



Mary Taylor, CPA
Auditor of State

City of Willoughby Hills, Ohio
Basic Financial Statements
For the Year Ended December 31, 2004
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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

City of Willoughby Hills
Lake County
35405 Chardon Road
Willoughby Hills, Ohio 44094

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 Willoughby Hills, Lake County, Ohio, (the City) as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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 Willoughby Hills, Lake County, Ohio, as of December 31, 2004, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparisons for the General, Fire Levy, Road Levy and Street Construction, Maintenance and Repair Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended December 31, 2004, the City implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2007, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

Mary Taylor, CPA
Auditor of State

May 30, 2007

City of Willoughby Hills, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited

The discussion and analysis of the City of Willoughby Hills's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2004. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers are encouraged to consider the information presented here in conjunction with the additional information contained in the financial statements and notes to enhance their understanding of the City's financial performance.

Financial Highlights

- This is the City of Willoughby Hill's first publication of financial statements under the new GASB 34 reporting model.
- Total assets for the City exceeded liabilities by \$9,133,252 at December 31, 2004.
- Total assets increased by \$741,576, which represents an increase of 3.86 percent over 2003. The biggest change was an increase in business-type capital assets of \$1,079,729 which reflects the completion of the Euclid Creek Interceptor Sewer.
- Total liabilities increased by \$986,008, which represents an increase of 10.03 percent compared to 2003. The main factor contributing to this increase is the OWDA loan payments for the Euclid Creek Interceptor Sewer Project. This added \$1,089,231 of long term debt in business-type activities.
- Total net assets decreased by \$244,432, which represents a decrease of approximately 2.6 percent over 2003. Program expenses outpaced revenue by \$125,316 for governmental activities, and by \$119,116 in business-type activities. The decrease in governmental activities can be attributed to a stagnant general fund revenue stream in 2004.
- In 2004, the City's cash basis collection of municipal income tax was \$2,766,294 which was \$183,706 short of expectations and \$157,008 decrease over the \$2,923,202 collected in 2003 in the general fund.

Using This Annual Financial Report

This discussion and analysis is intended to serve as an introduction to the City of Willoughby Hills' basic financial statements. These statements are organized so that readers can understand the City as a financial whole or as an entire operating entity. The statements then proceed to provide an increasing detailed look at specific financial conditions.

The statement of Net Assets and Statement of Activities provide information about the activities of the whole City. They provide both an aggregate view of the City's finances in addition to a longer-term view of those assets. Major fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what dollars remain for future spending. The fund financial statements also look at the City's most significant funds with all other non-major funds presented in total in one column.

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The City of Willoughby Hills as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and asks the questions, "How did we do financially during 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by the private sector. The basis for this accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

The *statement of net assets* presents information on all of the City of Willoughby Hills' assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Willoughby Hills is improving or deteriorating. However, the analysis on the City's condition must also look at the City's tax base, property tax evaluation and the condition of the City's assets.

The *statement of activities* presents information showing how the government'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 the future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Willoughby Hills that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Willoughby Hills include general government, security of persons and property (Police and Fire), leisure time activities, community environment and transportation. The only business-type activity is the sewer operation.

Reporting the City'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 objectives. The City of Willoughby Hills, 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 Willoughby Hills can be divided into three categories: governmental, proprietary and fiduciary.

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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 funds financial statements focus on *near-term inflows and outflows of expendable resources*, as well as on balances of expendable resources available at the end of the year.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds and governmental activities*.

The City of Willoughby Hills maintains twenty 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 and the Fire Levy, Road Levy, and Street Construction Maintenance and Repair special revenue funds, all of which are considered to be major funds. Data from the other governmental funds are combined into single, aggregated presentation.

The City of Willoughby adopts an annual appropriated budget for each of its funds to demonstrate budgetary compliance.

Proprietary Funds The City of Willoughby Hills' only proprietary fund is the sewer system. Proprietary fund statements provide the same type of information as the government-wide financial statements, only in more detail.

Fiduciary Funds The City uses agency funds to record receipting of deposits and disbursements for persons and businesses who are involved with going through the Board of Zoning Appeals through the City's Planning Commission. City ordinances require the deposit of funds to defray any engineering or legal cost associated with a case before our BZA of Planning Commission. The City assigns an agency fund to account for these receipts and disbursements.

Notes to the Basic Financial Statements The notes provide additional information that are essential for a full understanding of the data provided in the government-wide and fund financial statements.

City of Willoughby Hills, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2004
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The City as a Whole

As noted earlier, the Statement of Net Assets looks at the City as a whole. The following table provides a summary of the City's net assets for 2004 compared to 2003.

Table 1
Net Assets

	Governmental Activities		Business-Type Activity		Total	
	2004	2003	2004	2003	2004	2003
Assets						
Current and Other Assets	\$5,204,516	\$5,421,567	\$274,862	\$377,178	\$5,479,378	\$5,798,745
Capital Assets, Net	7,798,849	7,817,635	6,670,985	5,591,256	14,469,834	13,408,891
Total Assets	13,003,365	13,239,202	6,945,847	5,968,434	19,949,212	19,207,636
Liabilities						
Current Liabilities	2,437,694	3,555,781	19,808	4,143	2,457,502	3,559,924
Long-Term Liabilities						
Due Within One Year	267,530	201,773	8,805	8,367	276,335	210,140
Due in More Than One Year	2,924,544	1,982,735	5,157,579	4,077,153	8,082,123	6,059,888
Total Liabilities	5,629,768	5,740,289	5,186,192	4,089,663	10,815,960	9,829,952
Net Assets						
Invested in Capital Assets, Net of Related Debt	\$5,367,096	\$4,964,551	\$1,504,601	\$1,505,736	\$6,871,697	\$6,470,287
Restricted for:						
Capital Projects	873,325	908,915	0	0	873,325	908,915
Debt Service	94,136	395,183	0	0	94,136	395,183
Law Enforcement	145,272	16,761	0	0	145,272	16,761
Street Construction, Maintenance and Repairs	33,100	79,211	0	0	33,100	79,211
Other Purposes	166,386	144,498	0	0	166,386	144,498
Unrestricted	694,282	989,794	255,054	373,035	949,336	1,362,829
Total Net Assets	\$7,373,597	\$7,498,913	\$1,759,655	\$1,878,771	\$9,133,252	\$9,377,684

For the City of Willoughby Hills, total assets exceeded total liabilities by \$9,133,252 at the close of 2004. Of the total net assets, capital assets, net of related debt make up \$6,871,697 or 75.2 percent.

Total net assets of the City decreased \$206,672 from 2003. The following factors were responsible for this decrease:

- Decrease in cash and cash equivalents of \$296,995.
- Increase in long-term liabilities of \$2,088,430.
- Increase in capital assets of \$1,060,943.
- Decrease in current liabilities of \$1,102,316.

Governmental activities net assets decreased \$125,316 during 2004, and business-type activity net assets decreased \$119,116. The City of Willoughby Hills was able to report positive balances for combined net assets as well as for the separate governmental and business-type activities.

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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 year. However, since this is the first year the City has prepared financial statements following GASB Statement 34, revenue and expense comparisons to 2003 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

(Table 2)
Changes in Net Assets

	Governmental Activities	Business-Type Activities	Total
Revenues			
Program Revenues			
Charges for Services	\$1,064,178	\$775,455	\$1,839,633
Operating Grants	502,016	16,690	518,706
Capital Grants and Contributions	183,917	0	183,917
Total Program Revenues	<u>1,750,111</u>	<u>792,145</u>	<u>2,542,256</u>
General Revenues			
Property Taxes	1,827,940	0	1,827,940
Income Taxes	3,415,368	0	3,415,368
Grant and Entitlements	376,455	0	376,455
Investment Earnings	29,510	1,483	30,993
Other	257,728	100	257,828
Total General Revenues	<u>5,907,001</u>	<u>1,583</u>	<u>5,908,584</u>
<i>Total Revenues</i>	<u>7,657,112</u>	<u>793,728</u>	<u>8,450,840</u>
Program Expenses			
General Government	1,679,255	0	1,679,255
Security of Persons and Property:			
Police	2,240,997	0	2,240,997
Fire	1,889,998	0	1,889,998
Leisure Time Activities	213,585	0	213,585
Community Environment	114,917	0	114,917
Transportation	1,249,010	0	1,249,010
Basic Utility Services	266,369	0	266,369
Interest and Fiscal Charges	128,297	0	128,297
Water	0	0	0
Sewer	0	912,844	912,844
Total Program Expenses	<u>7,782,428</u>	<u>912,844</u>	<u>8,695,272</u>
Decrease in Net Assets	(125,316)	(119,116)	(244,432)
Net Assets Beginning of Year	<u>7,498,913</u>	<u>1,878,771</u>	<u>9,377,684</u>
Net Assets End of Year	<u>7,373,597</u>	<u>1,759,655</u>	<u>9,133,252</u>

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Governmental Activities

Several sources fund our governmental activities with the municipal income tax being the largest component. The City has a current municipal income tax rate of 1.5 percent. This is the lowest rate of any municipality in Lake County. All of our adjacent Lake County cities have a rate of 2 percent. The City tried twice unsuccessfully to raise the rate. The City's charter requires any increase in the rate to be approved by the voters. The City's proposed Charter amendment to increase the income tax rate failed in November 2002 and February 2003 with 60 percent of the voters voting against the Charter change both times. The City grants a 100 percent credit to residents who pay municipal income tax to another city. Property tax collections are the next largest source of revenue for governmental activities. The City collects 3 mills of inside millage, a 1.8 percent perpetual levy for fire and EMS services and a 2.6 percent road levy. In November 2004 voters approved a 5 year replacement levy at a rate of 2.5 percent. The proceeds of this levy will increase from \$575,000 a year to \$715,000 per year. The collection of this levy will begin next year. The City is constantly reviewing its fee structure to insure they constitute a fair charge for the costs of providing government services. As expected given the depressed short term interest rate, investment earnings were insignificant again in 2004. In 2002, the City was awarded a \$212,000 COPS grant for a computer aided dispatch and records program for the mobile computers in our patrol cars. In 2004, the City was awarded a \$40,000 CDBG grant to be received in 2005 to coordinate the existing 911 system with this new software.

