

City of Willowick

Basic Financial Statements

December 31, 2004



**Auditor of State
Betty Montgomery**

Members of the City Council
City of Willowick
Willowick, Ohio

We have reviewed the *Independent Auditor's Report* of the City of Willowick, Lake County, prepared by Ciuni & Panichi, Inc., for the audit period January 1, 2004 through December 31, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The City of Willowick is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

July 5, 2005

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City of Willowick, Ohio

For The Year Ended December 31, 2004

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City of Willowick, Ohio

For The Year Ended December 31, 2004

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Independent Auditors' Report

Members of the City Council
Willowick, Ohio

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

In our opinion, the 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 as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund and the Fire Emergency Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 3, 2005 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Members of the City Council
Willowick, Ohio

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

Cini & Panichi, Inc.

Cleveland, Ohio
June 3, 2005

City of Willowick
Management's Discussion and Analysis (Unaudited)
For The Fiscal Year Ended December 31, 2004

The discussion and analysis of the City of Willowick's financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 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 the notes thereof.

Financial Highlights

Key financial highlights for 2004 are as follows:

- ◆ The assets of the City of Willowick exceeded its liabilities at the close of the most recent fiscal year by \$38,456,634. Of this amount, \$5.07 million may be used to meet the City's ongoing obligations to citizens and creditors.
- ◆ Total assets increased by \$2,500,924, which represents an increase of approximately 5.67 percent over 2003. The most significant change was an increase in cash and cash equivalents of \$1,874,926.
- ◆ Total liabilities increased by \$1,296,354, which represents an increase of 18.84 percent over 2003. The main factors contributing to this increase was an increase of \$1,275,584 in current liabilities. The most significant changes were an increase in accounts payable of \$498,902 and an increase in deferred revenue of \$760,876.
- ◆ In total, net assets in governmental activities increased by \$1,233,276 during 2004. This represents a 3.86 percent increase from 2003.

Using this Annual Financial Report

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

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

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

Statement of Net Assets and the Statement of Activities

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

City of Willowick
Management's Discussion and Analysis (Unaudited)
For The Fiscal Year Ended December 31, 2004

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

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

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

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

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

Fund Financial Statements

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

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balance of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all *other financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Both the governmental fund balance sheet and the government fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate a comparison between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds.

City of Willowick
Management's Discussion and Analysis (Unaudited)
For The Fiscal Year Ended December 31, 2004

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

Proprietary Funds

The City of Willowick maintains 2 proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses the enterprise fund to account for its sewer operations.

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

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

Fiduciary Funds

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

Notes to the Financial Statements

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

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

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

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

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

City of Willowick
Management's Discussion and Analysis (Unaudited)
For The Fiscal Year Ended December 31, 2004

Table 1 provides a summary of the City's net assets for 2004 as compared to 2003.

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Assets:						
Current and other assets	\$ 14,394,296	\$ 11,928,152	\$ 2,289,229	\$ 1,897,931	\$ 16,683,525	\$ 13,826,083
Capital assets, net	<u>25,942,525</u>	<u>26,196,415</u>	<u>4,008,234</u>	<u>4,110,862</u>	<u>29,950,759</u>	<u>30,307,277</u>
<i>Total assets</i>	<u>40,336,821</u>	<u>38,124,567</u>	<u>6,297,463</u>	<u>6,008,793</u>	<u>46,634,284</u>	<u>44,133,360</u>
Liabilities:						
Current liabilities	5,980,934	5,060,045	958,131	649,163	6,939,065	5,709,208
Long-term liabilities:						
Due within one year	426,656	351,548	12,193	3,409	438,849	354,957
Due in more than one year	<u>766,202</u>	<u>783,221</u>	<u>33,534</u>	<u>33,910</u>	<u>799,736</u>	<u>817,131</u>
<i>Total liabilities</i>	<u>7,173,792</u>	<u>6,194,814</u>	<u>1,003,858</u>	<u>686,482</u>	<u>8,177,650</u>	<u>6,881,296</u>
Net assets:						
Invested in capital assets, net of related debt	25,482,525	25,536,415	3,208,234	3,610,862	28,690,759	29,147,277
Restricted for:						
Capital projects	3,121,003	2,077,723	-	-	3,121,003	2,077,723
Debt service	29,262	31,032	-	-	29,262	31,032
Other purposes	1,542,367	1,033,661	-	-	1,542,367	1,033,661
Unrestricted	<u>2,987,872</u>	<u>3,250,922</u>	<u>2,085,371</u>	<u>1,711,449</u>	<u>5,073,243</u>	<u>4,962,371</u>
<i>Total net assets</i>	\$ <u>33,163,029</u>	\$ <u>31,929,753</u>	\$ <u>5,293,605</u>	\$ <u>5,322,311</u>	\$ <u>38,456,634</u>	\$ <u>37,252,064</u>

