provides a summary of the City's net assets for 2005 as compared to 2004.

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Assets:						
Current and other assets	\$ 14,816,868	\$ 14,394,296	\$ 1,785,052	\$ 2,289,229	\$ 16,601,920	\$ 16,683,525
Capital assets, net	<u>29,989,074</u>	<u>30,182,796</u>	<u>5,637,236</u>	<u>5,135,270</u>	<u>35,626,310</u>	<u>35,318,066</u>
<i>Total assets</i>	<u>44,805,942</u>	<u>44,577,092</u>	<u>7,422,288</u>	<u>7,424,499</u>	<u>52,228,230</u>	<u>52,001,591</u>
Liabilities:						
Current liabilities	5,545,160	5,980,934	289,516	958,131	5,834,676	6,939,065
Long-term liabilities:						
Due within one year	702,148	426,656	460,925	12,193	1,163,073	438,849
Due in more than one year	<u>652,039</u>	<u>766,202</u>	<u>14,752</u>	<u>33,534</u>	<u>666,791</u>	<u>799,736</u>
<i>Total liabilities</i>	<u>6,899,347</u>	<u>7,173,792</u>	<u>765,193</u>	<u>1,003,858</u>	<u>7,664,540</u>	<u>8,177,650</u>
Net assets:						
Invested in capital assets, net of related debt	29,609,074	29,722,796	5,137,236	4,335,270	34,746,310	34,058,066
Restricted for:						
Capital projects	3,311,976	3,121,003	-	-	3,311,976	3,121,003
Debt service	30,361	29,262	-	-	30,361	29,262
Other purposes	2,114,681	1,542,367	-	-	2,114,681	1,542,367
Unrestricted	<u>2,840,503</u>	<u>2,987,872</u>	<u>1,519,859</u>	<u>2,085,371</u>	<u>4,360,362</u>	<u>5,073,243</u>
<i>Total net assets</i>	<u>\$ 37,906,595</u>	<u>\$ 37,403,300</u>	<u>\$ 6,657,095</u>	<u>\$ 6,420,641</u>	<u>\$ 44,563,690</u>	<u>\$ 43,823,941</u>

The largest portion (78 %) of the City's net assets reflects its invested in capital assets, net of related debt. Capital assets include land, land improvements, buildings and improvements, machinery and equipment, vehicles and infrastructure. The City uses those capital assets to provide services to its citizens; consequently, they are not available for future spending. Capital assets, net of the related debt to acquire the assets as of December 31, 2005, were \$34,746,310. Although the City's investment is reported net of related debt, it should be noted that resources to repay the debt must be provided from other sources since capital assets may not be used to liquidate these liabilities.

An additional portion of the City's net assets (12 %) represents resources that have been restricted on how they may be used. The remaining balance of unrestricted net assets (\$4,360,362) may be used to meet the government's ongoing obligations to citizens and creditors.

The total net assets of the City increased by \$739,749 or by 2 percent. The following factors were responsible for this increase:

- An increase in cash and cash equivalents of \$51,938.
- An increase in taxes receivable of \$213,916
- A decrease in intergovernmental receivable of \$324,937.
- A decrease in accounts payable of \$310,462.
- An increase in intergovernmental payables of \$169,435.

The net assets of our business-type activities increased by \$236,454 or 4 percent in 2005. The City generally can only use these net assets to finance the continuing operations of the sewer system.

City of Willowick
Management's Discussion and Analysis (Unaudited)
For The Fiscal Year Ended December 31, 2005

In order to further understand what makes up the changes in net assets for the current year, the following table gives readers further details regarding the results of activities for the current year.

Table 2
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues:						
Charges for services	\$ 762,468	\$ 674,019	\$ 1,578,241	\$ 1,542,786	\$ 2,340,709	\$ 2,216,805
Operating grants and contributions	66,259	63,749	-	-	66,259	63,749
Capital grants and contributions	334,397	992,778	369,559	-	703,956	992,778
Total program revenues	<u>1,163,124</u>	<u>1,730,546</u>	<u>1,947,800</u>	<u>1,542,786</u>	<u>3,110,924</u>	<u>3,273,332</u>
General revenues:						
Property and other local taxes	4,362,712	5,020,671	34,008	34,094	4,396,720	5,054,765
Municipal income tax	2,522,613	2,097,770	-	-	2,522,613	2,097,770
Grants and entitlements not restricted to specific programs	2,977,932	2,425,114	-	-	2,977,932	2,425,114
Investment income	304,421	98,656	1,878	4,540	306,299	103,196
Miscellaneous income	71,736	56,910	-	-	71,736	56,910
Total general revenues	<u>10,239,414</u>	<u>9,699,121</u>	<u>35,886</u>	<u>38,634</u>	<u>10,275,300</u>	<u>9,737,755</u>
Total revenues	<u>11,402,538</u>	<u>11,429,667</u>	<u>1,983,686</u>	<u>1,581,420</u>	<u>13,386,224</u>	<u>13,011,087</u>
Program expenses:						
General government	1,563,015	1,352,665	-	-	1,563,015	1,352,665
Security of persons and property	4,739,398	4,382,028	-	-	4,739,398	4,382,028
Public health and welfare	105,849	87,193	-	-	105,849	87,193
Transportation	1,872,362	2,009,910	-	-	1,872,362	2,009,910
Leisure time activities	1,269,465	1,010,576	-	-	1,269,465	1,010,576
Community development	439,968	435,752	-	-	439,968	435,752
Basic utility service	876,818	857,563	-	-	876,818	857,563
Interest and fiscal charges	32,368	35,419	-	-	32,368	35,419
Loss on sale of equipment	-	25,285	-	-	-	25,285
Sewer	-	-	1,747,232	1,610,126	1,747,232	1,610,126
Total program expenses	<u>10,899,243</u>	<u>10,196,391</u>	<u>1,747,232</u>	<u>1,610,126</u>	<u>12,646,475</u>	<u>11,806,517</u>
Change in net assets	503,295	1,233,276	236,454	(28,706)	739,749	1,204,570
Net assets beginning of year, restated	<u>37,403,300</u>	<u>36,170,024</u>	<u>6,420,641</u>	<u>6,449,347</u>	<u>43,823,941</u>	<u>42,619,371</u>
Net assets end of year	\$ <u>37,906,595</u>	\$ <u>37,403,300</u>	\$ <u>6,657,095</u>	\$ <u>6,420,641</u>	\$ <u>44,563,690</u>	\$ <u>43,823,941</u>

Governmental Activities

Governmental activities increased the City's net assets by \$503,295 during 2005. Several revenue sources fund our governmental activities with the City property tax being the largest contributor. The property tax revenue for 2005 was \$4,362,712 representing a decrease of \$657,959, or 13%, from 2004. Of the City's seven voter-approved levies, four have been approved as Charter millage. Charter millage is not subject to HB 920 reductions; consequently, revenues increase with an increase in property valuations.

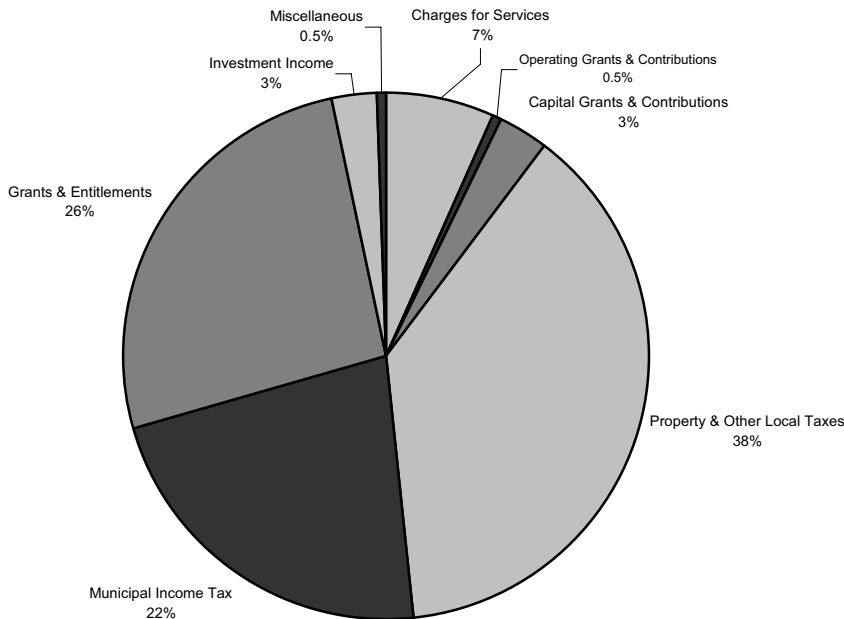
City of Willowick
Management's Discussion and Analysis (Unaudited)
For The Fiscal Year Ended December 31, 2005

Grants and entitlements, which include local governmental funds, accounted for \$2,977,932 or 26% of the governmental revenue in 2005.

The City's income tax revenue source is the third largest contributor with a rate of two percent on gross income which has not changed since 1997. Residents of the City who work in another community and pay the withholding tax for that community receive an 87.5 percent tax credit not to exceed 87.5% of the tax due the City of Willowick before credit. During 2005, the revenue generated from this tax amounted to \$2,522,613. representing an increase of \$424,843 or 20%. The City continues to enforce the delinquent letter program and the subpoena program on a biennial basis to ensure compliance with the local tax laws. The program was last conducted in 2005.