The largest expense is our police and fire departments. In 2004, the police department had total expenses of \$2,240,997 and the fire department had total expenses of \$1,889,998. The City's police department consists of 12 full-time patrol officers, 5 sergeants, one executive assistant and the Chief. The City relies heavily on part-time patrol officers for traffic enforcement and for filling in for full-time officers who are on leave. In addition, the City, in conjunction with Federal Drug Enforcement Agency, vigorously enforces drug laws. They have made several large busts and confiscated large quantities of illegal substances. The City places confiscated funds in a special revenue fund. The use of these confiscated funds is governed by the police department control policy.

The City's fire department consists of six officers, three class A firemen and 40 part-time firemen. All of these personnel are cross trained as paramedics. In the late 1990's the City began charging for ambulance rides. Proceeds of the ambulance billings are pledged by an ordinance to help defray the costs of the \$1,153,000 bond taken-out in 2001 for a major renovation of the Fire Station. In addition, the City had an agreement with the Village of Waite Hill to provide dispatch, fire and EMS services. The dispatch contract generates \$10,200 in revenue while the fire and EMS contract provides \$40,000.

Another major expense is transportation. The City uses a combination of the state license and gasoline excise taxes to fund a ten person service department. In 2001, the City made a change in budgeting and moved all of the department costs into a special revenue fund, street construction, maintenance and repair. Prior to this there were duplicative expense codes for personnel and materials. By combining all construction in one fund the City can monitor the expenses more easily. The City annually adopts a "Road Program" which details the streets that will be resurfaced each year. The City did not resurface any roads this year and is saving the money for the Bishop Road Widening Project. In addition, the City annually lets a contract for street striping. As mentioned earlier the City will receive \$140,000 more in levy funds in 2006, thanks to the passage of a 2.5 mill replacement levy approved by the voters in November 2004.

City of Willoughby Hills, Ohio
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Business-Type Activity

The City's business-type activity comprises of one enterprise fund, which is the City's Sanitary Sewer System. The City has been under EPA findings and orders related to illegal discharge of waste since year 2000. In 2002, the City paid a \$16,000 fine to the EPA. The City initiated major renovation projects. The first one was the Euclid Creek Interceptor Project, which was completed in 2004. The next scheduled project is the Euclid Creek Watershed Project. The City's sanitary system has 519 customers and will add an additional 388 customers when the Watershed Project is completed. The basic funding sources are a \$3,000 tap-in fee and a user charge of 38.23 per MCF. Sewage is conveyed to the City of Euclid for treatment. Euclid charges 24.26 per MCF for treating the waste. In 2002, the City adopted an early tap-in fee rebate. Persons who paid their tap-in fee by January 15, 2003 received a \$1,000 reduction. This provided the start-up revenue for these projects. The project is financed through low interest EPA loans and State Issue 2 grants.

Governmental Funds

A review of the City's governmental funds provides information on near-term flows and balances of expendable resources and serves as a useful measure of a government's net resources. Governmental fund information can be found on page 16 and is accounted for using the modified accrual basis of accounting.

At the end of 2004 the City of Willoughby Hills reported combined governmental fund balances of \$1,245,376. Of this amount, \$855,670 constitutes unreserved balances, which is available for spending. The remaining \$389,706 is reserved to indicate that is not available for spending due to contractual commitments and advances of the prior period.

Governmental funds had total revenues of \$7,746,824 and expenditures of \$8,117,356 leaving a difference of expenditures over revenues of \$370,532. The City made budgetary adjustments and expenditures reductions within the General Fund as a first step in bringing spending in line with revenues.

The general fund is the primary operating fund of the City and at the end of 2004, had a balance of \$179,940, a decrease of \$273,629 from 2003. This decrease was due to the stagnant revenue collections especially in the area of municipal income tax collections which were \$183,706 less than planned, coupled with one time expense in police overtime and a retirement in the service department.

General Fund Budgeting Highlights

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the general fund. During the course of 2004, the City amended its general fund budget twice, once in September and the other in December. All recommendations for budget changes are presented to the Finance Committee of Council before going to City Council for legislative action to approve the change. Budgetary changes normally consist of requests for capital expenditures as the City of Willoughby Hills operates with a legal level of control at the fund level. The control level of the general fund however is by department within the fund. This allows the City to make small interdepartmental budget modifications within departments. The general fund is monitored closely with regard to revenues and related expenditures.

The original 2004 general fund revenues were budgeted at \$5,257,229 and final budgeted revenues didn't change. Original appropriations in the general fund were budgeted at \$5,386,946, and final appropriations were \$4,989,167.

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The difference between the general fund's final amended budget and actual are due to decrease in municipal income tax collections and the loss of property taxes caused by the redirection of millage to retire the Community Center bond.

Capital Assets and Debt Administration

Capital Assets

Table 3 shows 2005 balances of capital assets as compared to 2004.

Capital Assets at December 31 (Net of Accumulated Depreciation)						
	Governmental		Business-Type		Total	
	Activities		Activity			
	2004	2003	2004	2003	2004	2003
Land	\$33,000	\$33,000	\$233,000	\$233,000	\$266,000	\$266,000
Construction in Progress	0	0	638,641	4,111,260	638,641	4,111,260
Land Improvements	409,181	444,872	0	0	409,181	444,872
Buildings	5,967,018	5,977,292	0	0	5,967,018	5,977,292
Sewer Improvements	0	0	5,799,344	1,246,996	5,799,344	1,246,996
Machinery and Equipment	1,389,650	1,362,471	0	0	1,389,650	1,362,471
Total Capital Assets	\$7,798,849	\$7,817,635	\$6,670,985	\$5,591,256	\$14,469,834	\$13,408,891

Total capital assets for the City of Willoughby Hills were \$14,469,834, an increase of \$1,060,943 from 2003. Capital assets for governmental activities decreased \$18,786 due to another year of depreciation being taken on the assets in 2004. Capital assets for business-type activities were \$6,670,985, an increase of \$1,079,729 from 2003. This increase is attributed to the completion of the first phase of the Euclid Creek Interceptor Sewer. Additional information concerning the City's capital assets can be found in Note 10 to the basic financial statements.

Debt

At December 31, 2004, the City of Willoughby Hills had governmental obligations of \$3,192,074 in bonds, loans, capital leases, compensated absences and notes. At December 31, 2004 the City had \$5,166,384 outstanding in long-term business-type obligations which include OPWC and OWDA loans. Table 4 summarizes the City's long-term obligations outstanding.

City of Willoughby Hills, Ohio
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(Table 4)
 Outstanding Obligations at Year End

	Governmental Activities		Business-Type Activity		Total	
	2004	2003	2004	2003	2004	2003
General Obligation Bond	\$2,344,678	\$1,275,820	\$0	\$0	\$2,344,678	\$1,275,820
Special Assessment Bonds	177,222	201,580	0	0	177,222	201,580
OPWC Loans	0	0	419,105	292,273	419,105	292,273
OWDA Loans	0	0	4,747,279	3,793,247	4,747,279	3,793,247
Capital Leases	110,853	175,684	0	0	110,853	175,684
Notes Payable	0	1,200,000	0	0	0	1,200,000
Compensated Absences	559,321	531,424	0	0	559,321	531,424
Total	\$3,192,074	\$3,384,508	\$5,166,384	\$4,085,520	\$8,358,458	\$7,470,028

The general obligation bonds outstanding consist of the 1986 City Hall Addition bond, the 1993 Service Garage Addition bond, the 1993 Sanitary Sewer Improvement bond, the 2001 Fire Station Improvement bonds and the 2004 Municipal Complex Improvement bonds.

Business-type debt includes OPWC and OWDA loans outstanding for infrastructure improvement projects, which are repaid using sewer revenues.

Additional information concerning debt issuances can be found in Notes 11 and 12 to the basic financial statements.

Current Related Financial Activities

The City of maintains a careful watch over its financial operations. This coupled with an improving economy should help the City continue to remain financially strong. In addition, the City of Willoughby Hills has a strong internal control system, and has implemented even more stringent budgeting and procurement standards to help the City meet the challenges of the future. The City remains open to providing the Citizens of Willoughby Hills with full disclosure of the financial position of the City.