The largest portion (75 %) of the City's net assets reflects its invested in capital assets, net of related debt. Capital assets include land, land improvements, buildings and improvements, machinery and equipment, vehicles and infrastructure. The City uses those capital assets to provide services to its citizens; consequently, they are not available for future spending. Capital assets, net of the related debt to acquire the assets as of December 31, 2004, were \$28,690,759. Although the City's investment is reported net of related debt, it should be noted that resources to repay the debt must be provided from other sources since capital assets may not be used to liquidate these liabilities.

An additional portion of the City's net assets (12 %) represents resources that have been restricted on how they may be used. The remaining balance of unrestricted net assets (\$5,073,243) may be used to meet the government's ongoing obligations to citizens and creditors.

The total net assets of the City increased by \$1,204,570 or by 3.2 percent. The following factors were responsible for this increase:

- An increase in cash and cash equivalents of \$1,874,926.
- An increase in taxes receivable of \$695,795.
- An increase in intergovernmental receivable of \$301,861.
- A decrease in accrued wages and benefits of \$194,377.

The net assets of our business-type activities decreased by \$28,706 or .54 percent in 2004. The City generally can only use these net assets to finance the continuing operations of the sewer system.

City of Willowick
Management's Discussion and Analysis (Unaudited)
For The Fiscal Year Ended December 31, 2004

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

Table 2
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenues:						
Program revenues:						
Charges for services	\$ 674,019	\$ 703,062	\$ 1,542,786	\$ 1,615,597	\$ 2,216,805	\$ 2,318,659
Operating grants and contributions	63,749	74,135	-	-	63,749	74,135
Capital grants and contributions	<u>992,778</u>	<u>907,265</u>	<u>-</u>	<u>-</u>	<u>992,778</u>	<u>907,265</u>
Total program revenues	<u>1,730,546</u>	<u>1,684,462</u>	<u>1,542,786</u>	<u>1,615,597</u>	<u>3,273,332</u>	<u>3,300,059</u>
General revenues:						
Property and other local taxes	5,020,671	4,349,866	34,094	33,884	5,054,765	4,383,750
Municipal income tax	2,097,770	2,151,280	-	-	2,097,770	2,151,280
Grants and entitlements not restricted to specific programs	2,425,114	2,327,414	-	188,153	2,425,114	2,515,567
Investment income	98,656	78,244	4,540	1,199	103,196	79,443
Miscellaneous income	<u>56,910</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>56,910</u>	<u>-</u>
Total general revenues	<u>9,699,121</u>	<u>8,906,804</u>	<u>38,634</u>	<u>223,236</u>	<u>9,737,755</u>	<u>9,130,040</u>
Total revenues	<u>11,429,667</u>	<u>10,591,266</u>	<u>1,581,420</u>	<u>1,838,833</u>	<u>13,011,087</u>	<u>12,430,099</u>
Program expenses:						
General government	1,352,665	1,032,839	-	-	1,352,665	1,032,839
Security of persons and property	4,382,028	4,275,844	-	-	4,382,028	4,275,844
Public health and welfare	87,193	86,837	-	-	87,193	86,837
Transportation	2,009,910	1,409,576	-	-	2,009,910	1,409,576
Leisure time activities	1,010,576	941,586	-	-	1,010,576	941,586
Community development	435,752	387,869	-	-	435,752	387,869
Basic utility service	857,563	880,044	-	-	857,563	880,044
Interest and fiscal charges	35,419	44,154	-	-	35,419	44,154
Loss on sale of equipment	25,285	-	-	-	25,285	-
Sewer	-	-	<u>1,610,126</u>	<u>2,092,650</u>	<u>1,610,126</u>	<u>2,092,650</u>
Total program expenses	<u>10,196,391</u>	<u>9,058,749</u>	<u>1,610,126</u>	<u>2,092,650</u>	<u>11,806,517</u>	<u>11,151,399</u>
Change in net assets	<u>\$ 1,233,276</u>	<u>\$ 1,532,517</u>	<u>\$ (28,706)</u>	<u>\$ (253,817)</u>	<u>\$ 1,204,570</u>	<u>\$ 1,278,700</u>