Investment income increased by \$205,765 in 2005 due to a significantly improved interest rate environment.

Revenues by Source-Governmental Activities



Security of Persons and Property represented 43 percent of the governmental expenses. During 2005, \$4,739,398 was spent for this program, representing an increase of \$357,370 or 8% from the previous period. Currently, there are 25 full-time sworn officers in the Police Department. The Department continues to place strong emphasis on the training of its employees to keep up with the rapidly changing laws, practices and technology. The majority of the cost of operating the Department comes from the General Fund. In addition

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to the Departments' operational costs, capital equipment and improvements are funded from the Police and Fire Capital Improvement Levy.

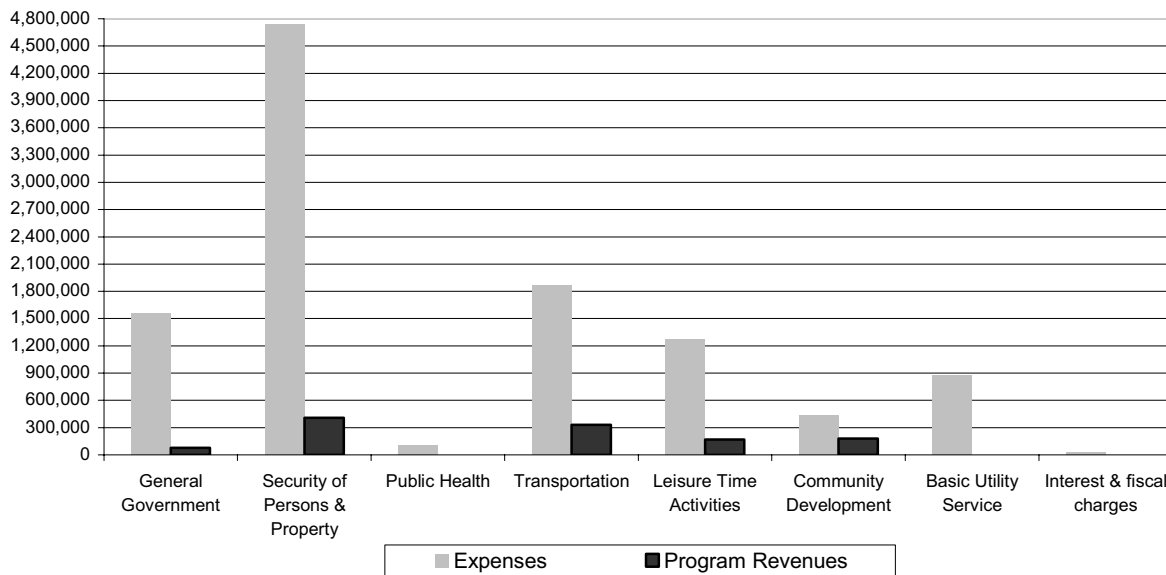
The Fire Department consists of 1 full-time Chief and 51 part-time firefighters, of which 38 are full-trained paramedics. Again, training plays a crucial role in the day-to-day operation of the Fire Department. The Department handled 1,702 calls for assistance of which approximately 1,309 were for EMS and 393 were for fire and fire-related incidents. This constituted an increase of 11.6 percent over 2004. The total cost of operating the Fire and EMS Department are split equally between the General Fund and the EMS Levy Fund. In addition to the operational costs, capital equipment and improvements are funded from the Police and Fire Capital Improvement Levy and the EMS Levy Funds.

Transportation costs represented the next highest program expense, accounting for 17 percent of the 2005 governmental expenses. In 2005, transportation costs were \$1,872,362 representing a decrease of \$137,548 or 6.8% as compared to 2004.

General Government accounted for \$1,563,015 or 14 percent of the 2005 governmental expenses. Expenses for this program increased by \$210,350 or 15.6% in 2005.

In 2005, leisure time activities accounted for \$1,269,465 or 11.6% of the governmental expenses. Expenses for this program increased by \$258,889 or 25.6% as compared to 2004.

Expenses & Program Revenues-Governmental Activities



City of Willowick
Management's Discussion and Analysis (Unaudited)
For The Fiscal Year Ended December 31, 2005

Business-Type Activities

The Business-Type activities of the City, which include the City's sewer operations, increased the City's net assets by \$236,454.

Net program revenues exceeded program expenses in the amount of \$200,568 for the sewer operations for 2005. This is due to increased contributions required to cover the City's share of operating expenses of the Sewer Fund.

The City's Funds

Governmental Funds

These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$11,919,408 and expenditures of \$11,289,414.

At the end of 2005, the City's governmental funds reported combined ending fund balances of \$7,312,427, an increase of \$629,994. Of the total amount, \$5,213,987 constitutes unreserved fund balances. The remainder, \$2,098,440, is reserved to indicate that the funds have already been committed to liquidate purchase orders and contracts entered into during prior periods.

General Fund Budgeting Highlights

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on the basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund. An annual appropriation budget is legally required to be prepared for all funds of the City other than agency funds. Council is provided with a detailed line item budget for all departments and after a discussion at a regularly held council meeting, which is open to the public; the budget is adopted by City council. Council must approve legislation for any revisions in the budget that alter totals or the total appropriations for any department or fund. The finance department watches all the departmental budgets closely to monitor compliance with allocated budgets and provides monthly reports to City Council depicting monthly and year-to-date activity.

For the General Fund, actual revenue was \$626,335 more than the final budget estimates of \$7,057,150. Part of the difference resulted from \$183,315 in intergovernmental revenue and \$171,457 in additional income tax revenue. The final appropriations of \$8,678,371 was sufficient to meet the expenditures for the year, which ended up at \$8,005,318 or \$673,053 less than anticipated due to conservative spending.

The City's ending unobligated budgetary fund balance was \$1,299,388 higher than the final budgeted amount.

City of Willowick
Management's Discussion and Analysis (Unaudited)
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Business-Type Funds

The City's major Enterprise fund consists of the Sewer Fund. The basic financial statements for the major fund is included in this report.

Proprietary Funds provide the same type of information as the government-wide financial statements only in more detail. The proprietary fund financial statements provide separate information for the Sewer Fund. The basic proprietary fund financial statements can be found on page 27 through 29 of this report.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2005, the City of Willowick had \$35,626,310 invested in land, buildings, equipment and infrastructure. Capital assets for governmental activities account for \$29,989,074 and business-type activities account for \$5,637,236 of the City's total capital assets (net of accumulated depreciation).

Capital asset additions of \$2,738,217 were offset by \$1,279,739 in net deletions and \$1,150,234 of depreciation expense. Governmental activities reported a decrease of \$193,722 in capital assets. Asset additions of \$2,120,334 were offset by \$1,277,778 in net deletions and \$1,036,278 of depreciation expense. Of these amounts \$1,147,419 was related to the movement of assets from construction in progress to infrastructure and machinery and equipment. Capital assets for business-type activities increased by \$501,966. Capital asset additions of \$617,883 were offset by \$1,961 in net deletions and \$113,956 of depreciation expense.

Table 3 shows fiscal 2005 balances of Capital Assets as compared to 2004:

Table 3
Capital Assets at December 31

	Governmental Activities		Business-Type Activities		Totals	
	2005	2004	2005	2004	2005	2004
Construction in progress	\$ 133,941	\$ 1,122,348	\$ 47,351	\$ -	\$ 181,292	\$ 1,122,348
Land and land improvements	1,612,174	1,381,521	-	-	1,612,174	1,381,521
Buildings and improvements	9,432,237	9,618,615	-	-	9,432,237	9,618,615
Machinery and equipment	4,480,164	4,195,876	552,726	470,344	5,032,890	4,666,220
Infrastructure	24,082,518	22,928,200	9,130,069	8,719,734	33,212,587	31,647,934
Less: Accumulated depreciation	<u>(9,751,960)</u>	<u>(9,063,764)</u>	<u>(4,092,910)</u>	<u>(4,054,808)</u>	<u>(13,844,870)</u>	<u>(13,118,572)</u>
Total capital assets	\$ <u>29,989,074</u>	\$ <u>30,182,796</u>	\$ <u>5,637,236</u>	\$ <u>5,135,270</u>	\$ <u>35,626,310</u>	\$ <u>35,318,066</u>

The City's largest capital asset category is infrastructure which includes roads, bridges, curbs and gutters, sidewalks, traffic signals and storm sewers.

The City has an aggressive stance on maintaining its assets, including infrastructure, in excellent condition. The City seeks grants for infrastructure projects as well as for improvements to the City's facilities. These grants together with funds received from capital improvement levies, that are restricted for specific purposes,

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and the issuance of Council approved Notes, enabled the City to improve upon its capital assets and at the same time, pay cash or pay off any indebtedness on those assets in the short-term.

Major capital asset events for 2005 include the following:

- A spraypark at Dudley Park accounted for \$288,013
- Completion of the Vine Street Enhancement Project accounted for \$233,790
- A sewer inspection truck was purchased and accounted for \$153,662
- Euclid Parallel Sanitary Sewer Replacement Project was completed and accounted for \$350,320

Debt

At December 31, 2005, the City of Willowick had \$1,929,864 in outstanding debt and compensated absences, of which \$105,000 was in General Obligation Bonds. Table 4 summarizes the outstanding obligations of the City.