Contacting the City of Willoughby Hill's Financial Management

This financial report is designed to provide the citizens, taxpayers, creditors, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, contact Larry Trennel, Finance Director, City of Willoughby Hills, 35405 Chardon Road. Willoughby Hills, Ohio 44094-9103. Phone: (440) 946-1234, Fax: (440) 975-3535 or email whfinance@comcast.net.

Basic Financial Statements

City of Willoughby Hills, Ohio

Statement of Net Assets

December 31, 2004

	Governmental Activities	Business-Type Activity	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$1,382,683	\$266,705	\$1,649,388
Cash and Cash Equivalents			
In Segregated Accounts	5,772	0	5,772
Materials and Supplies Inventory	75,112	0	75,112
Accrued Interest Receivable	3,383	0	3,383
Accounts Receivable	21,776	8,157	29,933
Intergovernmental Receivable	853,251	0	853,251
Income Taxes Receivable	843,551	0	843,551
Property Taxes Receivable	1,797,258	0	1,797,258
Special Assessments Receivable	221,730	0	221,730
Nondepreciable Capital Assets	33,000	871,641	904,641
Depreciable Capital Assets, Net	7,765,849	5,799,344	13,565,193
<i>Total Assets</i>	<u>13,003,365</u>	<u>6,945,847</u>	<u>19,949,212</u>
Liabilities			
Accounts Payable	294,246	18,795	313,041
Accrued Wages	152,905	0	152,905
Intergovernmental Payable	232,644	394	233,038
Accrued Interest Payable	3,403	619	4,022
Deferred Revenue	1,754,496	0	1,754,496
Long-Term Liabilities:			
Due Within One Year	267,530	8,805	276,335
Due In More Than One Year	2,924,544	5,157,579	8,082,123
<i>Total Liabilities</i>	<u>5,629,768</u>	<u>5,186,192</u>	<u>10,815,960</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	5,367,096	1,504,601	6,871,697
Restricted for:			
Capital Projects	873,325	0	873,325
Debt Service	94,136	0	94,136
Law Enforcement	145,272	0	145,272
Street Construction, Maintenance and Repair	33,100	0	33,100
Other Purposes	166,386	0	166,386
Unrestricted	694,282	255,054	949,336
<i>Total Net Assets</i>	<u><u>\$7,373,597</u></u>	<u><u>\$1,759,655</u></u>	<u><u>\$9,133,252</u></u>

See accountant's compilation report

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Statement of Activities
For the Year Ended December 31, 2004

	Program Revenues			
	Expenses	Charges for Services	Operating Grants Contributions and Assessments	Capital Grants
Governmental Activities:				
General Government	\$1,679,255	\$619,372	\$53,781	\$0
Security of Persons and Property:				
Police	2,240,997	40,403	0	0
Fire	1,889,998	220,745	0	0
Transportation	1,249,010	0	448,235	0
Community Environment	114,917	112,508	0	0
Leisure Time Activities	213,585	71,150	0	183,917
Basic Utility Services	266,369	0	0	0
Interest and Fiscal Charges	128,297	0	0	0
<i>Total Governmental Activities</i>	7,782,428	1,064,178	502,016	183,917
Business-Type Activity:				
Sewer	912,844	775,455	16,690	0
<i>Total</i>	\$8,695,272	\$1,839,633	\$518,706	\$183,917

General Revenues

Property Taxes Levied for:

 General Purposes

 Debt Service

 Police Pension

 Fire Levy

 Road Levy

 Capital Projects

Income Tax Levied for General Purposes

Grants and Entitlements not Restricted to Specific Programs

Interest

Other

Total General Revenues

Change in Net Assets

Net Assets Beginning of Year - See Note 3

Net Assets End of Year

See accompanying notes to the basic financial statements

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
(\$1,006,102)	\$0	(\$1,006,102)
(2,200,594)	0	(2,200,594)
(1,669,253)	0	(1,669,253)
(800,775)	0	(800,775)
(2,409)	0	(2,409)
41,482	0	41,482
(266,369)	0	(266,369)
(128,297)	0	(128,297)
(6,032,317)	0	(6,032,317)
0	(120,699)	(120,699)
(6,032,317)	(120,699)	(6,153,016)
718,163	0	718,163
44,970	0	44,970
62,642	0	62,642
455,549	0	455,549
523,373	0	523,373
23,243	0	23,243
3,415,368	0	3,415,368
376,455	0	376,455
29,510	1,483	30,993
257,728	100	257,828
5,907,001	1,583	5,908,584
(125,316)	(119,116)	(244,432)
7,498,913	1,878,771	9,377,684
<u>\$7,373,597</u>	<u>\$1,759,655</u>	<u>\$9,133,252</u>

City of Willoughby Hills, Ohio

Balance Sheet

Governmental Funds

December 31, 2004

	<u>General</u>	<u>Fire Levy</u>	<u>Road Levy</u>	<u>Street Construction Maintenance and Repair</u>
Assets				
Equity in Pooled Cash and Cash Equivalents	\$160,320	\$66,494	\$16,596	\$51,426
Cash and Cash Equivalents In Segregated Accounts	5,772	0	0	0
Receivables:				
Property Taxes	583,430	470,031	544,746	0
Income Taxes	843,551	0	0	0
Accounts	6,499	9,972	0	0
Interfund	20,951	0	0	0
Special Assessments	0	0	0	0
Accrued Interest	3,383	0	0	0
Intergovernmental	546,279	27,088	30,523	196,229
Materials and Supplies Inventory	51,612	0	0	23,500
<i>Total Assets</i>	<u>\$2,221,797</u>	<u>\$573,585</u>	<u>\$591,865</u>	<u>\$271,155</u>
Liabilities and Fund Balances				
Accounts Payable	\$128,962	\$0	\$0	\$62,878
Interfund Payable	45,000	119,983	0	0
Accrued Wages	106,569	22,017	0	24,319
Intergovernmental	192,220	12,093	880	26,668
Deferred Revenue	1,569,106	497,119	575,269	169,192
<i>Total Liabilities</i>	<u>2,041,857</u>	<u>651,212</u>	<u>576,149</u>	<u>283,057</u>
Fund Balances				
Reserved for Encumbrances	2,384	27,681	6,614	28,276
Reserved for Long-Term Advances	0	0	0	0
Unreserved				
Undesignated, Reported in:				
General Fund	177,556	0	0	0
Special Revenue Funds (Deficit)	0	(105,308)	9,102	(40,178)
Debt Service Funds	0	0	0	0
Capital Projects Funds	0	0	0	0
<i>Total Fund Balances (Deficit)</i>	<u>179,940</u>	<u>(77,627)</u>	<u>15,716</u>	<u>(11,902)</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$2,221,797</u>	<u>\$573,585</u>	<u>\$591,865</u>	<u>\$271,155</u>

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 December 31, 2004*

Other Governmental Funds	Total Governmental Funds		
		Total Governmental Funds Balances	\$1,245,376
		<i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
\$1,087,847	\$1,382,683	Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	7,798,849
0	5,772		
199,051	1,797,258	Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds.	
0	843,551	Property and Other Taxes	42,762
5,305	21,776	Income Taxes	566,668
164,983	185,934	Special Assessments	221,730
221,730	221,730	Intergovernmental	693,689
0	3,383		
53,132	853,251	Total	1,524,849
0	75,112		
\$1,732,048	\$5,390,450	In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(3,403)
\$102,406	\$294,246	Long-term liabilities are not due and payable in the current period and are therefore not reported in the funds.	
20,951	185,934	General Obligation Bonds	(2,344,678)
0	152,905	Capital Lease	(110,853)
783	232,644	Special Assessment Bonds	(177,222)
468,659	3,279,345	Compensated Absences	(559,321)
592,799	4,145,074		
		Total	(3,192,074)
159,768	224,723	<i>Net assets of Governmental Activities</i>	\$7,373,597
164,983	164,983		
0	177,556		
185,871	49,487		
47,269	47,269		
581,358	581,358		
1,139,249	1,245,376		
\$1,732,048	\$5,390,450		

City of Willoughby Hills, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2004

	General	Fire Levy	Road Levy	Street Construction Maintenance and Repair
Revenues				
Property and Other Taxes	\$714,426	\$453,111	\$522,534	\$0
Municipal Income Tax	2,848,700	0	0	0
Charges for Services	0	113,494	0	0
Licenses and Permits	146,028	0	0	0
Fines and Forfeitures	511,317	0	0	0
Intergovernmental	910,954	57,853	63,468	338,213
Special Assessments	0	0	0	0
Interest	13,955	0	1,359	17
Rentals	84,339	0	0	0
Contributions and Donations	1,662	0	0	0
Other	57,615	0	2,318	2,801
<i>Total Revenues</i>	<u>5,288,996</u>	<u>624,458</u>	<u>589,679</u>	<u>341,031</u>
Expenditures				
Current:				
General Government	1,439,890	0	0	0
Security of Persons and Property:				
Police	2,253,517	0	0	0
Fire	988,953	656,836	0	0
Transportation	0	0	289,766	959,889
Community Environment	117,640	0	0	0
Leisure Time Activities	128,061	0	0	0
Capital Outlay	0	0	0	0
Debt Service:				
Principal Retirement	52,028	0	0	12,803
Interest and Fiscal Charges	6,680	0	0	1,987
<i>Total Expenditures</i>	<u>4,986,769</u>	<u>656,836</u>	<u>289,766</u>	<u>974,679</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>302,227</u>	<u>(32,378)</u>	<u>299,913</u>	<u>(633,648)</u>
Other Financing Sources (Uses)				
General Obligation Bonds Issued	0	0	0	0
Transfers In	0	0	0	575,856
Transfers Out	(575,856)	0	(310,000)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(575,856)</u>	<u>0</u>	<u>(310,000)</u>	<u>575,856</u>
<i>Net Change in Fund Balances</i>	(273,629)	(32,378)	(10,087)	(57,792)
<i>Fund Balances (Deficit) Beginning of Year - Restated (Note3)</i>	<u>453,569</u>	<u>(45,249)</u>	<u>25,803</u>	<u>45,890</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>\$179,940</u>	<u>(\$77,627)</u>	<u>\$15,716</u>	<u>(\$11,902)</u>