Governmental Activities

Governmental activities increased the City's net assets by \$1,233,276 during 2004. Several revenue sources fund our governmental activities with the City property tax being the largest contributor. The property tax revenue for 2004 was \$5,020,671 representing an increase of \$670,805, or 15%, from 2003. This is directly attributable to the six-year property re-appraisal that was conducted in 2003, for collection year 2004. Of the City's seven voter-approved levies, four have been approved as Charter millage. Charter millage is not subject to HB 920 reductions; consequently, revenues increase with an increase in property valuations.

City of Willowick
Management's Discussion and Analysis (Unaudited)
For The Fiscal Year Ended December 31, 2004

The City's income tax revenue source is the third largest contributor with a rate of two percent on gross income which has not changed since 1997. Residents of the City who work in another community and pay the withholding tax for that community receive an 87.5 percent tax credit not to exceed 87.5% of the tax due the City of Willowick before credit. During 2004, the revenues generated from this tax amounted to \$2,097,770. The City continues to enforce the delinquent letter program and the subpoena program on a biennial basis to ensure compliance with the local tax laws. The program was last conducted in 2003.

Security of Persons and Property represented 43 percent of the governmental expenses. Currently, there are 24 full-time sworn officers in the Police Department. The Department continues to place strong emphasis on the training of its employees to keep up with the rapidly changing laws, practices and technology. During 2004, the City received \$39,276 for the Cops In Schools Grant from the U.S. Department of Justice and \$11,262 for the Victim Assistance Grant from the Ohio Office of Criminal Justice Services. The majority of the cost of operating the Department comes from the General Fund. In addition to the Departments' operational costs, capital equipment and improvements are funded from the Police and Fire Capital Improvement Levy.

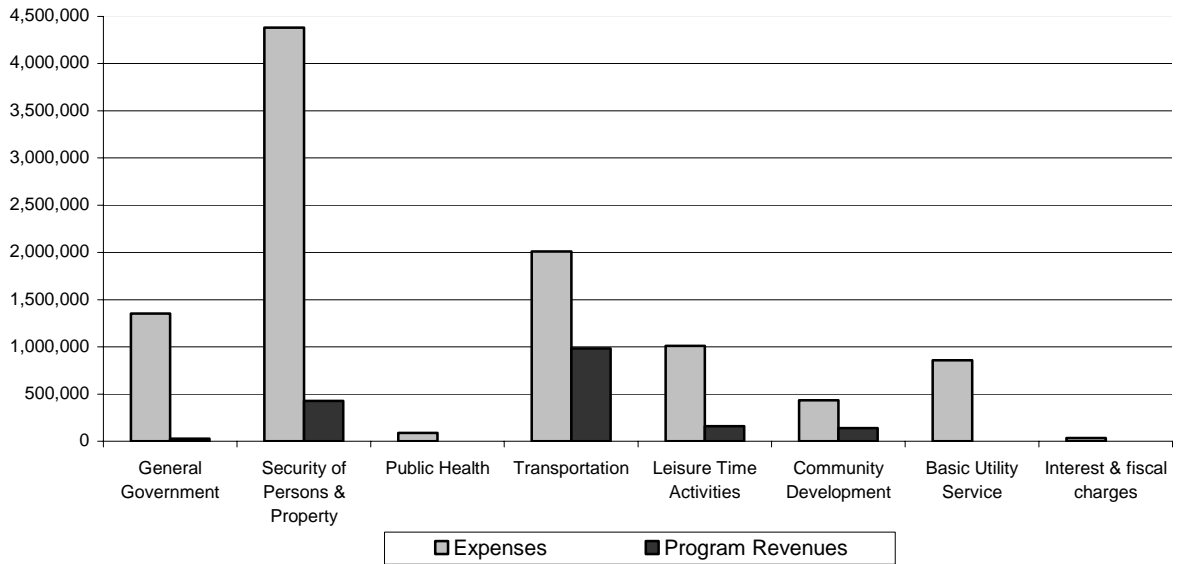
The Fire Department consists of 1 full-time Chief and 55 part-time firefighters, of which 34 are full-trained paramedics. Again, training plays a crucial role in the day-to-day operation of the Fire Department. The Department handled 1,525 calls for assistance of which approximately 1,202 were for EMS and 323 were for fire and fire-related incidents. This constituted a decrease of 6.8 percent over 2003. The total cost of operating the Fire and EMS Department are split equally between the General Fund and the EMS Levy Fund. In addition to the operational costs, capital equipment and improvements are funded from the Police and Fire Capital Improvement Levy and the EMS Levy Funds.