Table 4
Outstanding Debt at Year End

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
General obligation bonds	\$ 105,000	\$ 210,000	\$ -	\$ -	\$ 105,000	\$ 210,000
Notes payable	275,000	250,000	500,000	800,000	775,000	1,050,000
Compensated absences	<u>1,024,187</u>	<u>982,858</u>	<u>25,677</u>	<u>45,727</u>	<u>1,049,864</u>	<u>1,028,585</u>
Total	\$ <u>1,404,187</u>	\$ <u>1,442,858</u>	\$ <u>525,677</u>	\$ <u>845,727</u>	\$ <u>1,929,864</u>	\$ <u>2,288,585</u>

The City has borrowed 3.12 percent of their debt limitation. State Law limits the amount of debt a City can issue in general obligation bonds to 10.5 percent of tax valuation. The City had a tax valuation of \$268,279,790 at the end of 2005.

The City's overall legal debt margin as of December 31, 2005 was \$28,064,378. The outstanding general obligation debt at year-end was \$105,000, a decrease of \$105,000 or 50 percent from the prior year. 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.

Additionally as of December 31, 2005, there was outstanding short-term debt in the amount of \$775,000 which represented a decrease of \$275,000 from 2004. The City retired \$150,000 and renewed \$100,000 in Notes for the Senior Center Renovation and retired \$100,000 and issued \$175,000 in Notes for the Dudley Pool Improvements. In addition, the City retired \$300,000 and renewed \$500,000 of the Sanitary Sewer Improvement Note.

City of Willowick
Management's Discussion and Analysis (Unaudited)
For The Fiscal Year Ended December 31, 2005

Current Related Financial Activities

The City of Willowick is strong financially. In addition, the City of Willowick's systems of budgeting and internal controls are well regarded and the City is well prepared to meet the challenges of the future. In conclusion, management has been committed to provide the residents of the City of Willowick with full disclosure of the financial position of the City.

The City works extremely hard at living within our means and keeping our debt low. The Mayor, Council and the Department Heads do an outstanding job in monitoring and adjusting the work force to be fiscally responsible while providing the level of benefits that are essential for our residents.

In 2005, the City adopted a Tax Increment Financing and Development Agreement for the improvement of the housing stock in the City and for the long term increase in real property and income tax revenues. The City will provide \$2.5 million for infrastructure improvements on the Project. The Project will replace the west portion of the Shoregate Shopping Center, currently vacant, with a housing development. The development will provide a more diverse housing stock for our growing population.

On behalf of the City of Willowick, we personally thank Ciuni & Panichi, Inc., for their involvement and support in preparation of the basic financial statements. Ciuni & Panichi, Inc. has committed themselves toward leading the way and providing necessary guidance to enable us to reach a level of excellence.

Contacting the City of Willowick's Finance Department

This financial report is designed to provide our citizen's, taxpayers, investors and creditors with a general overview of the City's finances and to show the City's accountability for all money it receives, spends, or invests. If you have any questions about this report or need additional financial information, contact Director of Finance, Cheryl Benedict, City of Willowick, 30435 Lakeshore Boulevard, Willowick, Ohio 44095, telephone (440) 585-3700, or web site at www.cityofwillowick.com

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City of Willowick, Ohio

Statement of Net Assets

December 31, 2005

	Governmental Activities	Business-Type Activities	Total
Assets:			
Equity in pooled cash and cash equivalents	\$ 7,541,223	\$ 1,478,086	\$ 9,019,309
Materials and supplies inventory	32,895	-	32,895
Accrued interest receivable	32,002	-	32,002
Accounts receivable	90,686	306,966	397,652
Intergovernmental receivable	1,216,715	-	1,216,715
Taxes receivable	5,890,926	-	5,890,926
Special assessments receivable	12,421	-	12,421
Nondepreciable capital assets	1,090,783	47,351	1,138,134
Depreciable capital assets, net	<u>28,898,291</u>	<u>5,589,885</u>	<u>34,488,176</u>
Total assets	<u>44,805,942</u>	<u>7,422,288</u>	<u>52,228,230</u>
Liabilities:			
Accounts payable	318,007	44,200	362,207
Accrued wages and benefits	217,099	7,577	224,676
Intergovernmental payable	167,962	175,822	343,784
Accrued interest payable	10,330	11,917	22,247
Notes payable	50,000	50,000	100,000
Deferred revenue	4,781,762	-	4,781,762
Long-term liabilities:			
Due within one year	702,148	460,925	1,163,073
Due in more than one year	<u>652,039</u>	<u>14,752</u>	<u>666,791</u>
Total liabilities	<u>6,899,347</u>	<u>765,193</u>	<u>7,664,540</u>
Net assets:			
Invested in capital assets, net of related debt	29,609,074	5,137,236	34,746,310
Restricted for:			
Capital projects	3,311,976	-	3,311,976
Debt service	30,361	-	30,361
Other purposes	2,114,681	-	2,114,681
Unrestricted	<u>2,840,503</u>	<u>1,519,859</u>	<u>4,360,362</u>
Total net assets	<u>\$ 37,906,595</u>	<u>\$ 6,657,095</u>	<u>\$ 44,563,690</u>

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

City of Willowick, Ohio

Statement of Activities

For The Year Ended December 31, 2005

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Government activities:				
General government	\$ 1,563,015	\$ 48,511	\$ 28,625	\$ -
Security of persons and property	4,739,398	389,527	15,386	4,000
Public health and welfare	105,849	-	-	-
Transportation	1,872,362	-	-	330,397
Leisure time activities	1,269,465	165,334	2,000	-
Community development	439,968	159,096	20,248	-
Basic utility service	876,818	-	-	-
Interest and fiscal charges	32,368	-	-	-
Total governmental activities	<u>10,899,243</u>	<u>762,468</u>	<u>66,259</u>	<u>334,397</u>
Business-type activities:				
Sewer	<u>1,747,232</u>	<u>1,578,241</u>	<u>-</u>	<u>369,559</u>
 Totals	 \$ <u>12,646,475</u>	 \$ <u>2,340,709</u>	 \$ <u>66,259</u>	 \$ <u>703,956</u>

General revenues:
 Property and other local taxes levied for:
 General purposes
 Debt service
 Municipal income taxes levied for:
 General purposes
 Grants and entitlements not restricted to
 specific programs
 Investment income
 Miscellaneous income
 Total general revenues

Change in net assets

Net assets beginning of year, restated

Net assets end of year

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

Net (Expense) Revenue
and Changes in Net Assets

Governmental Activities	Business- Type Activities	Total
\$ (1,485,879)	\$ -	\$ (1,485,879)
(4,330,485)	-	(4,330,485)
(105,849)	-	(105,849)
(1,541,965)	-	(1,541,965)
(1,102,131)	-	(1,102,131)
(260,624)	-	(260,624)
(876,818)	-	(876,818)
<u>(32,368)</u>	<u>-</u>	<u>(32,368)</u>
<u>(9,736,119)</u>	<u>-</u>	<u>(9,736,119)</u>
-	200,568	200,568
<u>(9,736,119)</u>	<u>200,568</u>	<u>(9,535,551)</u>
4,269,348	34,008	4,303,356
93,364	-	93,364
2,522,613	-	2,522,613
2,977,932	-	2,977,932
304,421	1,878	306,299
<u>71,736</u>	<u>-</u>	<u>71,736</u>
<u>10,239,414</u>	<u>35,886</u>	<u>10,275,300</u>
503,295	236,454	739,749
<u>37,403,300</u>	<u>6,420,641</u>	<u>43,823,941</u>
\$ <u><u>37,906,595</u></u>	\$ <u><u>6,657,095</u></u>	\$ <u><u>44,563,690</u></u>

City of Willowick, Ohio

Balance Sheet Governmental Funds

December 31, 2005

	<u>General</u>	<u>Fire Emergency</u>
Assets:		
Equity in pooled cash and cash equivalents	\$ 1,694,073	\$ 939,929
Taxes receivable	3,485,658	673,965
Accounts receivable	20,774	69,912
Accrued interest receivable	32,002	-
Intergovernmental receivable	962,624	-
Special assessments receivable	12,421	-
Due from other funds	108,605	-
Materials and supplies inventory	10,377	-
Total assets	\$ <u>6,326,534</u>	\$ <u>1,683,806</u>
Liabilities and fund balances:		
Liabilities:		
Accounts payable	\$ 126,220	\$ -
Due to other funds	-	-
Accrued wages	98,463	19,817
Intergovernmental payable	140,945	17,386
Deferred revenue	4,132,222	673,965
Accrued interest payable	-	-
Notes payable	-	-
Total liabilities	<u>4,497,850</u>	<u>711,168</u>
Fund balances:		
Reserve for encumbrances	195,059	24,240
Reserve for inventory	10,377	-
Unreserved:		
Undesignated, reported in:		
General fund	1,623,248	-
Special revenue funds	-	948,398
Debt service fund	-	-
Capital project fund	-	-
Total fund balances	<u>1,828,684</u>	<u>972,638</u>
Total liabilities and fund balances	\$ <u>6,326,534</u>	\$ <u>1,683,806</u>