See accompanying notes to the basic financial statements

City of Willoughby Hills, 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, 2004*

Other Governmental Funds	Total Governmental Funds		
		Net Change in Fund Balances - Total Governmental Funds	\$829,468
		<i>Amounts reported for governmental activities in the statement of activities are different because</i>	
\$130,528	\$1,820,599	Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.	
0	2,848,700	Capital Outlay	431,842
139,485	252,979	Depreciation	<u>(450,628)</u>
1,500	147,528		
0	511,317		
317,642	1,688,130		
32,742	32,742		
14,179	29,510		
68,015	152,354		
3,575	5,237		
194,994	257,728		
		Total	(18,786)
		Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
902,660	7,746,824	Property and Other Taxes	7,341
		Income Taxes	566,668
		Special Assessments	(35,528)
		Intergovernmental	<u>(630,979)</u>
58,371	1,498,261	Total	(92,498)
137,141	2,390,658	Repayment of bond principal and capital leases is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	220,331
0	1,645,789		
23,725	1,273,380		
0	117,640		
76,048	204,109		
634,460	634,460		
		In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	4,431
155,500	220,331		
124,061	132,728		
		Other financing sources such as proceeds of bonds in the governmental funds increase long-term liabilities in the statement of net assets.	(1,200,000)
1,209,306	8,117,356		
		Some expenses reported in the statement of activities, such as compensated absences and intergovernmental payable which represent contractually required pension contributions, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
(306,646)	(370,532)	Compensated Absences	(27,897)
		Pension Obligation	<u>159,635</u>
1,200,000	1,200,000		
347,000	922,856		
(37,000)	(922,856)		
		Total	131,738
1,510,000	1,200,000		
		<i>Change in Net Assets of Governmental Activities</i>	<u><u>(\$125,316)</u></u>
1,203,354	829,468		
(64,105)	415,908		
\$1,139,249	\$1,245,376		

City of Willoughby Hills, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2004

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property and Other Taxes	\$700,338	\$700,338	\$712,111	\$11,773
Municipal Income Tax	2,950,000	2,950,000	2,766,294	(183,706)
Licenses and Permits	126,361	126,361	144,390	18,029
Fines and Forfeitures	470,220	470,220	519,529	49,309
Intergovernmental	900,555	900,555	918,705	18,150
Interest	14,000	14,000	13,132	(868)
Rentals	52,005	52,005	84,609	32,604
Contributions and Donations	50	50	1,662	1,612
Other	43,700	43,700	70,621	26,921
<i>Total Revenues</i>	5,257,229	5,257,229	5,231,053	(26,176)
Expenditures				
Current:				
General Government	1,855,323	1,414,235	1,382,170	32,065
Security of Persons and Property:				
Police	2,204,067	2,251,324	2,245,239	6,085
Fire	1,057,393	1,053,314	1,067,853	(14,539)
Community Environment	112,432	120,710	115,947	4,763
Leisure Time Activities	157,731	149,584	144,077	5,507
<i>Total Expenditures</i>	5,386,946	4,989,167	4,955,286	33,881
<i>Excess of Revenues</i>				
<i>Over (Under) Expenditures</i>	(129,717)	268,062	275,767	7,705
Other Financing Uses				
Transfers Out	0	(567,205)	(575,856)	(8,651)
<i>Net Change in Fund Balance</i>	(129,717)	(299,143)	(300,089)	(946)
<i>Fund Balance Beginning of Year</i>	234,652	234,652	234,652	0
Prior Year Encumbrances Appropriated	121,905	121,905	121,905	0
<i>Fund Balance End of Year</i>	\$226,840	\$57,414	\$56,468	(\$946)

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Fire Levy Fund
For the Year Ended December 31, 2004

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property and Other Taxes	\$438,399	\$438,399	\$453,111	\$14,712
Charges for Services	109,301	109,301	103,522	(5,779)
Intergovernmental	53,300	53,300	57,853	4,553
<i>Total Revenues</i>	601,000	601,000	614,486	13,486
Expenditures				
Current:				
Security of Persons and Property:				
Fire	623,700	669,700	672,126	(2,426)
<i>Net Change in Fund Balance</i>	(22,700)	(68,700)	(57,640)	11,060
<i>Fund Balance Beginning of Year</i>	87,453	87,453	87,453	0
Prior Year Encumbrances Appropriated	9,000	9,000	9,000	0
<i>Fund Balance End of Year</i>	<u>\$73,753</u>	<u>\$27,753</u>	<u>\$38,813</u>	<u>\$11,060</u>

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Road Levy Fund
For the Year Ended December 31, 2004

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property and Other Taxes	\$518,164	\$518,164	\$522,534	\$4,370
Intergovernmental	61,700	61,700	63,468	1,768
Interest	1,130	1,130	1,345	215
Other	830	830	2,318	1,488
<i>Total Revenues</i>	581,824	581,824	589,665	7,841
Expenditures				
Current:				
Transportation	305,082	305,082	295,373	9,709
<i>Excess of Revenues Over Expenditures</i>	276,742	276,742	294,292	17,550
Other Financing Uses				
Transfers Out	(303,321)	(322,321)	(310,000)	12,321
<i>Net Change in Fund Balance</i>	(26,579)	(45,579)	(15,708)	29,871
<i>Fund Balance Beginning of Year</i>	16,809	16,809	16,809	0
Prior Year Encumbrances Appropriated	33,403	33,403	33,403	0
<i>Fund Balance End of Year</i>	<u>\$23,633</u>	<u>\$4,633</u>	<u>\$34,504</u>	<u>\$29,871</u>

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Street Construction, Maintenance and Repair Fund
For the Year Ended December 31, 2004

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental	\$370,000	\$370,000	\$334,556	(\$35,444)
Interest	0	0	24	24
Other	4,000	4,000	2,801	(1,199)
<i>Total Revenues</i>	374,000	374,000	337,381	(36,619)
Expenditures				
Current:				
Transportation	931,775	971,775	931,047	40,728
<i>Excess of Revenues</i>				
<i>Under Expenditures</i>	(557,775)	(597,775)	(593,666)	4,109
Other Financing Sources				
Transfers In	543,000	583,000	575,856	(7,144)
<i>Net Change in Fund Balance</i>	(14,775)	(14,775)	(17,810)	(3,035)
<i>Fund Balance Beginning of Year</i>	1	1	1	0
Prior Year Encumbrances Appropriated	17,809	17,809	17,809	0
<i>Fund Balance End of Year</i>	<u>\$3,035</u>	<u>\$3,035</u>	<u>\$0</u>	<u>(\$3,035)</u>

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio

Statement of Fund Net Assets

Enterprise Fund

December 31, 2004

	<u>Sewer</u>
Assets	
<i>Current Assets:</i>	
Equity in Pooled Cash and Cash Equivalents	\$266,705
Accounts Receivable	8,157
	<hr/>
<i>Total Current Assets</i>	274,862
	<hr/>
<i>Noncurrent Assets:</i>	
Nondepreciable Capital Assets	871,641
Depreciable Capital Assets, Net	5,799,344
	<hr/>
<i>Total Noncurrent Assets</i>	6,670,985
	<hr/>
<i>Total Assets</i>	6,945,847
	<hr/>
Liabilities	
<i>Current Liabilities:</i>	
Accounts Payable	18,795
Intergovernmental Payable	394
Accrued Interest Payable	619
OWDA Loans Payable	8,805
	<hr/>
<i>Total Current Liabilities</i>	28,613
	<hr/>
<i>Long-Term Liabilities (net of current portion):</i>	
OWDA Loans Payable	4,738,474
OPWC Loans Payable	419,105
	<hr/>
<i>Total Long-Term Liabilities</i>	5,157,579
	<hr/>
<i>Total Liabilities</i>	5,186,192
	<hr/>
Net Assets	
Invested in Capital Assets, Net of Related Debt	1,504,601
Unrestricted	255,054
	<hr/>
<i>Total Net Assets</i>	<u>\$1,759,655</u>

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
*Statement of Revenues,
Expenses and Changes in Fund Net Assets
Enterprise Fund
For the Year Ended December 31, 2004*