Transportation costs represented the next highest program expense, accounting for 20 percent of the 2004 governmental expenses. The City has an annual road program entailing major and minor resurfacing of the various streets in Willowick. The Vine Street Enhancement Project was essentially completed during 2004. The total cost of the project was approximately \$843,707 of which \$666,000 or approximately 80 percent of the total project cost was funded with federal funds administered by the Ohio Department of Transportation.

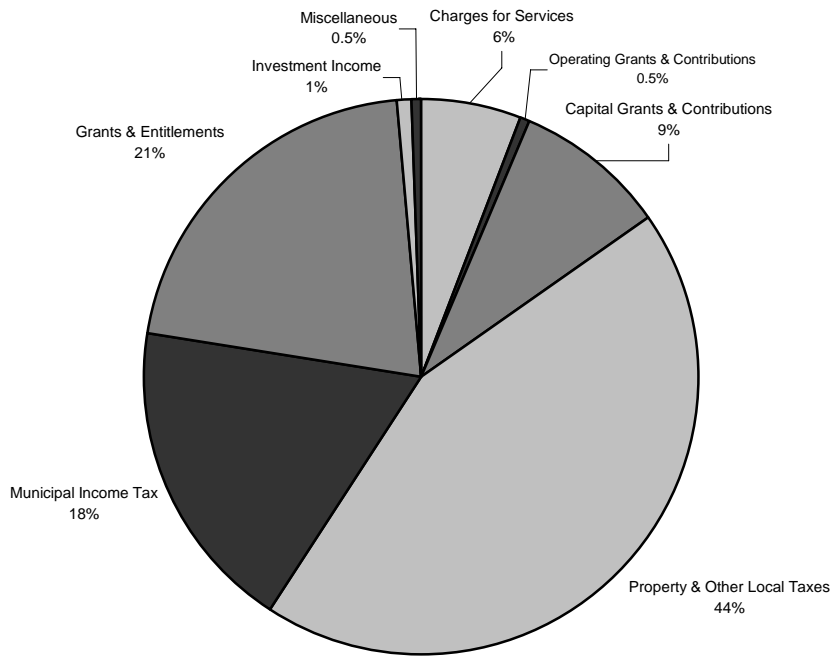
General Government accounted for 13 percent of the 2004 governmental expenses.

City of Willowick
Management's Discussion and Analysis (Unaudited)
 For The Fiscal Year Ended December 31, 2004

Expenses & Program Revenues-Governmental Activities



Revenues by Source-Governmental Activities



City of Willowick
Management's Discussion and Analysis (Unaudited)
For The Fiscal Year Ended December 31, 2004

Business-Type Activities

The Business-Type activities of the City, which include the City's sewer operations, decreased the City's net assets by \$28,706.

Net program expense exceeded program revenue in the amount of \$67,340 for the sewer operations for 2004. This is due to decreased contributions required to cover the City's share of operating expenses of the Sewer Fund.

The City's Funds

Governmental Funds

Information about the City's major funds starts on page 3. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$11,525,869 and expenditures of \$9,897,326.

At the end of 2004, the City's governmental funds reported combined ending fund balances of \$6,682,433, an increase of \$1,628,543. Of the total amount, \$5,138,720 constitutes unreserved fund balances. The remainder, \$1,543,713, is reserved to indicate that the funds have already been committed to liquidate purchase orders and contracts entered into during prior periods.