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

<u>Capital Improvement</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
\$ 3,537,692	\$ 1,369,529	\$ 7,541,223
1,273,058	458,245	5,890,926
-	-	90,686
-	-	32,002
-	254,091	1,216,715
-	-	12,421
-	-	108,605
-	22,518	32,895
<u>\$ 4,810,750</u>	<u>\$ 2,104,383</u>	<u>\$ 14,925,473</u>

\$ 144,192	\$ 47,595	\$ 318,007
25,000	83,605	108,605
-	98,819	217,099
-	9,631	167,962
1,273,058	665,604	6,744,849
6,524	-	6,524
<u>50,000</u>	<u>-</u>	<u>50,000</u>
<u>1,498,774</u>	<u>905,254</u>	<u>7,613,046</u>

1,740,168	106,078	2,065,545
-	22,518	32,895
-	-	1,623,248
-	1,041,271	1,989,669
-	29,262	29,262
<u>1,571,808</u>	<u>-</u>	<u>1,571,808</u>
<u>3,311,976</u>	<u>1,199,129</u>	<u>7,312,427</u>
<u>\$ 4,810,750</u>	<u>\$ 2,104,383</u>	<u>\$ 14,925,473</u>

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City of Willowick, Ohio

Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities

December 31, 2005

Total Governmental Funds Balances \$ 7,312,427

*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 in the funds. 29,989,074

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

Property and other taxes	\$ 155,652
Municipal income taxes	780,138
Intergovernmental	1,014,876
Special assessments	<u>12,421</u>

Total 1,963,087

In the Statement of Activities, interest is accrued on outstanding
bonds, whereas in Governmental Funds, an interest expenditure
is reported when due. (3,806)

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

General obligation bonds	(105,000)
Notes payable	(225,000)
Compensated absences	<u>(1,024,187)</u>

Total (1,354,187)

Net assets of Governmental Activities \$ 37,906,595

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

City of Willowick, Ohio

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds

For The Year Ended December 31, 2005

	<u>General</u>	Fire <u>Emergency</u>
Revenues:		
Property and other taxes	\$ 2,170,710	\$ 583,524
Municipal income tax	2,310,484	-
Other local taxes	109,005	211
Intergovernmental	2,194,940	88,295
Charges for services	51,185	275,872
License and permits	174,209	-
Fines and forfeitures	258,632	-
Investment income	303,002	-
Miscellaneous income	<u>55,313</u>	<u>-</u>
Total revenues	<u>7,627,480</u>	<u>947,902</u>
Expenditures:		
Current operations and maintenance:		
Security of persons and property	3,367,305	727,920
Public health	105,849	-
Leisure time activities	843,593	-
Community development	260,269	-
Basic utility service	713,557	-
Transportation	150,312	-
General government	1,791,769	-
Capital outlay	-	-
Debt service:		
Principal retirement	-	-
Interest and fiscal charges	<u>-</u>	<u>-</u>
Total expenditures	<u>7,232,654</u>	<u>727,920</u>
Excess of revenues over (under) expenditures	<u>394,826</u>	<u>219,982</u>
Other financing sources (uses):		
Sale of assets	43,685	-
Debt proceeds	-	-
Transfers - in	-	-
Transfers - out	<u>(462,750)</u>	<u>-</u>
Total other financing sources (uses)	<u>(419,065)</u>	<u>-</u>
Net change in fund balance	(24,239)	219,982
Fund balance at beginning of year	<u>1,852,923</u>	<u>752,656</u>
Fund balance at end of year	\$ <u>1,828,684</u>	\$ <u>972,638</u>

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

<u>Capital Improvements</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
\$ 1,101,869	\$ 396,797	\$ 4,252,900
-	-	2,310,484
453	143	109,812
391,793	691,144	3,366,172
-	-	327,057
-	-	174,209
-	2,570	261,202
1,419	-	304,421
-	18,133	73,446
<u>1,495,534</u>	<u>1,108,787</u>	<u>11,179,703</u>
-	340,819	4,436,044
-	-	105,849
-	-	843,593
-	91,803	352,072
-	160,912	874,469
-	608,584	758,896
-	-	1,791,769
1,514,527	-	1,514,527
-	105,000	105,000
6,764	29,411	36,175
<u>1,521,291</u>	<u>1,336,529</u>	<u>10,818,394</u>
<u>(25,757)</u>	<u>(227,742)</u>	<u>361,309</u>
-	-	43,685
225,000	-	225,000
-	471,020	471,020
(8,270)	-	(471,020)
<u>216,730</u>	<u>471,020</u>	<u>268,685</u>
190,973	243,278	629,994
<u>3,121,003</u>	<u>955,851</u>	<u>6,682,433</u>
\$ <u><u>3,311,976</u></u>	\$ <u><u>1,199,129</u></u>	\$ <u><u>7,312,427</u></u>

City of Willowick, Ohio

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

For The Year Ended December 31, 2005

Net Change in Fund Balances - Total Governmental Funds \$ 629,994

*Amounts reported for Governmental Activities in the Statement of
Activities are different because:*

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

Capital outlay	\$ 972,915	
Depreciation	<u>(1,036,278)</u>	
Total		(63,363)

In the Statement of Activities, only the loss on the disposal of property and equipment is reported, whereas, in the Governmental Funds, the proceed from the disposal increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the property and equipment. (130,359)

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

Municipal income taxes	212,129	
Intergovernmental	20,423	
Special assessments	<u>(8,007)</u>	
Total		224,545

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 105,000

Other financing sources in the governmental funds increase long-term liabilities in the Statement of Net Assets. (225,000)

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 governmental funds.

Compensated absences	(41,329)	
Accrued interest on bonds	<u>3,807</u>	
Total		<u>(37,522)</u>

Change in Net Assets of Governmental Activities \$ 503,295

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

City of Willowick, Ohio

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget (Non-GAAP Budgetary Basis) and Actual

General Fund

For The Year Ended December 31, 2005

	Budget		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
Revenues:				
Property taxes	\$ 2,127,873	\$ 2,127,168	\$ 2,170,710	\$ 43,542
Municipal income taxes	2,150,000	2,150,000	2,321,457	171,457
Other local taxes	80,700	80,700	84,137	3,437
Intergovernmental	2,034,893	2,011,625	2,194,940	183,315
Charges for services	171,416	169,109	51,185	(117,924)
Licenses and permits	144,078	142,139	174,209	32,070
Fines and forfeitures	69,533	68,597	261,306	192,709
Investment income	237,734	234,534	301,543	67,009
Other	43,868	43,278	55,313	12,035
Total revenues	<u>7,060,095</u>	<u>7,027,150</u>	<u>7,614,800</u>	<u>587,650</u>
Expenditures:				
Current operations and maintenance:				
Security of persons and property	3,718,689	3,773,789	3,348,283	425,506
Public health	95,000	106,000	105,849	151
Leisure time activities	880,424	898,029	839,620	58,409
Community development	307,453	312,393	308,715	3,678
Basic utility services	776,924	776,924	763,352	13,572
Transportation	182,965	182,965	146,430	36,535
General government	<u>1,686,461</u>	<u>2,031,916</u>	<u>1,896,714</u>	<u>135,202</u>
Total expenditures	<u>7,647,916</u>	<u>8,082,016</u>	<u>7,408,963</u>	<u>673,053</u>
Excess of revenue over (under) expenditures	<u>(587,821)</u>	<u>(1,054,866)</u>	<u>205,837</u>	<u>1,260,703</u>
Other financing sources (uses):				
Sale of Assets	5,000	5,000	43,685	38,685
Advances-In	25,000	25,000	25,000	-
Advances-Out	-	(133,605)	(133,605)	-
Transfers-out	<u>(436,050)</u>	<u>(462,750)</u>	<u>(462,750)</u>	<u>-</u>
Total other financing sources (uses)	<u>(406,050)</u>	<u>(566,355)</u>	<u>(527,670)</u>	<u>38,685</u>
Net change in fund balance	(993,871)	(1,621,221)	(321,833)	1,299,388
Fund balance at beginning of year	1,704,364	1,704,364	1,704,364	-
Outstanding encumbrances	<u>311,542</u>	<u>311,542</u>	<u>311,542</u>	<u>-</u>
Fund balance at end of year	\$ <u>1,022,035</u>	\$ <u>394,685</u>	\$ <u>1,694,073</u>	\$ <u>1,299,388</u>

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

City of Willowick, Ohio

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget (Non-GAAP Budgetary Basis) and Actual

Fire Emergency Fund Special Revenue

For The Year Ended December 31, 2005

	Budget		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
Revenues:				
Property taxes	\$ 569,783	\$ 569,783	\$ 583,524	\$ 13,741
Other local taxes	213	213	211	(2)
Intergovernmental	89,004	89,004	88,295	(709)
Charges for services	<u>300,000</u>	<u>300,000</u>	<u>271,475</u>	<u>(28,525)</u>
Total revenues	<u>959,000</u>	<u>959,000</u>	<u>943,505</u>	<u>(15,495)</u>
Expenditures:				
Current:				
Security of persons and property	<u>763,730</u>	<u>795,393</u>	<u>732,040</u>	<u>63,353</u>
Total expenditures	<u>763,730</u>	<u>795,393</u>	<u>732,040</u>	<u>63,353</u>
Net change in fund balance	195,270	163,607	211,465	47,858
Fund balance at beginning of year	704,224	704,224	704,224	-
Outstanding encumbrances	<u>24,240</u>	<u>24,240</u>	<u>24,240</u>	-
Fund balance at end of year	\$ <u>923,734</u>	\$ <u>892,071</u>	\$ <u>939,929</u>	\$ <u>47,858</u>