	Sewer
Operating Revenues	
Charges for Services	\$775,455
Other	100
	775,555
Operating Expenses	
Personal Services	86,949
Materials and Supplies	0
Contractual Services	667,396
Depreciation	36,502
Other	117,878
	908,725
<i>Total Operating Revenues</i>	<i>775,555</i>
<i>Total Operating Expenses</i>	<i>908,725</i>
<i>Operating Loss</i>	<i>(133,170)</i>
Non-Operating Revenues (Expenses)	
Interest	1,483
Grants	16,690
Interest and Fiscal Charges	(4,119)
	14,054
<i>Total Non-Operating Revenues (Expenses)</i>	<i>14,054</i>
<i>Change in Net Assets</i>	<i>(119,116)</i>
<i>Net Assets Beginning of Year</i>	<i>1,878,771</i>
<i>Net Assets End of Year</i>	<i>\$1,759,655</i>

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Statement of Cash Flows
Enterprise Fund
For the Year Ended December 31, 2004

	Sewer
<i>Increase (Decrease) in Cash and Cash Equivalents</i>	
Cash Flows from Operating Activities	
Cash Received from Customers	\$767,298
Other Operating Revenues	100
Cash Payments for Employee Services and Benefits	(68,717)
Cash Payments for Contractual Services	(666,439)
Other Cash Payments	(117,878)
	(117,878)
<i>Net Cash Provided by</i>	
<i>(Used in) Operating Activities</i>	(85,636)
Cash Flows from Noncapital Financing Activities	
Operating Grants Received	16,690
	16,690
Cash Flows from Capital and Related Financing Activities	
Acquisition of Capital Assets	(1,116,231)
Proceeds from OWDA Loans	126,832
Proceeds from OPWC Loans	962,399
Principal Paid on OPWC Loans	(8,367)
Interest Paid on OWDA Loans	(7,643)
	(7,643)
<i>Net Cash Provided by (Used in) Capital and Related Financing Activities</i>	(43,010)
Cash Flows from Investing Activities	
Interest on Investments	1,483
	1,483
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	(110,473)
<i>Cash and Cash Equivalents Beginning of Year</i>	377,178
<i>Cash and Cash Equivalents End of Year</i>	\$266,705
Reconciliation of Operating Loss to Net Cash Used for Operating Activities	
Operating Loss	(\$133,170)
Adjustments:	
Depreciation	36,502
Interfund Receivable	0
Increase in Accounts Receivable	(8,157)
Increase in Liabilities	
Accounts Payable	18,795
Intergovernmental Payable	394
	394
<i>Total Adjustments</i>	47,534
<i>Net Cash Provided by</i>	
<i>(Used in) Operating Activities</i>	(\$85,636)

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Fund
December 31, 2004

Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$165,485</u>
Liabilities	
Deposits Held and Due to Others	<u>\$165,485</u>

See accompanying notes to the basic financial statements

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City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

Note 1 - Reporting Entity

The City of Willoughby Hills is a charter municipal corporation established and operated under the laws of the State of Ohio. The charter first became effective September 15, 1970. The current charter provides for a council-mayor form of government. Elected officials include seven council members and a mayor. The council members are elected for four year staggered terms, four of the council members are elected at large.

Reporting Entity

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, departments, boards and agencies that are not legally separate from the City. For the City of Willoughby Hills, this includes the agencies and departments that provide the following services: police and fire protection, emergency medical, recreation (including parks), planning, zoning, street maintenance and repair, refuse collection, recycling, sanitary sewer service and general administrative services.

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 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 reporting entity of the City does not include any component units.

The City participates in the Northeast Ohio Public Energy Council, a jointly governed organization. This organization is discussed in Note 18 of the Basic Financial Statements.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the City of Willoughby Hills have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its enterprise fund unless those pronouncements conflict with or contradict GASB pronouncements. The City has elected not to apply FASB statements and interpretations issued after November 30, 1989, to its business-type activity and enterprise fund. The more significant of the City's accounting policies are described below.

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.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

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

The statement of net assets presents the financial condition of the governmental and business-type activity 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 activity of the City. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program 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 are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

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

Fire Levy Fund The fire levy special revenue fund is used to account for property tax revenues to be used to maintain fire equipment and for salaries of the policemen.

Road Levy Fund The road levy special revenue fund is used to account for property tax revenues to be used to maintain the roads of the City

City of Willoughby Hills, Ohio
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Street Construction, Maintenance and Repair Fund The street construction, maintenance and repair special revenue fund is used to account for the portion of the gasoline tax or motor vehicle fees that is designated for maintenance of streets within the City.

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

Proprietary Fund Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service. The City has no internal service funds.

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

Sewer Fund The sewer fund accounts for the provisions of sanitary sewer services to the residents and commercial users located within the City.

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. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City only utilizes the agency fund type. The agency fund accounts for construction deposits.

C. Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using a 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. 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 a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, the proprietary fund is 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 fund 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 activity.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

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 and the statements presented for the proprietary fund are prepared using 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 Nonexchange 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. For the City, available means expected to be received within thirty-one days of year-end.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes and grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the year in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 7). 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 the modified accrual basis, revenue from nonexchange 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, interest, federal and state grants and subsidies, state-levied locally shared taxes (including gasoline tax and motor vehicle license fees), fees and fines and forfeitures.

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, 2004, but which were levied to finance 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

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

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

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

E. Pooled Cash and Cash Equivalents

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

The City has segregated bank accounts for monies held separate from the City's central bank account. These depository accounts are presented as "Cash and Cash Equivalents in Segregated Accounts" and represent deposits.

During fiscal year 2004, investments were limited to STAROhio, certificates of deposit and repurchase agreements.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as non-negotiable certificates of deposit and repurchase agreements are reported at cost.

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on December 31, 2004.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2004 amounted to \$13,955, which includes \$8,204 assigned from other City funds.

Investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the City are presented on the financial statements as cash equivalents.

F. Prepaid Items

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

G. Inventory

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

H. Capital Assets

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in the governmental funds. General capital 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 enterprise fund are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

City of Willoughby Hills, Ohio
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For the Year Ended December 31, 2004

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

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:

Description	Governmental Activities Estimated Lives	Business Type Activities Estimated Lives
Land Improvements	20 - 50 years	n/a
Buildings and Improvements	20 - 50 years	n/a
Machinery and Equipment	10 - 20 years	n/a
Sewer Improvements	n/a	20 - 50 years

Only general infrastructure assets acquired or improved during 2004 have been reported, consistent with the requirements of GASB Statement No. 34. The City had no additions during 2004.

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for any net residual amounts due between governmental and business-type activities, which are represented as internal balances.

J. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. The City records a liability for all accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination payments and those the City has identified as probable of receiving payment in the future (those employees who will be eligible to receive termination payments within the next five years). The amount is based on accumulated sick leave and employees' wage rates at year end, taking into consideration any limits specified in the City's termination policy.

K. 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 the proprietary fund are reported on the proprietary fund financial statements.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

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

L. 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 equity reserves have been established for encumbrances and long-term advances.

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any 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 constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The government-wide statement of net assets reports \$1,349,979 of restricted net assets, of which \$932,768 is restricted by enabling legislation. Net assets restricted for other purposes include recreational activities and law enforcement education.

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

N. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the City, these revenues are charges for services for sewer services. Operating expenses are necessary costs that have been incurred in order to provide the good or service that is the primary activity of the fund. Any revenues and expenses not meeting the definitions of operating are reported as nonoperating.

O. 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 non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds initially paid for them are not presented on the financial statements.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

P. 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.

Q. 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.

R. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount Council may appropriate. The appropriations resolution is Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Council. The legal level of control has been established by Council at the object level within each department in the general fund level and at fund level for all other funds. Any budgetary modifications at this level may only be made by resolution of City Council. Authority to further allocate Council appropriations within departments and objects has been given to the Director of Finance.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Finance Director. The amounts reported as the original and final budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original and final appropriations were enacted by Council.

The appropriation resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by Council during the year.

Note 3 - Change in Accounting Principles and Restatement of Prior Year Fund Equity

A. Changes in Accounting Principles

For 2004, the City has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units", GASB Statement No. 41, Budgetary Comparisons Schedules - Perspective Differences", GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation", GASB Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing

City of Willoughby Hills, Ohio
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For the Year Ended December 31, 2004

Employers.” and GASB Interpretation No. 6, “Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.”

GASB 34 creates new basic financial statements for reporting on the City’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements split the City’s programs between business-type and governmental activities. Except for the restatements explained below, the beginning net asset amount for the business-type activities equals fund equity of the enterprise funds from last year.

The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at December 31, 2003, caused by the conversion to the accrual basis of accounting.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the MD&A, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures.

GASB Statement No. 39 states that entities for which a primary government is not financially accountable may still be reported as component units based on the nature and significance of their relationship with the primary government.

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the City not being able to present budgetary comparisons for the general and each major special revenue fund.

GASB Statement No. 46 clarifies how enabling legislation should be defined for determining restricted net assets.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The implementation of Statement No. 39, Statement No. 41, Statement No. 46 and GASB Technical Bulletin No. 2004-2 did not affect the presentation of the financial statements.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

B. Restatement of Net Assets/Fund Balance

The implementation of these changes had the following effects on fund balance of the major and nonmajor funds of the City as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented.