General Fund Budgeting Highlights

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

For the General Fund, budget basis revenue was \$426,134 more than the original budget estimates of \$6,532,666. The majority of the difference in the budget figures, \$406,819, was in property taxes. The increased tax valuations (from the re-appraisal that occurred in 2003) were not available to the City at the time the original revenue budget was prepared. The original appropriations of \$7,814,261 was sufficient to meet the expenditures for the year, which ended up at \$7,134,789 or \$679,472 less than anticipated due to conservative spending. In 2004, the City elected to delay filling several positions that became vacant and from purchasing any capital equipment from the fund.

The City's ending unobligated budgetary fund balance was \$309,346 higher than the final budgeted amount.

City of Willowick
Management's Discussion and Analysis (Unaudited)
For The Fiscal Year Ended December 31, 2004

Business-Type Funds

The City's major Enterprise funds consists of the Sewer Fund and the Sanitary Sewer Improvement Fund. The basic financial statements for the major funds are included in this report.

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

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2004, the City of Willowick had \$29,950,759 invested in land, buildings, equipment and infrastructure. Capital assets for governmental activities account for \$25,942,525 and business-type activities account for \$4,008,234 of the City's total capital assets (net of accumulated depreciation).

Capital asset additions of \$1,359,402 were offset by \$112,744 in deletions and \$1,603,176 of depreciation expense. Governmental activities reported a decrease of \$253,890 in capital assets. Asset additions of 1,278,689 were offset by \$112,744 in deletions and \$1,419,835 of depreciation expense. Capital assets for business-type activities decreased by \$102,628. Capital asset additions of \$80,713 were offset by \$183,341 of depreciation expense.

Table 3 shows fiscal 2004 balances of Capital Assets as compared to 2003:

Table 3
Capital Assets at December 31

<u>Totals</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>			
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Construction in progress	\$ 1,122,348	\$ -	\$ -	\$ -	\$ 1,122,348	\$ -
Land and land improvements	1,157,294	1,133,560	-	-	1,157,294	1,133,560
Buildings and improvements	9,693,661	9,693,661	-	-	9,693,661	9,693,661
Machinery and equipment	4,195,876	4,176,013	470,344	389,631	4,666,220	4,565,644
Infrastructure	22,928,199	22,928,199	8,719,734	8,719,734	31,647,933	31,647,933
Less: Accumulated depreciation	(13,154,853)	(11,735,018)	(5,181,844)	(4,998,503)	(18,336,697)	(16,733,521)
Total capital assets	\$ <u>25,942,525</u>	\$ <u>26,196,415</u>	\$ <u>4,008,234</u>	\$ <u>4,110,862</u>	\$ <u>29,950,759</u>	\$ <u>30,307,277</u>

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

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

City of Willowick
Management's Discussion and Analysis (Unaudited)
For The Fiscal Year Ended December 31, 2004

for specific purposes, and the issuance of Councilmatic Notes, enabled the City to improve upon its capital assets and at the same time, pay cash or pay off any indebtedness on those assets in the short-term. Major capital asset events for 2004 include the following:

- The Vine Street Enhancement Project was essentially completed, accounting for \$772,348 of the asset additions.
- A new pumper for the Fire Department was purchased and accounted for \$350,000 of the asset additions.

Debt

At December 31, 2004, the City of Willowick had \$2,288,585 in outstanding debt and compensated absences, of which \$210,000 was in General Obligation Bonds. Table 4 summarizes the outstanding obligations of the City.

Table 4
 Outstanding Debt at Year End

<u>Totals</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>			
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
General obligation bonds	\$ 210,000	\$ 310,000	\$ -	\$ -	\$ 210,000	\$ 310,000
Notes payable	250,000	350,000	800,000	500,000	1,050,000	850,000
Compensated absences	<u>982,858</u>	<u>824,769</u>	<u>45,727</u>	<u>37,319</u>	<u>1,028,585</u>	<u>862,088</u>
Total	<u>\$ 1,442,858</u>	<u>\$ 1,484,769</u>	<u>\$ 845,727</u>	<u>\$ 537,319</u>	<u>\$ 2,288,585</u>	<u>\$ 2,022,088</u>

The City has borrowed less than 1 percent of our debt limitation. State Law limits the amount of debt a City can issue in general obligation bonds to 10.5 percent of tax valuation. The City had a tax valuation of \$268,962,643 at the end of 2004.