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

City of Willowick, Ohio

Statement of Fund Net Assets Proprietary Funds

December 31, 2005

	<u>Business-Type Activities</u>
	<u>Sewer</u>
Assets:	
Current assets:	
Equity in pooled cash and cash equivalents	\$ 1,478,086
Accounts receivable	<u>306,966</u>
Total current assets	1,785,052
Non-current assets:	
Depreciable capital assets, net	<u>5,637,236</u>
Total assets	<u>7,422,288</u>
Liabilities:	
Current liabilities:	
Accounts payable	44,200
Accrued wages and benefits	7,577
Intergovernmental payable	175,822
Accrued interest payable	11,917
Notes payable	50,000
Due in one year	<u>460,925</u>
Total current liabilities	750,441
Long-term liabilities (net of current portion):	
Compensated absences	<u>14,752</u>
Total liabilities	<u>765,193</u>
Net assets:	
Invested in capital assets, net of related debt	5,137,236
Unrestricted	<u>1,519,859</u>
Total net assets	\$ <u><u>6,657,095</u></u>

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

City of Willowick, Ohio

Statement of Revenues, Expenses and Changes in Fund Net Assets Proprietary Funds

For The Year Ended December 31, 2005

	Business-Type <u>Activities</u>
	<u>Sewer</u>
Operating revenues:	
Charges for services	\$ <u>1,578,241</u>
Operating expenses:	
Personal services	348,113
Contractual services	1,271,396
Depreciation	<u>113,956</u>
Total operating expenses	<u>1,733,465</u>
Operating loss	<u>(155,224)</u>
Non-operating revenue (expenses):	
Property taxes	34,008
Intergovernmental	19,239
Investment income	1,878
Interest and fiscal charges	<u>(13,767)</u>
Total non-operating revenues (expenses)	<u>41,358</u>
Loss before capital contributions	(113,866)
Capital contributions	<u>350,320</u>
Change in net assets	236,454
Net assets beginning of year, restated	<u>6,420,641</u>
Net assets end of year	\$ <u><u>6,657,095</u></u>

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

City of Willowick, Ohio

Statement of Cash Flows Proprietary Funds

For The Year Ended December 31, 2005

<i>Increase (Decrease) in Cash and Cash Equivalents:</i>	<u>Sewer</u>
Cash Flows from Operating Activities	
Cash received from customers	\$ 1,584,134
Cash payments for goods and services	(1,163,618)
Cash payments to employees for services	(383,414)
Net cash provided by operating activities	<u>37,102</u>
Cash Flows from NonCapital Financing Activities	
Property taxes	<u>34,008</u>
Cash Flows from Capital and Related Financing Activities	
Acquisition and construction of assets	(267,563)
Proceeds from debt	519,239
Principal paid on debt	(800,000)
Interest paid	(11,517)
Net cash used for capital and related financing activities	<u>(559,841)</u>
Cash Flows from Investing Activities	
Interest received	<u>1,878</u>
Net increase in cash and cash equivalents	(486,853)
Cash and cash equivalents, beginning of year, restated	<u>1,964,939</u>
Cash and cash equivalents, end of year	\$ <u><u>1,478,086</u></u>
<u>Reconciliation of Operating Income to Net Cash</u>	
<u>Provided By Operating Activities:</u>	
Operating Income	\$ (155,224)
Adjustments:	
Depreciation	113,956
Loss on sale of assets	1,961
Changes in assets/liabilities:	
(Increase)decrease in accounts receivable	5,893
(Increase)decrease in prepaids	11,431
Increase (decrease) in accounts payable	36,550
Increase (decrease) in accrued wages and benefits	(15,990)
Increase (decrease) in compensated absences payable	(20,050)
Increase (decrease) in intergovernmental payable	<u>58,575</u>
Total adjustments	<u>192,326</u>
Net cash provided by operating activities	\$ <u><u>37,102</u></u>

Non cash Investing, Capital and Financing Activities:

During the year the Sewer Fund acquired capital assets in the amount of \$350,320 via capital contributions.

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

City of Willowick, Ohio

Statement of Fiduciary Net Assets Fiduciary Funds

December 31, 2005

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ <u>85,653</u>
Liabilities	
Deposits held	\$ <u>85,653</u>

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

City of Willowick, Ohio

Notes To Basic Financial Statements

For The Year Ended December 31, 2005

Note 1: The Reporting Entity

The City of Willowick is a home rule municipal corporation incorporated as a City in 1957 under the laws of the State of Ohio. The City operates under its own charter and is governed by a mayor-council form of government, which was adopted on May 6, 1952.

The Mayor, elected by the voters for a two-year term, is the head of the municipal government for ceremonial, administrative, and executive purposes, and performs the judicial functions of the City. As the chief conservator of the peace, he oversees the enforcement of all laws and ordinances. He also executes all contracts, conveyances, and evidences of indebtedness of the City.

Legislative authority is vested in a seven member council with six members elected from wards and the president of Council elected at large. Members of Council are elected to two year terms. Council enacts ordinances and resolutions relating to tax levies, appropriates and borrows money, and accepts bids for materials and services and other municipal purposes.

The reporting entity is composed of the primary government, component units and other organizations that are included to insure that the financial statements are not misleading. The primary government of the City consists of all funds, agencies, departments and offices that are not legally separate from the City. The primary government includes the City departments and agencies that provide the following services: police protection, fire fighting and prevention, street maintenance and repairs, building inspection, parks and recreation, and wastewater.

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 approves the budget, the issuance of debt or the levying of taxes. The City has no component units.

The Willoughby-Eastlake School District and the Willoughby-Eastlake Public Library have been excluded from the reporting entity because the City is not financially accountable for these organizations nor does the City approve the budget, the levying of taxes, or the issuance of debt for these organizations.

Jointly Governed Organization

Lake County General Health District – The Lake County General Health District, a jointly governed organization, provides health services to the citizens within the County. The Board of Health, which consists of a representative from each of the participating governments, oversees the operation of the District. The members are elected to staggered five year terms. Two members are elected by the City of Mentor. The remaining 13 members are elected by the various mayors of cities, villages, chairmen of the township trustees, and the County Commissioners. Five townships, nine villages, and nine cities, including the City of Willowick, participate in the District. The City contributed \$105,849 during 2005 for the operation of the District.

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 1: The Reporting Entity (continued)

Northeast Ohio Public Energy Council – The City is a member of the Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of energy. NOPEC is currently comprised of 115 communities who have been authorized by ballot to purchase energy on behalf of their citizens. The intent of NOPEC is to provide energy at the lowest possible rates while at the same time ensuring stability in prices by entering into long-term contracts with suppliers to provide energy to the citizens of its member communities.

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each county then elect one person to serve on the eight-member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. The City of Willowick did not contribute to NOPEC during 2005. Financial information can be obtained by contacting Joseph Migliorini, Board Chairman, 1615 Clark Avenue, Cleveland, Ohio 44109.

Note 2: Summary of Significant Accounting Policies

The significant accounting policies followed in the preparation of these financial statements are summarized below. These policies conform to generally accepted accounting principles (GAAP) for local governmental units as prescribed in the statements issued by the Governmental Accounting Standards Board (GASB) and other recognized authoritative sources. The City also applies Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989 to its proprietary activities, provided they do not conflict with or contradict GASB pronouncements.

A. 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 activity of the internal service fund is eliminated to avoid doubling up revenues and expenses. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 2: Summary of Significant Accounting Policies (continued)

A. Basis of Presentation (continued)

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

Fund Financial Statements

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

B. 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 – This fund is used to account 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 general laws of Ohio.

Fire Emergency Fund – This fund is used to account for financial resources incurred in connection with ambulance and emergency services in the City.

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 2: Summary of Significant Accounting Policies (continued)

B. Fund Accounting (continued)

Capital Improvements Fund – This fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by a proprietary fund).

Proprietary Funds - Proprietary fund reporting focuses on the determination of operating income, changes in net assets. Proprietary funds are classified as either enterprise or internal service. The City has no internal service funds. The following is the City's major enterprise fund:

Sewer Enterprise Fund – The sewer enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges.

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 City has no trust funds. The City's agency funds are purely custodial (assets equal liabilities) and, thus, do not involve measurement of results of operations. The City's only agency fund is used to account for security deposits.

C. Measurement Focus and Basis of Accounting

Government-Wide Financial Statements

The government-wide financial statements are prepared using the flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the Statement of Net Assets, except for fiduciary funds. The Statement of Activities presents increases (e.g. revenues) and decreases (e.g. expenses) in total 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 reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 2: Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting (continued)

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.

D. 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; proprietary funds also use the accrual basis of accounting. Governmental funds use the modified 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.

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 year in which the resources are measurable and become available. Available means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Available period for the City is thirty-one days after year-end.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned.

Revenue from property taxes is recognized in the year for which the taxes are levied (see Note 6).

Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from 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), fines and forfeitures, licenses and permits, interest, grants and rentals.

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 2: Summary of Significant Accounting Policies (continued)

D. Basis of Accounting (continued)

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, 2005, but which were levied to finance year 2005 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.

E. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriation ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations ordinance are subject to amendment throughout the year with the legal restriction that the appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are required to be budgeted and appropriated. The legal level of budgetary control is at the object level within each department of each fund. Budgetary modifications may only be made by resolution of the City Council at the legal level of control.

Tax Budget

During the first Council meeting in July, the Mayor presents the annual operating budget for the following fiscal year to City Council for consideration and passage. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year.

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 2: Summary of Significant Accounting Policies (continued)

E. Budgetary Process (continued)

Estimated Resources

The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification the City receives the official certificate of estimated resources, which 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 unencumbered cash balances at December 31 of the preceding year. The certificate may be further amended during the year if the Finance Director determines, and the Budget Commission agrees, that an estimate needs to be either increased or decreased. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 2005.

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 fixes spending authority at the fund, department, and object level. The appropriation ordinance may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. The allocation of appropriations among departments and objects within a fund may only be modified during the year by an ordinance of Council. The budget figures which appear in the statement of budgetary comparisons represent the final appropriation amounts, including all amendments and modifications.

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. Encumbrances are carried forward and are not re-appropriated as part of the subsequent year appropriations.

Encumbrances

As part of formal budgetary control, purchase order, 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 the 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 a reservations of fund balances for subsequent-year expenditures for governmental funds and as note disclosure for the proprietary fund.

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 2: Summary of Significant Accounting Policies (continued)

F. Cash and Cash Equivalents

Cash received by the City is deposited into several bank accounts. Monies for all funds, including the enterprise fund, are maintained in these accounts or temporarily used to purchase short-term investments. Individual fund integrity is maintained through the City's records. Each fund's interest in the pooled bank accounts is presented as "equity in pooled cash and cash equivalents" on the combined balance sheet. During fiscal year 2005, investments were limited to STAR Ohio. STAR Ohio is an investment pool managed by the State Treasurer's office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 2005. All investment earnings accrue to the general fund except those specifically related to certain capital projects and the proprietary fund.

The City utilizes a financial institution to service bonded debt as principal and interest come due. The balances in this account is presented on the combined balance sheet as "Equity in Pooled Cash and cash equivalents" and represent deposit or short term investments in certificate of deposits with an original maturity of three months or less.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2005 amounted to \$303,002, which includes \$96,275 assigned from other City funds.

For purposes of the statement of cash flows and for presentation on the combined balance sheet, investments with an original maturity of three months or less are considered to be cash equivalents. Investments with an original maturity of more than three months are reported as investments.

G. Inventory

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

H. Prepaid Items

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

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 2: Summary of Significant Accounting Policies (continued)

I. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of three thousand dollars. The City's infrastructure consists of roadways, sidewalks, drive aprons, curbs, Vine Street beautification, traffic signals, decorative street lights, storm sewers, and sanitary sewers. 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 capital assets is also capitalized.

All 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>Estimated Lives</u>
Buildings	45 years
Improvements other than buildings (sewer lines)	50 years
Machinery and equipment	5-30 years
Infrastructure	50-70 years

J. Interfund Balances

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as "interfund receivables/payables." Interfund loans which do not represent available expendable resources are offset by a fund balance reserve account. Interfund balance amounts are eliminated in the statement of net assets.

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 2: Summary of Significant Accounting Policies (continued)

K. Compensated Absences

In conformity with GASB No. 16 "Accounting for 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 City will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability is based on the sick leave accumulated at December 31 by those employees who are currently eligible to receive termination payments and by those employees for whom it is probable they will become eligible to receive termination benefits in the future.

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 expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported. In the proprietary fund, the entire amount of compensated absences is reported as a fund liability.

L. 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, special termination benefits 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, long-term notes and loans are recognized as a liability on the fund financial statements when due.

M. 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. Fund balance reserves have been established for encumbrances and inventories.

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 2: Summary of Significant Accounting Policies (continued)

N. Net Assets

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

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

O. 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 the sewer operations. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the fund.

P. 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.

Q. 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. Neither type of transaction occurred during 2005.

R. Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles 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 Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 2: Summary of Significant Accounting Policies (continued)

S. Comparative Data/Reclassifications

Comparative data for the prior year are presented in order to provide an understanding of the changes in financial position and operations. Certain reclassifications have been made to the 2004 financial statements in order to conform to the 2005 presentation.

Note 3: Change in Accounting Principle

For 2005, the City has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures," and GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries."

GASB Statement No. 40 establishes disclosure requirements for investment credit risk, interest rate risk, deposit custodial risk and foreign currency risk.

GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets and clarifies and establishes accounting requirements for insurance recoveries.

The implementation of GASB Statements No. 40 and 42 did not affect the presentation of the financial statements of the City.

Note 4: Budgetary Basis of Accounting

While reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP basis), the budgetary basis as provided by law is based upon accounting for transactions on a basis of cash receipts, disbursements and encumbrances. The Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual (Budget Basis) – All Governmental Fund Types and the Statement of Revenues, Expenses and Changes in Fund Equity – Budget and Actual (Budget Basis) – Enterprise Fund Type are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget and to demonstrate compliance with state statute.

The major difference between the budget basis and the GAAP basis (generally accepted accounting principles) are:

- 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 for all funds (budget) rather than as a reservation of fund balances for governmental fund types (GAAP).
- 4) Short-term note proceeds and note principal retirement for governmental funds are operating transactions (budget) as opposed to balance sheet transactions (GAAP).

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 4: Budgetary Basis of Accounting (continued)

- 5) State statute requires short-term note debt to be repaid from the debt service fund (budget) as opposed to the fund that received the proceeds (GAAP). Debt service fund resources used to pay both principal and interest have been allocated accordingly.

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund and the Fire Emergency Special Revenue Fund.

	<u>Net Change in Fund Balance</u>	
	<u>General</u>	<u>Fire Emergency</u>
GAAP basis	\$ (24,239)	\$ 219,982
Increase (decrease) due to:		
Revenue accruals	12,320	(4,397)
Expenditure accruals	1,628	20,120
Encumbrances outstanding	<u>(311,542)</u>	<u>(24,240)</u>
Budget basis	\$ <u>(321,833)</u>	\$ <u>211,465</u>

Note 5: Deposits and Investments

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

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

Inactive deposits are monies identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim monies may be deposited or invested in the following securities:

1. United States Treasury notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 5: Deposits and Investments (continued)

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily;
4. Investment grade obligations of state and local governments, and public authorities;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and,
6. The State Treasurer's investment pool (STAROhio).

Investments in stripped principal or interest obligations reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity.

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

Deposits

Custodial credit risk is the risk that in the event of bank failure, the City's deposits may not be returned to it. Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution, by surety company bonds or by a single collateral pool established by the financial institution. In accordance with Chapter 135 of the Ohio Revised Code, any public depository receiving deposits pursuant to an award of City funds shall be required to pledge as security for repayment of all public moneys.

At year-end, the carrying amount of the City's deposits was \$8,574,749 and the bank balance was \$8,743,283. Of the bank balance, \$300,000 was covered by the Federal depository insurance, and \$8,443,283 was uninsured. Of the remaining bank balance, \$8,443,283 was collateralized with securities held by the pledging institution's trust department, not in the City's name.

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 5: Deposits and Investments (continued)

Investments

Investments are reported at fair value. As of December 31, 2005, the city had the following investments:

	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
STAROhio	\$ <u>530,213</u>	<u>N/A</u>
Total Portfolio	\$ <u>530,213</u>	\$ <u>N/A</u>

Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The City's investment policy addresses interest rate risk requiring that the City's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments, thereby avoiding that need to sell securities on the open market prior to maturity and by investing operating funds primarily in short-term investments. The City investment policy also limits security purchases to those that mature five years unless specifically matched to a specific cash flow. To date, no investments have been purchased with a life greater than five years.

Custodial risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the City will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. All financial institutions and broker/dealers who desire to become qualified for investment transactions with the City must meet a set of prescribed standards and be periodically reviewed.

Credit risk is addressed by the City's investment policy by the requirements that all investments are authorized by Ohio Revised Code and that portfolio be diversified both by types of investment and issuer. All investments of the City are registered and carry a rating AAA by Standard & Poor's.

Concentration of credit risk is defined by the Governmental Accounting Standards Board as five percent as five percent or more in the securities of a single issuer. The City's investment policy requires diversification of the portfolio but does not indicate specific percentage allocations. The following is the City's allocation as of December 31, 2005:

<u>Investment Issuer</u>	<u>Percentage of Investments</u>
STAROhio	100%

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 6: Receivables

A. Property Taxes

Property taxes include amounts levied against all real, public utility and tangible personal property located in the City. Taxes collected on real property (other than public utility) in one calendar year are levied in the preceding calendar year on assessed values as of January 1 of the preceding year, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be revalued every six years. The last update was completed in 2003. Real property taxes are payable annually or semi-annually. The first payment is due January 20, with the remainder payable by June 20.

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

Public utility, real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the 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 County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City of Willowick. The County Auditor periodically remits to the City its portion of the taxes collected.