City of Willoughby Hills, Ohio
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For the Year Ended December 31, 2004

	General	Fire Levy	Road Levy	Street Construction Maintenance and Repair
Fund Balances, December 31, 2003	\$442,083	(\$45,249)	\$25,803	\$45,011
Understatement of Cash	5,923	0	0	0
GASB Interpretation No. 6	5,563	0	0	879
Adjusted Fund Balances, December 31, 2003	<u>\$453,569</u>	<u>(\$45,249)</u>	<u>\$25,803</u>	<u>\$45,890</u>

(continued)

	Nonmajor	Total
Fund Balances, December 31, 2003	(\$64,105)	\$403,543
Understatement of Cash	0	5,923
GASB Interpretation No. 6	0	6,442
Adjusted Fund Balances, December 31, 2003	<u>(\$64,105)</u>	415,908

GASB 34 Adjustments:

Capital Assets	7,817,635
Accrued Interest	(7,834)
Long-Term Liabilities:	
Compensated Absences	(531,424)
Pension Obligation	(159,635)
General Obligation Bonds	(1,275,820)
Special Assessment Bonds	(201,580)
Capital Leases	(175,684)
Long-Term (Deferred) Assets	<u>1,617,347</u>
Governmental Activities Net Assets, December 31, 2003	<u>\$7,498,913</u>

Note 4 - Budgetary Basis of Accounting

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP basis), the budgetary basis as provided by law and described above is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statements of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual are presented in the basic financial statements for the General Fund and Major Special Revenue funds on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences 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 are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
4. Unreported cash represents amounts received but not included as revenue on the budgetary statements, but is reported on the operating statements prepared using GAAP.

The following tables summarize the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general and major special revenue funds:

	Net Change in Fund Balance			
	General	Fire Levy	Road Levy	Street Construction, Maintenance and Repair
GAAP Basis	(\$273,629)	(\$32,378)	(\$10,087)	(\$57,792)
Net Adjustments for				
Revenue Accruals	(57,177)	(9,927)	(14)	(3,643)
Beginning Unrecorded Cash	(766)	(45)	0	(7)
Ending Unrecorded Cash	6,140	24,522	0	0
Net Adjustments for				
Expenditure Accruals	156,286	(12,131)	1,007	95,057
Encumbrances	(130,943)	(27,681)	(6,614)	(51,425)
Budget Basis	<u>(\$300,089)</u>	<u>(\$57,640)</u>	<u>(\$15,708)</u>	<u>(\$17,810)</u>

Note 5 – Accountability and Compliance

A. Accountability

Fund Balance at December 31, 2004, included the following individual fund deficits:

Fire Levy Special Revenue Fund	\$77,627
Street Construction, Maintenance and Repair Fund	11,902
General Obligation Bond Retirement Debt Service Fund	20,951

The fire levy and street construction, maintenance and repair special revenue funds and the general obligation bond retirement debt service fund had fund deficits due to adjustments for accrual liabilities. The general fund is liable for any deficit in these funds and provides operating transfers when cash is required, not when accruals occur.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

B. Legal Compliance

The following funds had expenditures plus encumbrances in excess of final appropriations in violation of Section 5705.41, Ohio Revised Code:

	Expenditures Plus Encumbrances	Final Appropriations	Excess
<i>General Fund</i>			
Security of Persons and Property:			
Fire	\$1,067,853	\$1,053,314	\$14,539
<i>Special Revenue Funds</i>			
Fire Levy	\$672,126	\$669,700	2,426
Law Enforcement Trust	83,026	65,000	18,026

Contrary to Ohio Revised Code Section 5705.10, the City had a negative cash balance of \$20,951 in the general bond retirement debt service fund indicating that revenues from other sources were used to pay obligations of this fund.

Contrary to Ohio Revised Code Section 5705.41(D), the City did not properly encumber all transactions prior to receiving goods or services.

Note 6 - Deposits and Investments

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

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

Inactive deposits are public deposits that Council has identified as not required for use within the current 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 deposits are deposits of interim monies. 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 deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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

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

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

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

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

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

City of Willoughby Hills, Ohio
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The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements."

Cash on Hand At year end , the City had \$700 in undeposited cash on hand which is included on the balance sheet of the City as part of "equity in pooled cash and cash equivalents."

Deposits At year end, the carrying amount of the City's deposits was \$586,606 and the bank balance was \$888,742. Of the bank balance:

1. \$430,190 was covered by Federal depository insurance, by collateral held by the City, or by collateral held by the City's agent in the name of the City; and
2. \$458,552 was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department in the City's name and all statutory requirements for the investment of money had been followed, noncompliance with Federal requirements could potentially subject the City to a successful claim by the FDIC.

Investments The City's investments are required to be categorized to give an indication of the level of risk assumed by the City at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the City's name. STAROhio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

	Category 3	Carrying Value	Fair Value
Repurchase Agreements	\$523,448	\$523,448	\$523,448
STAROhio		709,891	709,891
<i>Total Investments</i>	\$523,448	\$1,233,339	\$1,233,339

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting."

A reconciliation between the classifications of cash and investments on the basic financial statements and the classification per GASB Statement No. 3 is as follows:

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$1,820,645	\$0
Cash on Hand	(700)	0
Investments:		
Repurchase Agreements	(523,448)	523,448
STAROhio	(709,891)	709,891
GASB Statement No. 3	\$586,606	\$1,233,339

Note 7 - Receivables

Receivables at December 31, 2004, consisted primarily of municipal income taxes, property and other taxes, intergovernmental receivables arising from entitlements and shared revenues, special assessments and accounts (billings for user charged services including unbilled utility services).

No allowance for doubtful accounts has been recorded because of uncollectible amounts are expected to be significant.

Special assessments expected to be collected in more than one year amount to \$152,861 in the special assessment bond retirement fund. At December 31, 2004, the amount of delinquent special assessments was \$3,071.

A. Property Taxes

Property taxes include amounts levied against all real, public utility and tangible personal property located in the City. Property tax revenue received during 2004 for real and public property taxes represents collections of 2003 taxes. Property tax payments received during 2004 for tangible personal property (other than public utility property) is for 2004 taxes.

2004 real property taxes are levied after October 1, 2004, on the assessed value as of January 1, 2004, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2004 real property taxes are collected in and intended to finance 2005.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2004 public utility property taxes became a lien December 31, 2003, are levied after October 1, 2004, and are collected in 2005 with real property taxes.

2004 tangible personal property taxes are levied after October 1, 2003, on the values as of December 31, 2003. Collections are made in 2004. Tangible personal property assessments are 25 percent of true value for capital assets and 23 percent for inventories.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

The full tax rate for all City operations for the year ended December 31, 2004, was \$7.40 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon with 2004 property tax receipts were based are as follows:

<u>Category</u>	<u>Assessed Value</u>
Real Estate	\$270,157,060
Tangible Personal	14,941,550
Public Utility	5,623,790
Total	<u>\$290,722,400</u>

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Tangible personal property taxes 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 at September 20.

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City of Willoughby Hills. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represent real, tangible personal property taxes and public utility taxes which are measurable as of December 31, 2004 and for which there is an enforceable legal claim. In the general, the police pension, fire levy and road levy special revenue and the general obligation bond retirement funds, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2004 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis collectible delinquent property taxes have been recorded as a receivable and revenue while the remainder of the receivable is deferred.

B. Income Taxes

The City levies a municipal income tax of one and one half percent on substantially all income earned within the City; in addition, residents are required to pay tax on income earned outside the City. The City allows a credit of one hundred percent for income tax paid to another municipality up to the total amount owed to the City. 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 to be used for the purposes of general municipal operations, maintenance, new equipment, extension and enlargement of municipal services and facilities and capital improvements of the City of Willoughby Hills. In 2004, the proceeds were allocated one hundred percent to the general fund.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

C. Intergovernmental Receivable

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
Local Government	\$415,478
Gasoline Tax	135,921
Homestead and Rollback	102,758
Estate Tax	92,625
Auto License	55,932
Permissive Tax	48,930
Willoughby Municipal Court	<u>1,607</u>
Total	<u><u>\$853,251</u></u>

Note 8 - Contingencies

A. Grants

The City receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2004.

B. Litigation

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

Note 9 – Interfund Transactions

A. Interfund Transfers

Transfers made during the year ended December 31, 2004 were as follows:

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

Transfer To	Transfer From			Total
	General	Road Levy	Other Governmental Funds	
Other Governmental Funds:				
Street Construction Maintenance and Repair	\$575,856	\$0	\$0	\$575,856
Road Improvement	0	310,000	37,000	347,000
Total	\$575,856	\$310,000	\$37,000	\$922,856

The general fund transfer to the nonmajor governmental funds was made to provide additional resources for current operations. The transfer from motor vehicle special revenue fund to the road improvement capital projects fund was to move the additional license fee. The transfer out from the road levy special revenue fund to the road improvement capital projects fund was for the road widening construction project.

B. Interfund Balances

Interfund balances at December 31, 2004 consisted of \$45,000 from the capital improvement capital projects fund to the general fund and \$119,983 to the fire levy special revenue fund. This is to be repaid through annual payments of \$11,998 from the fire levy special revenue fund for ten years and annual payments of \$15,000 from the general fund for three years. There were no payments made as of December 31, 2004. \$20,951 was loaned from the general fund to the general obligation bond retirement fund to eliminate the fund deficit. This will be repaid next year.