The City's overall legal debt margin as of December 31, 2004 was \$28,031,077. The outstanding general obligation debt at year-end was \$210,000, a decrease of \$100,000 or 32 percent from the prior year. Other obligations include accrued vacation pay and sick leave. More detailed information about the City's long-term liabilities is presented in the notes to the basic financial statements.

Additionally as of December 31, 2004, there was outstanding short-term debt in the amount of \$1,050,000 which represented an increase of \$200,000 from 2003. The City retired \$50,000 of the \$200,000 Note for the Community Center Renovation and \$50,000 of the \$150,000 Note for the Dudley Pool Slide, however we borrowed an additional \$300,000 for Sanitary Sewer Improvements.

Current Related Financial Activities

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

City of Willowick
Management's Discussion and Analysis (Unaudited)
For The Fiscal Year Ended December 31, 2004

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

In 2004, the City adopted a master plan for the development and growth of the City. The City has contracted with the Cobalt Group to provide the expertise necessary to encourage and coordinate development within the City.

As of the beginning of 2005, the contracts with all seven of our collective bargaining units have been settled. The contracts had expired at the end of 2003. Although the negotiations were extremely lengthy, we feel the settlements were beneficial for both the employees and the City.

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

Contacting the City of Willowick's Finance Department

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

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City of Willowick, Ohio

Statement of Net Assets

December 31, 2004

	Governmental Activities	Business-Type Activities	Total
Assets:			
Equity in pooled cash and cash equivalents	\$ 7,002,432	\$ 1,964,939	\$ 8,967,371
Materials and supplies inventory	14,731	-	14,731
Accrued interest receivable	30,543	-	30,543
Accounts receivable	88,884	312,859	401,743
Intergovernmental receivable	1,541,652	-	1,541,652
Prepaid items	18,416	11,431	29,847
Taxes receivable	5,677,210	-	5,677,210
Special assessments receivable	20,428	-	20,428
Nondepreciable capital assets	1,860,590	-	1,860,590
Depreciable capital assets, net	<u>24,081,935</u>	<u>4,008,234</u>	<u>28,090,169</u>
Total assets	<u>40,336,821</u>	<u>6,297,463</u>	<u>46,634,284</u>
Liabilities:			
Accounts payable	665,019	7,650	672,669
Accrued wages and benefits	178,359	23,567	201,926
Intergovernmental payable	57,102	117,247	174,349
Accrued interest payable	11,464	9,667	21,131
Notes payable	250,000	800,000	1,050,000
Deferred revenue	4,818,990	-	4,818,990
Long-term liabilities:			
Due within one year	426,656	12,193	438,849
Due in more than one year	<u>766,202</u>	<u>33,534</u>	<u>799,736</u>
Total liabilities	<u>7,173,792</u>	<u>1,003,858</u>	<u>8,177,650</u>
Net assets:			
Invested in capital assets, net of related debt	25,482,525	3,208,234	28,690,759
Restricted for:			
Capital projects	3,121,003	-	3,121,003
Debt service	29,262	-	29,262
Other purposes	1,542,367	-	1,542,367
Unrestricted	<u>2,987,872</u>	<u>2,085,371</u>	<u>5,073,243</u>
Total net assets	<u>\$ 33,163,029</u>	<u>\$ 5,293,605</u>	<u>\$ 38,456,634</u>

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

City of Willowick, Ohio

Statement of Activities

For The Year Ended December 31, 2004

		<u>Program Revenues</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Government activities:				
General government	\$ 1,352,665	\$ 27,128	\$ -	\$ -
Security of persons and property	4,382,028	365,348	56,883	4,075
Public health and welfare	87,193	-	-	-
Transportation	2,009,910	-	-	981,863
Leisure time activities	1,010,576	150,976	6,866	-
Community development	435,752	130,567	-	6,840
Basic utility service	857,563	-	-	-
Interest and fiscal charges	35,419	-	-	-
Total governmental activities	<u>10,171,106</u>	<u>674,019</u>	<u>63,749</u>	<u>992,778</u>
Business-type activities:				
Sewer	<u>1,610,126</u>	<u>1,542,786</u>	<u>-</u>	<u>-</u>
Totals	<u>\$ 11,781,232</u>	<u>\$ 2,216,805</u>	<u>\$ 63,749</u>	<u>\$ 992,778</u>