The full tax rate for all City operations for the year ended December 31, 2005 was \$19.50 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2005 property tax receipts were based are as follows:

Real property	\$ 261,065,990
Public utility property	3,173,280
Tangible personal property	<u>4,040,520</u>
Total valuation	\$ <u>268,279,790</u>

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 6: Receivables (continued)

B. Income Taxes

The City levies a municipal income tax of two percent on all salaries, wages, commissions 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 87.5 percent of the tax paid to another municipality to a maximum of the total amount assessed. Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City 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 General Fund.

C. Intergovernmental Receivables

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
Governmental activities:	
Local government	\$ 93,444
Local government – revenue assistance	869,180
Gasoline\motor vehicle license tax	207,731
Permissive tax	21,360
Lake County	<u>25,000</u>
Total	\$ <u>1,216,715</u>

Lake County has acquired land and plant facilities from the City of Willowick. In exchange, the County has agreed to pay directly to the City of Willowick, when due, amounts sufficient to service the City's long-term debt funding requirements relating to the assets.

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 7: Capital Assets

Capital asset activity for the year ended December 31, 2005, was as follows:

	Balance 12/31/04	Restated	12/31/04 Balance Restated	Additions	Disposals	Balance 12/31/05
Governmental Activities:						
Capital assets not being depreciated:						
Construction in process	\$ 1,122,348	-	1,122,348	159,012	(1,147,419)	\$ 133,941
Land	<u>738,242</u>	<u>224,227</u>	<u>962,469</u>	<u>-</u>	<u>(5,627)</u>	<u>956,842</u>
Total non-depreciable capital assets	1,860,590	224,227	2,084,817	159,012	(1,153,046)	1,090,783
Capital assets being depreciated:						
Land improvements	419,052	-	419,052	288,013	(51,733)	655,332
Building and improvements	9,693,660	(75,045)	9,618,615	8,330	(194,708)	9,432,237
Machinery and equipment	4,195,876	-	4,195,876	510,661	(226,373)	4,480,164
Infrastructure:						
Roadways	18,670,194	-	18,670,194	96,778	-	18,766,972
Sidewalks	1,437,584	-	1,437,584	144,552	-	1,582,136
Drive aprons	1,197,137	-	1,197,137	12,085	-	1,209,222
Curbs	1,623,285	-	1,623,285	59,260	-	1,682,545
Vine Street Beautification	-	-	-	482,774	-	482,774
Traffic Signals	-	-	-	12,766	-	12,766
Decorative Street Lights	<u>-</u>	<u>-</u>	<u>-</u>	<u>346,103</u>	<u>-</u>	<u>346,103</u>
Total capital assets Being depreciated	<u>37,236,788</u>	<u>(75,045)</u>	<u>37,161,743</u>	<u>1,961,322</u>	<u>(472,814)</u>	<u>38,650,251</u>
Less accumulated depreciation:						
Land improvements	136,540	2,298	138,838	29,231	(10,634)	157,435
Building and improvements	2,447,429	8,220	2,455,649	221,703	(113,457)	2,563,895
Machinery and equipment	2,364,192	1,739	2,365,931	326,779	(223,991)	2,468,719
Infrastructure:						
Roadways	6,638,084	(3,319,041)	3,319,043	373,404	-	3,692,447
Sidewalks	537,337	(268,669)	268,668	28,752	-	297,420
Drive aprons	418,770	(209,385)	209,385	23,943	-	233,328
Curbs	612,501	(306,251)	306,250	32,466	-	338,716
Vine Street Beautification	-	-	-	-	-	-
Traffic Signals	-	-	-	-	-	-
Decorative St Light	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total accumulated depreciation	<u>13,154,853</u>	<u>(4,091,089)</u>	<u>9,063,764</u>	<u>1,036,278</u>	<u>(348,082)</u>	<u>9,751,960</u>
Net capital assets Being depreciated	<u>24,081,935</u>	<u>4,016,044</u>	<u>28,097,979</u>	<u>925,044</u>	<u>(124,732)</u>	<u>28,898,291</u>
Governmental activities Capital assets, net	\$ <u>25,942,525</u>	<u>4,240,271</u>	<u>30,182,796</u>	<u>1,084,056</u>	<u>(1,277,778)</u>	\$ <u>29,989,074</u>

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 7: Capital Assets (continued)

	<u>Balance</u> <u>12/31/04</u>	<u>Restated</u>	<u>12/31/04</u> <u>Balance</u> <u>Restated</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/05</u>
Business-type activities:						
Capital assets not being depreciated						
Construction in progress	\$ -	\$ -	\$ -	\$ 47,351	\$ -	\$ 47,351
Capital assets being depreciated:						
Machinery and equipment	470,344	-	470,344	153,662	(71,280)	552,726
Infrastructure:						
Sanitary sewers	3,010,878	-	3,010,878	350,320	-	3,361,198
Storm sewers	<u>5,708,856</u>	<u>-</u>	<u>5,708,856</u>	<u>66,550</u>	<u>(6,535)</u>	<u>5,768,871</u>
Total capital assets						
Being depreciated	<u>9,190,078</u>	<u>-</u>	<u>9,190,078</u>	<u>570,532</u>	<u>(77,815)</u>	<u>9,682,795</u>
Less accumulated depreciation:						
Machinery and equipment	272,279	2,773	275,052	26,837	(71,280)	230,609
Infrastructure:						
Sanitary sewers	2,940,796	(564,750)	2,376,046	3,336	-	2,379,382
Storm sewers	<u>1,968,769</u>	<u>(565,059)</u>	<u>1,403,710</u>	<u>83,783</u>	<u>(4,574)</u>	<u>1,482,919</u>
Total accumulated depreciation	<u>5,181,844</u>	<u>(1,127,036)</u>	<u>4,054,808</u>	<u>113,956</u>	<u>(75,854)</u>	<u>4,092,910</u>
Business-type activities capital assets, net	\$ <u>4,008,234</u>	\$ <u>1,127,036</u>	\$ <u>5,135,270</u>	\$ <u>503,927</u>	\$ <u>(1,961)</u>	\$ <u>5,637,236</u>

Depreciation expense was charged to governmental activities as follows:

	<u>Governmental</u>
Security of persons and property	\$ 213,173
Leisure time activities	134,432
Community development	43,613
Basic utility	2,349
Transportation	482,942
General government	<u>159,769</u>
Total depreciation expense	\$ <u>1,036,278</u>

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 8: Long-Term Obligations

A. Original Issues

The original issue date, interest rates and original issuance amount for each of the City's bonds follows:

	<u>Original Issue Date</u>	<u>Interest Rate</u>	<u>Original Issue Amount</u>
<u>General Obligation Bonds:</u>			
Street improvement (waterlines)	1986	7.25%	\$ 400,000
Street improvement (Bayridge)	1986	7.25%	1,521,000

Changes in long-term obligations during the year ended December 31, 2005, consisted of the following:

	<u>Balance 12/31/04</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance 12/31/05</u>	<u>Due Within One Year</u>
Governmental Activities:					
General obligation bonds:					
7.25% Street improvement Series 1986-1 (waterlines)	\$ 50,000	\$ -	\$ (25,000)	\$ 25,000	\$ 25,000
7.25% Street improvement Series 1986-1 (Bayridge)	<u>160,000</u>	<u>-</u>	<u>(80,000)</u>	<u>80,000</u>	<u>80,000</u>
Total general obligation bonds	<u>210,000</u>	<u>-</u>	<u>(105,000)</u>	<u>105,000</u>	<u>105,000</u>
Other long-term obligations:					
Notes payable	-	225,000	-	225,000	225,000
Compensated absences	<u>982,858</u>	<u>462,872</u>	<u>(421,543)</u>	<u>1,024,187</u>	<u>372,148</u>
Total governmental activities	\$ <u>1,192,858</u>	\$ <u>687,872</u>	\$ <u>(526,543)</u>	\$ <u>1,354,187</u>	\$ <u>702,148</u>
	<u>Balance 12/31/04</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance 12/31/05</u>	<u>Due Within One Year</u>
Business-Type Activities:					
Other long-term obligations:					
Notes payable	\$ -	\$ 450,000	\$ -	\$ 450,000	\$ 450,000
Compensated absences	<u>45,727</u>	<u>33,064</u>	<u>(53,114)</u>	<u>25,677</u>	<u>10,925</u>
Total business-type activities	\$ <u>45,727</u>	\$ <u>483,064</u>	\$ <u>(53,114)</u>	\$ <u>475,677</u>	\$ <u>460,925</u>

General obligation bonds will be paid from the debt service fund. Compensated absences reported in the "compensated absences payable" account will be paid from the fund from which the employees' salaries are paid. Notes payable will be paid from the fund which received the original proceeds. These notes were reissued prior to the release of these financial statements and therefore have been reported as a long-term liability.