Note 10 - Capital Assets

Capital asset activity for the year ended December 31, 2004, was as follows:

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

	Balance 12/31/03	Additions	Reductions	Balance 12/31/04
Governmental Activities:				
Capital assets not being depreciated				
Land	\$33,000	\$0	\$0	\$33,000
Capital assets being depreciated				
Land Improvements	915,333	0	0	915,333
Buildings and Improvements	7,283,274	136,894	0	7,420,168
Machinery and Equipment	3,428,275	294,948	(6,469)	3,716,754
Total capital assets being depreciated	11,626,882	431,842	(6,469)	12,052,255
Accumulated depreciation				
Land Improvements	(470,461)	(35,691)	0	(506,152)
Buildings and Improvements	(1,305,982)	(147,168)	0	(1,453,150)
Machinery and Equipment	(2,065,804)	(267,769)	6,469	(2,327,104)
Total accumulated depreciation	(3,842,247)	(450,628) *	6,469	(4,286,406)
Capital assets being depreciated, net	7,784,635	(18,786)	0	7,765,849
Governmental activities capital assets, net	\$7,817,635	(\$18,786)	\$0	\$7,798,849
Business-type activity:				
Capital assets not being depreciated				
Land	\$233,000	\$0	\$0	\$233,000
Construction in progress	4,111,260	1,089,231	(4,561,850)	638,641
Total capital assets not being depreciated	4,344,260	1,089,231	(4,561,850)	871,641
Capital assets being depreciated				
Sewer Improvements	1,824,558	4,588,850	0	6,413,408
Accumulated depreciation				
Sewer Improvements	(577,562)	(36,502)	0	(614,064)
Capital assets being depreciated, net	1,246,996	4,552,348	0	5,799,344
Business-type activity capital assets, net	\$5,591,256	\$5,641,579	(\$4,561,850)	\$6,670,985

* Depreciation expense was charged to governmental activities as follows:

General Government	\$192,175
Security of Persons and Property:	
Police	95,628
Fire	81,072
Lesiure Time Activities	3,363
Basic Utility Services	78,390
Total	\$450,628

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

Note 11 – Notes Payable

On March 1, 2004, the City converted its \$1,200,000 notes payable into a general obligation bond with an interest rate of 4.11 percent and a maturity of seventeen years. The bond is backed by the full faith and credit of the City.

Note 12 - Long-term Obligations

The original issuance amounts for the City’s long-term obligations are as follows:

Debt Issue	Interest Rate	Original Issue Amount	Year of Maturity
Business Type Activities			
<i>Ohio Public Works Commission Loans:</i>			
Euclid Interceptor-2002	N/A	\$450,000	N/A
<i>Ohio Water Development Authority Loans:</i>			
Euclid Interceptor-2002	N/A	3,900,762	N/A
Euclid Sewer-2002	N/A	810,012	N/A
Oak Street-2002	3.64%	232,330	2022
Governmental Activities			
<i>General Obligation Bond:</i>			
City Hall Addition Bond-1986	7.38%	560,000	2006
Service Garage Addition Bond-1993	2.65-5.30%	135,000	2013
Sanitary Sewer Improvement Bond-1993	2.65-5.30%	56,785	2013
Fire Station Improvement Bond-2001	5.05%	1,153,000	2016
Municipal Complex Improvement Bond-2004	4.11%	1,200,000	2021
<i>Special Assessments Bond:</i>			
Chardon Sewer System Improvement Bond-1993	2.65-5.30%	107,000	2007
Sanitary Sewer Improvement-1986	7.13%	373,215	2013

Changes in long-term obligations of the City during 2004 were as follows:

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

	Outstanding 1/1/2004	Additions	Reductions	Outstanding 12/31/2004	Due Within One Year
Business-Type Activity					
<i>OWDA Loans</i>					
Euclid Interceptor	\$3,314,852	\$577,892	\$0	\$3,892,744	\$0
Euclid Sewer	254,135	384,507	0	638,642	0
Oak Street	224,260	0	8,367	215,893	8,805
<i>Total OWDA Loans</i>	<u>3,793,247</u>	<u>962,399</u>	<u>8,367</u>	<u>4,747,279</u>	<u>8,805</u>
<i>OPWC Loan</i>					
Euclid Interceptor	292,273	126,832	0	419,105	0
<i>Total Business-Type Activity</i>	<u>\$4,085,520</u>	<u>\$1,089,231</u>	<u>\$8,367</u>	<u>\$5,166,384</u>	<u>\$8,805</u>
Governmental Type Activities					
<i>General Obligation Bonds</i>					
City Hall Addition	\$120,000	\$0	\$40,000	\$80,000	\$40,000
Service Garage Addition	85,000	0	5,000	80,000	5,000
Sanitary Sewer Improvement	26,420	0	2,642	23,778	2,642
Fire Station Improvement	1,044,400	0	58,500	985,900	61,500
Municipal Complex Improvement	0	1,200,000	25,000	1,175,000	0
<i>Total General Obligation Bonds</i>	<u>1,275,820</u>	<u>1,200,000</u>	<u>131,142</u>	<u>2,344,678</u>	<u>109,142</u>
<i>Special Assessments Bonds</i>					
Chardon Sewer System Improvement	28,000	0	7,000	21,000	7,000
Sanitary Sewer Improvement	173,580	0	17,358	156,222	17,358
<i>Total Special Assessments Bonds</i>	<u>201,580</u>	<u>0</u>	<u>24,358</u>	<u>177,222</u>	<u>24,358</u>
Capital Leases	175,684	0	64,831	110,853	59,161
Compensated Absences	531,424	34,869	6,972	559,321	74,869
<i>Total Governmental Type Activities</i>	<u>\$2,184,508</u>	<u>\$1,234,869</u>	<u>\$227,303</u>	<u>\$3,192,074</u>	<u>\$267,530</u>

A line of credit has been established with the Ohio Water Development Authority (OWDA) in the amount of \$4,710,774 and the Ohio Public Works Commission (OPWC) in the amount of \$450,000 for the Euclid Creek Interceptor Sewer project and the Euclid Creek Sewer Project; however, since these loans have not been finalized, repayment schedules are not included in the schedule of debt requirements.

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

Compensated absences will be paid from the general and the street construction, maintenance and repair special revenue funds. Capital leases are paid from the general and street construction, maintenance and repair special revenue funds.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

The City's overall legal debt margin was \$28,240,327 with an unvoted debt margin of \$13,704,207 at December 31, 2004. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2004, are as follows:

Governmental Activities:

Year	General Obligation Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2005	\$109,142	\$109,165	\$24,358	\$9,795
2006	137,242	101,674	24,358	8,402
2007	105,642	94,014	24,358	6,990
2008	149,142	88,017	17,358	5,520
2009	152,742	81,018	17,358	4,600
2010-2014	847,968	273,488	69,432	9,200
2015-2019	642,800	100,543	0	0
2020-2021	200,000	8,220	0	0
Total	\$2,344,678	\$856,139	\$177,222	\$44,507

Business-Type Activity:

Year	OWDA Loans	
	Principal	Interest
2005	\$8,805	\$7,897
2006	9,128	7,574
2007	9,463	7,239
2008	9,811	6,891
2009	10,172	6,530
2010-2014	56,743	26,767
2015-2019	67,961	15,549
2020-2022	43,810	3,042
Total	\$215,893	\$81,489

Note 13 – Capital Leases

The City entered into capital leases for the acquisition of a telephone system, a loader and police radios. These lease obligations meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No.13, "Accounting for Leases," and have been recorded on the government-wide statements. The equipment has been capitalized in the amount of \$690,646 the present value of the minimum lease payments at the inception of the lease in governmental activities.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

The assets acquired through capital leases are as follows:

	Governmental Funds
<i>Asset:</i>	
Equipment	\$690,646
Less: Accumulated Depreciation	(240,790)
Total Book Value as of December 31, 2004	\$449,856

The following is a schedule of the future long-term minimum lease payments required under the capital lease and present value of the minimum lease payments is as follows:

Year Ending December 31,	Governmental Funds
2005	\$59,161
2006	59,160
Total Minimum Lease Payments	118,321
Less: Amount Representing Interest	(7,468)
Present Value of Minimum Lease Payments	\$110,853

Capital lease payments have been reclassified and are reflected as debt service in the fund financial statements for the general and the street construction, maintenance and repair special revenue funds. These expenditures are reflected as program expenditures on a budgetary basis.

Note 14 – Other Employee Benefits

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Employees earn vacation at different rates which are affected by length of service. At the time of separation the employee is entitled to payment for any earned but unused vacation.

Sick leave is accrued at the rate of 4.6 hours for each 80 hours of completed service, including paid holidays and paid vacation, with a maximum accumulation of 960 hours. Upon retirement, employees are paid for all the sick days they have accumulated.

B. Health Insurance

The City has contracted Anthem Blue Cross of Ohio to provide employee health care coverage.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

Note 15 - Defined Benefit Pension Plans

A. Ohio Public Employees Retirement System

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

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

For the year ended December 31, 2004, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The City's contribution rate for pension benefits for 2004 was 9.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 12.7 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2004, 2003, and 2002 were \$160,589, \$132,348 and \$139,498 respectively; 63.16 percent has been contributed for 2004 and 100 percent for 2003 and 2002. Contributions to the member-directed plan for 2004 were \$3,055 made by the City and \$1,917 made by plan members.