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

Change in net assets

Net assets beginning of year, restated

Net assets end of year

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

Net (Expense) Revenue
and Changes in Net Assets

Governmental Activities	Business- Type Activities	Total
\$ (1,325,537)	\$ -	\$ (1,325,537)
(3,955,722)	-	(3,955,722)
(87,193)	-	(87,193)
(1,028,047)	-	(1,028,047)
(852,734)	-	(852,734)
(298,345)	-	(298,345)
(857,563)	-	(857,563)
(35,419)	-	(35,419)
(8,440,560)	-	(8,440,560)
-	(67,340)	(67,340)
(8,440,560)	(67,340)	(8,507,900)
4,926,594	34,094	4,960,688
94,077	-	94,077
2,097,770	-	2,097,770
2,425,114	-	2,425,114
98,656	4,540	103,196
(25,285)	-	(25,285)
56,910	-	56,910
9,673,836	38,634	9,712,470
1,233,276	(28,706)	1,204,570
31,929,753	5,322,311	37,252,064
\$ 33,163,029	\$ 5,293,605	\$ 38,456,634

City of Willowick, Ohio

Balance Sheet Governmental Funds

December 31, 2004

	<u>General</u>	<u>Fire Emergency</u>
Assets:		
Equity in pooled cash and cash equivalents	\$ 1,704,364	\$ 704,224
Taxes receivable	3,265,879	675,621
Accounts receivable	23,368	65,516
Accrued interest receivable	30,543	-
Intergovernmental receivable	962,854	-
Special assessments receivable	20,428	-
Materials and supplies inventory	7,369	-
Prepaid items	<u>14,812</u>	<u>1,449</u>
 Total assets	 \$ <u>6,029,617</u>	 \$ <u>1,446,810</u>
 Liabilities and fund balances:		
Liabilities:		
Accounts payable	\$ 115,493	\$ 154
Accrued wages	77,600	13,000
Intergovernmental payable	49,106	5,379
Deferred revenue	3,934,495	675,621
Accrued interest payable	-	-
Notes payable	<u>-</u>	<u>-</u>
Total liabilities	<u>4,176,694</u>	<u>694,154</u>
 Fund balances:		
Reserve for encumbrances	217,285	28,463
Reserve for inventory	7,369	-
Unreserved:		
Undesignated, reported in:		
General fund	1,628,269	-
Special revenue funds	-	724,193
Debt service fund	-	-
Capital project fund	<u>-</u>	<u>-</u>
Total fund balances	<u>1,852,923</u>	<u>752,656</u>
 Total liabilities and fund balances	 \$ <u>6,029,617</u>	 \$ <u>1,446,810</u>

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

<u>Capital Improvement</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
\$ 3,576,869	\$ 1,016,975	\$ 7,002,432
1,276,289	459,421	5,677,210
-	-	88,884
-	-	30,543
345,848	232,950	1,541,652
-	-	20,428
-	7,362	14,731
-	2,155	18,416
<u>\$ 5,199,006</u>	<u>\$ 1,718,863</u>	<u>\$ 14,394,296</u>

\$ 524,598	\$ 24,774	\$ 665,019
-	87,759	178,359
15	2,602	57,102
1,299,539	647,877	6,557,532
3,851	-	3,851
250,000	-	250,000
<u>2,078,003</u>	<u>763,012</u>	<u>7,711,863</u>

1,239,634	43,600	1,528,982
-	7,362	14,731
-	-	1,628,269
-	875,627	1,599,820
-	29,262	29,262
1,881,369	-	1,881,369
<u>3,121,003</u>	<u>955,851</u>	<u>6,682,433</u>
<u>\$ 5,199,006</u>	<u>\$ 1,718,863</u>	<u>\$ 14,394,296</u>

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City of Willowick, Ohio

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

December 31, 2004

Total Governmental Funds Balances \$ 6,682,433

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

Capital assets used in Governmental Activities are not financial
resources and therefore are not reported in the funds. 25,942,525

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

Property and other taxes	\$ 155,652
Municipal income taxes	568,009
Intergovernmental	994,453
Special assessments	<u>20,428</u>

Total 1,738,542

In the Statement of Activities, interest is accrued on outstanding
bonds, whereas in Governmental Funds, an interest expenditure
is reported when due. (7,613)

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

General obligation bonds	(210,000)
Compensated absences	<u>(982,858)</u>

Total (1,192,858)