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 8: Long-Term Obligations (continued)

A. Original Issues (continued)

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

General Obligation Bonds			
Year	Principal	Interest	Total
2006	\$ <u>105,000</u>	\$ <u>7,613</u>	\$ <u>112,613</u>

Note 9: Note Debt

The City's note activity for the year ended December 31, 2005 is as follows:

	Balance 12/31/04	Issued	Retired	Balance 12/31/05
Governmental Activities:				
1.85% Senior center	\$ 150,000	\$ -	\$ 150,000	\$ -
1.50% Dudley pool improvement	100,000	-	100,000	-
2.50% Senior center	-	25,000	-	25,000
3.00% Dudley pool improvement	-	25,000	-	25,000
Total governmental activities	\$ <u>250,000</u>	\$ <u>50,000</u>	\$ <u>250,000</u>	\$ <u>50,000</u>

	Balance 12/31/04	Issued	Retired	Balance 12/31/05
Business-Type Activities:				
1.50% Sanitary sewer improvement	\$ 800,000	\$ -	\$ 800,000	\$ -
3.00% Sanitary sewer improvement	-	50,000	-	50,000
Total business-type activities	\$ <u>800,000</u>	\$ <u>50,000</u>	\$ <u>800,000</u>	\$ <u>50,000</u>

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

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 10: Operating Leases

The City is obligated under certain leases accounted for as operating leases.

The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2005:

<u>Year</u>	<u>Amounts</u>
2006	\$ 20,147
2007	<u>18,468</u>
Total minimum payments required	\$ <u><u>38,615</u></u>

Note 11: Employee Benefits – Compensated Absences

Employees earn vacation and sick leave at different rates which are affected by length of service. Sick leave accrual is continuous, without limit. Overtime worked is always paid to employees on the paycheck for the period in which it was worked.

Upon retirement, an employee can be paid for his/her accumulated hours of sick leave up to 960 hours, except fire department employees, who are part time and do not accumulate sick leave. Upon retirement, termination, or death of the employee, vacation is paid for the total time accumulated for the employee.

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 12: Pension Plans

A. Ohio Public Employees Retirement System

All full-time employees, other than non-administrative full-time police officers and firefighters, contribute to the Ohio Public Employees Retirement System (“OPERS”). OPERS administers three separate pension plans as described below:

- The traditional pension plan (TP) – a cost sharing multiple-employer defined benefit pension plan.
- The member-directed plan (MD) – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the member-directed plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon.
- The combined plan (CO) – a cost-sharing multiple-employer defined benefit pension plan. Under the combined plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the traditional plan benefit. Member contributions, the investment of which is self-directed by the members, 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) 222-6701 or (800) 222-7377.

For the year ended December 31, 2005, the members of all three plans were required to contribute 8.5 percent of their annual covered salary to fund pension obligations. The City contributed 13.55 percent of covered payroll, of which 4.0 percent was used to fund health care coverage for retirees. The contribution rate is determined actuarially. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City of Willowick’s required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2005, 2004, and 2003 were \$259,488, \$240,912, and \$239,518, respectively, equal to the required contributions for each year. The full amount has been contributed for 2004 and 2003. 93% has been contributed for in 2005, with the remainder being reserved as “accrued wages and benefits” in the governmental activities column of the statement of net assets.

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 12: Pension Plans (continued)

B. Ohio Police and Fire Pension Fund

The City of Willowick 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 OP&F, 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 employers are required to contribute 11.75 percent for police officers and 16.2 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the OP&F for police and firefighters for the years ended December 31, 2005, 2004, and 2003 were \$203,257, \$174,262, and \$175,457, respectively. The full amount has been contributed for 2004 and 2003. 73 percent, has been contributed for 2005 with the remainder being presented as "accrued wages and benefits" in the governmental activities column of the statement of net assets.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the Ohio Public Employees Retirement System or the Police and Fire Pension Fund are covered by Social Security. The City's liability is 6.2 percent of wages paid.

Note 13: Postemployment Benefits

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the Traditional Plan (TP) – a cost-sharing multiple-employer defined benefit pension plan; the Member-Directed Plan (MD) – a defined contribution plan; and the Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS provides retirement, disability, survivor and post-retirement health care benefits to qualifying members of both the Traditional and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-retirement health care coverage, age and service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and qualified survivor recipients is available. The health care coverage provided by the Retirement System is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority requiring employers to fund post-retirement health care through their contributions to OPERS. The 2005 employer contribution rate was 13.55 percent of covered payroll; 4.0 percent was the portion that was used to fund health care.

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 13: Postemployment Benefits (continued)

A. Ohio Public Employees Retirement System (continued)

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2004, include a rate of return on investments of 8.0 percent. An annual increase of 4.0 percent, compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increase, over and above the 4.0 percent base increase, were assumed to range from 0.50 percent to 6.3 percent. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1 percent to 6 percent for the next eight years. In subsequent years (9 and beyond) health care costs were assumed to increase at 4 percent (the projected wage inflation rate).

All investments are carried at market value. 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.

At December 31, 2005, the number of active contributing participants in the Traditional and Combined Plans totaled 376,109. The City's actual contributions for 2005, which were used to fund postemployment benefits, were \$108,686. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2004, (the latest information available) were \$10.8 billion. The actuarially accrued liability and the unfounded actuarially accrued liability were \$29.5 billion and \$18.7 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. In addition to the HCPP, OPERS has taken additional action to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. As an additional component of the HCPP, member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the healthcare plan.

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 two-thirds basis.

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 13: Postemployment Benefits (continued)

B. Ohio Police and Fire Pension Fund (continued)

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the Ohio Police and Fire Pension Fund 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 is 19.50 percent of covered payroll, and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2005 and 2004. 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 2005 that were used to fund postemployment benefits were \$126,388 for police and \$5,549 for firefighters. The OP&F's total health care expenses for the year ended December 31, 2004, (the latest information available) were \$102,173,796, which was net of member contributions of \$55,665,341. The number of Ohio Police and Fire Pension participants eligible to receive health benefits as of December 31, 2004 was 13,812 for police and 10,528 for firefighters.

Note 14: 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 2005, the City contracted with Pease-Kerr-Canfield Insurance for various types of insurance as follows:

Type of Coverage:	
Property	\$ 16,423,380
Boilers and machinery	16,423,380
Inland marine	1,093,445
Crime	100,000
Automobile liability	1,000,000
General liability	1,000,000
Law enforcement liability	1,000,000
Public officials liability	1,000,000
Umbrella liability	5,000,000

No settlements exceeded the insurance coverage in any of the prior three fiscal years.

The City participates in the Ohio Municipal League public risk pool for workers' compensation. The Group Rating Plan is administered by Gates McDonald. The OML Group Rating Plan is intended to achieve lower workers' compensation premium rates for the participants, and result in the establishment of a safer working environment. There are no additional contributions required by a participant other than their annual fee.

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 15: Transfers

Interfund transfers for the year ended December 31, 2005, consisted of the following:

Transfer to	Transfer From		
	General Fund	Capital Improvement Fund	Total
Nonmajor governmental funds	\$ <u>462,750</u>	\$ <u>8,270</u>	\$ <u>471,020</u>

Note 16: Contingencies/Pending Litigation

The City is involved in various litigation, claims, and inquiries most of which are routine to the nature of a municipality. It is the opinion of the City's management that the ultimate settlement of such litigation will not result in a material adverse effect on the City's financial position and results of operations.

Note 17: Restatement of Prior Year Fund Balances

	Total Governmental Activities	Total Business-Type Activities
Net assets, December 31, 2004	\$ 33,163,029	\$ 5,293,605
Reclassification adjustments:		
Restatement of capital assets	<u>4,240,271</u>	<u>1,127,036</u>
Restated net assets, December 31, 2004	\$ <u>37,403,300</u>	\$ <u>6,420,641</u>

It was brought to the attention of Management that the estimated lives of the various infrastructure line items may not correspond to the actual lives of such assets. Management, therefore, re-evaluated the estimated lives of those assets. The beginning net assets have been restated to correct the net book value of those assets which should have been changed in prior years. The Management's Discussion and Analysis 2004 Net Asset schedule has been adjusted for this, however, the 2004 Statement of Activities schedule has not been restated for the capital asset adjustment due to the changes not affecting the 2004 activity.

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 18: Subsequent Events

During 2005, the City retired \$800,000 of the maturing bond anticipation notes for Sanitary Sewer Improvements and renewed \$500,000. As of June 30, 2006 the city retired an additional \$50,000 of these Sanitary Sewer Improvement outstanding notes and renewed the remaining \$450,000.

During 2005, the City retired \$150,000 of maturing Senior Center Notes and renewed \$100,000. As of June 30, 2006 the City retired an additional \$25,000 of these outstanding notes and renewed the remaining \$75,000.

Also during 2005, the City retired \$100,000 of the maturing Dudley Pool Improvement Notes and issued an additional \$175,000 of bond anticipation notes. As of June 30, 2006 the City retired an additional \$25,000 of these outstanding notes and renewed the remaining \$150,000.



Auditor of State Betty Montgomery

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

City of Willowick
Lake County
30435 Lakeshore Boulevard
Willowick, Ohio 44095

To the City Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Willowick, Lake County, Ohio, (the City) as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 21, 2006, wherein we noted the City restated capital assets as described in Note 17 to the basic financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the City's management dated August 21, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the City's management dated August 21, 2006, we reported an other matter related to noncompliance we deemed immaterial.

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www.auditor.state.oh.us

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

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

Betty Montgomery
Auditor of State

August 21, 2006



**Auditor of State
Betty Montgomery**

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Columbus, Ohio 43216-1140

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800-282-0370

Facsimile 614-466-4490

CITY OF WILLOWICK

LAKE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 9, 2006**