B. Ohio Police and Fire Pension Fund

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

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations while the City is required to contribute 11.75 percent for police officers and 16.25 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the Fund for police

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

and firefighters were \$139,797 and \$111,138 for the year ended December 31, 2004, \$127,676 and \$110,310 for the year ended December 31, 2003, and \$131,953 and \$107,193 for the year ended December 31, 2002. The full amount has been contributed for 2003 and 2002. 73.30 percent for police and 77.23 percent for firefighters has been contributed for 2004.

Note 16 - Postemployment Benefits

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2004 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 4.00 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2003, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase between 1.00 and 6.00 percent annually for the next eight years and 4.00 percent annually after eight years.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional and combined plans was 369,885. Actual employer contributions for 2004 which were used to fund postemployment benefits were \$67,262. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2003, (the latest information available) were \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$26.9 billion and \$16.4 billion, respectively.

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

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

B. Ohio Police and Fire Pension Fund

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

The 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 funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2004 and 2003. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2004 that were used to fund postemployment benefits were \$92,207 for police and \$53,004 for firefighters. The OP&F's total health care expense for the year ended December 31, 2003, (the latest information available) was \$150,853,148, which was net of member contributions of \$17,207,506. The number of OP&F participants eligible to receive health care benefits as of December 31, 2003, was 13,662 for police and 10,474 for firefighters.

Note 17 - 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 2004, the City participated in the Ohio Government Risk Management Plan which contracted with Love Insurance Company for the following types of insurance:

Type	Coverage
Property	\$9,524,499
Inland Marine	1,438,295
Vehicle	
Comprehensive	5,000,000 per occurrence
Collision	5,000,000 per occurrence
Law Enforcement Liability	7,000,000 aggregate
Public Officials Liability	7,000,000 aggregate

Claims have not exceeded this coverage in any of the past three years and there have been no significant reductions in commercial coverage in any of the past three years.

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

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

Note 18 - Jointly Governed Organization

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

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives on the governing board 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 Willoughby Hills did not contribute to NOPEC during 2004. Financial information can be obtained by contacting Joseph Migliorini, Board Chairman, 175 South Main Street, Akron, Ohio 44308.

Note 19 - Subsequent Event

On January 13, 2005, the City issued \$750,000 of bonds at a rate of 4.16 percent, maturing on January 1, 2016 for the purchase of a new fire engine.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

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Mary Taylor, CPA

Auditor of State

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

City of Willoughby Hills
Lake County
35405 Chardon Road
Willoughby Hills, Ohio 44094

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 Willoughby Hills, Lake County, Ohio, (the City) as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 30, 2007, wherein we noted the City adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. 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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule assertions in the financials statements. Reportable conditions are described in the accompanying schedule of findings as items 2004-002 and 2004-003.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We consider reportable conditions 2004-002 and 2004-003 listed above to be a material weakness. In a separate letter to the City's management dated May 30, 2007, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

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City of Willoughby Hills

Lake County

Independent Accountants' Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Required by *Government Auditing Standards*

Page 2

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 an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2004-001. In a separate letter to the City's management dated May 30, 2007, we reported other matters related to noncompliance we deemed immaterial.

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



Mary Taylor, CPA
Auditor of State

May 30, 2007

**CITY OF WILLOUGHBY HILLS
LAKE COUNTY
DECEMBER 31, 2004**

SCHEDULE OF FINDINGS

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2004-001
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Noncompliance Citation

Proper Encumbering

Ohio Revised Code Section 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

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

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

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

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

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

Fifty-six percent (41 of 73) transactions tested were not certified by the Finance Director at the time the commitment was incurred and there was no evidence that the City followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

**CITY OF WILLOUGHBY HILLS
LAKE COUNTY
DECEMBER 31, 2004**

**SCHEDULE OF FINDINGS
(Continued)**

Finding Number	2004-001
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Proper Encumbering (Continued)

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the City's funds exceeding budgetary spending limitations, we recommend that the Finance Director certify funds are or will be available prior to obligation by the City. When prior certification is not possible, "then and now" certification should be used.

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

Official's Response: The City concurs. The City will institute policies and procedures regarding procurement and purchasing to alleviate the finding noted. The use of purchase orders is used at present and procedures will be enhanced. Mayoral policy has been and is that the Finance Director, or in his absence, the Assistant Finance Director, will review all purchase orders prior to the Mayor's signature.

Finding Number	2004-002
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Material Weakness

Cash Reconciliation

Monthly bank reconciliations should be completed by the Finance Department to ensure the City's books balance to the bank balance.

During our testing of cash we noted the following:

- The City reconciled just the general checking account for all months except October 2004. A complete reconciliation of all City bank accounts and investments was not performed during 2004.
- The City was unable to provide us with the outstanding check listing for the main general checking account, a dormant general checking account, or the payroll account for December 31, 2004.
- The City did not maintain support for any of adjustments made on the monthly bank reconciliation.
- We noted the current Finance Director found three checks in his office. These checks were listed on the December 31, 2005 outstanding check list, but the checks were never sent to the indicated vendor or voided from the system.

We recommend the City reconcile all investment and bank accounts to the City's fund balance on a monthly basis to verify the cash balance and ensure cash activity has been properly reported in the City's ledgers. We also recommend the City develop a policy regarding reconciling cash and maintain all documentation that supports a monthly reconciliation.

Official's Response: The City concurs. Investment and bank accounts will be reconciled on a monthly, quarterly, or semi-annual basis pursuant to the receipt of statements.

**CITY OF WILLOUGHBY HILLS
LAKE COUNTY
DECEMBER 31, 2004**

**SCHEDULE OF FINDINGS
(Continued)**

Finding Number	2004-003
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Material Weakness

Accounting Software

All local public offices may maintain accounting records in a manual or computerized format. The records used should be based on the nature of operations and services the public office provides, and should consider the degree of automation and other factors. Such records should include the following:

- (1) Cash journal, which typically contains the following information: The amount, date, receipt number, check number, account code, purchase order number, and any other information necessary to properly classify the transaction.
- (2) Receipts ledger, which typically assembles and classifies receipts into separate accounts for each type of receipt of each fund the public office uses. The amount, date, name of the payor, purpose, receipt number, and other information required for the transactions can be recorded on this ledger.
- (3) Appropriation ledger, which may assemble and classify disbursements or expenditure/expenses into separate accounts for, at a minimum, each account listed in the appropriation resolution. The amount, fund, date, check number, purchase order number, encumbrance amount, unencumbered balance, amount of disbursement, and any other information required may be entered in the appropriate columns.

We noted the City, which uses accounting software produced by CMI, has not performed software updates which made it difficult to provide us with the appropriate reports. The City had difficulties accessing reports for 2004 because the previous finance director maintained various reports in the system that were not viewable by CMI and the location of these reports within the system was not passed on to the current staff. The City also did not create proper back-ups of financial information and maintain the back-ups off site.

Within an accounting software system all reports should be linked together so when information is entered into a report, that same information is carried over to all related reports. At the City, crucial reports are not linked. Currently, information must be entered properly in several different places. This did not occur during the audit period. We compared the ending fund balance between the combined year-to-date fund report and budget report. The fund balance between these two reports, which should always agree, did not agree at fiscal year end or during the year. We also noted the fund balance on these reports printed at various times after the close of fiscal year 2004 changed. According to CMI there were no adjustments posted by them to the system after the close of fiscal year 2004. Due to reports not being properly linked and therefore the fund balances not agreeing, we had difficulty agreeing the actual cash balance to the City's fund balance.

Accounting reports processed by the accounting software system should present all funds and activity that occurred within the City. We noted reports obtained at the end of the audit (September 2006) contained a fund that was not presented in the same reports obtained at the beginning of the audit (July 2006) and this fund was not initially included in the financial report. The fund had \$24,244 in expenditures which were later added to the financial statements through a journal entry. The Finance department had difficulty producing a report that showed the detail activity in this fund. Once the proper report was obtained we noted there were no explanations for the activity which included memo expenditures and reduction in revenue transactions.

**CITY OF WILLOUGHBY HILLS
LAKE COUNTY
DECEMBER 31, 2004**

**SCHEDULE OF FINDINGS
(Continued)**

Finding Number	2004-003
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Accounting Software (Continued)

We recommend the City update the accounting system and ensure all reports processed by the system are correctly linked and contain all activity related to the City to ensure proper reporting. Proper reports would also aid the City in ensuring compliance with laws and regulations the City must follow and providing necessary reports to management and Council to aid in properly evaluating the City's financial position. We also recommend the City ensure all transactions have a description indicating the purpose of the entry or reference to supporting documentation. If an entry does not have sufficient support it should be investigated by the City to verify it was a valid entry.

Official's Response: The City concurs. Updated software from CMI has been procured.

**CITY OF WILLOUGHBY HILLS
LAKE COUNTY
DECEMBER 31, 2004**

SCHEDULE OF PRIOR AUDIT FINDINGS

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2003-001	ORC 5705.41(B) (D) Expenditures exceeding Appropriations.	No	Comment moved to the Management Letter



Mary Taylor, CPA
Auditor of State

CITY OF WILLOUGHBY HILLS

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
JUNE 26, 2007**