Net assets of Governmental Activities \$ 33,163,029

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

City of Willowick, Ohio

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

For The Year Ended December 31, 2004

	<u>General</u>	Fire <u>Emergency</u>
Revenues:		
Property and other taxes	\$ 2,187,299	\$ 587,984
Municipal income tax	2,125,090	-
Other local taxes	430,421	84,670
Intergovernmental	1,954,583	4,075
Charges for services	9,190	275,552
License and permits	139,447	-
Fines and forfeitures	248,042	-
Investment income	98,656	-
Miscellaneous income	<u>46,870</u>	<u>68</u>
Total revenues	<u>7,239,598</u>	<u>952,349</u>
Expenditures:		
Current operations and maintenance:		
Security of persons and property	3,121,416	665,047
Public health	87,193	-
Leisure time activities	823,653	-
Community development	251,049	-
Basic utility service	688,215	-
Transportation	148,945	-
General government	1,286,748	-
Capital outlay	-	-
Debt service:		
Principal retirement	-	-
Interest and fiscal charges	<u>-</u>	<u>-</u>
Total expenditures	<u>6,407,219</u>	<u>665,047</u>
Excess of revenues over (under) expenditures	<u>832,379</u>	<u>287,302</u>
Other financing sources (uses):		
Transfers - in	-	-
Transfers - out	<u>(353,650)</u>	<u>(8,600)</u>
Total other financing sources (uses)	<u>(353,650)</u>	<u>(8,600)</u>
Net change in fund balance	478,729	278,702
Fund balance at beginning of year, restated	<u>1,374,194</u>	<u>473,954</u>
Fund balance at end of year	\$ <u><u>1,852,923</u></u>	\$ <u><u>752,656</u></u>

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

<u>Capital</u> <u>Improvements</u>	<u>Other</u> <u>Governmental</u>	<u>Total</u> <u>Governmental</u>
\$ 1,109,875	\$ 399,829	\$ 4,284,987
-	-	2,125,090
161,736	57,574	734,401
981,863	598,689	3,539,210
-	-	284,742
-	-	139,447
-	1,788	249,830
-	-	98,656
<u>7,099</u>	<u>15,469</u>	<u>69,506</u>
<u>2,260,573</u>	<u>1,073,349</u>	<u>11,525,869</u>
7,063	257,995	4,051,521
-	-	87,193
-	1,338	824,991
-	87,251	338,300
-	166,998	855,213
9,711	447,002	605,658
-	164	1,286,912
1,708,495	-	1,708,495
-	100,000	100,000
<u>4,574</u>	<u>34,469</u>	<u>39,043</u>
<u>1,729,843</u>	<u>1,095,217</u>	<u>9,897,326</u>
<u>530,730</u>	<u>(21,868)</u>	<u>1,628,543</u>
12,550	349,700	362,250
-	-	(362,250)
<u>12,550</u>	<u>349,700</u>	<u>-</u>
543,280	327,832	1,628,543
<u>2,577,723</u>	<u>628,019</u>	<u>5,053,890</u>
\$ <u><u>3,121,003</u></u>	\$ <u><u>955,851</u></u>	\$ <u><u>6,682,433</u></u>

City of Willowick, Ohio

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

For The Year Ended December 31, 2004

Net Change in Fund Balances - Total Governmental Funds \$ 1,628,543

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

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

Capital outlay	\$	1,278,689	
Depreciation		<u>(1,501,564)</u>	
Total			(222,875)

In the Statement of Activities, only the loss on the disposal of property and equipment is reported, whereas, in the Governmental Funds, the proceed from the disposal increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the property and equipment. (31,015)

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

Property and other taxes		1,283	
Municipal income taxes		(27,320)	
Intergovernmental		(84,863)	
Special assessments		<u>20,428</u>	
Total			(90,472)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 100,000

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

Compensated absences		(158,089)	
Accrued wages and benefits		3,560	
Accrued interest on bonds		<u>3,624</u>	
Total			<u>(150,905)</u>

Change in Net Assets of Governmental Activities \$ 1,233,276

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

City of Willowick, Ohio

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

General Fund

For The Year Ended December 31, 2004

	Budget		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
Revenues:				
Property taxes	\$ 2,033,221	\$ 2,440,040	\$ 2,502,269	\$ 62,229
Municipal income taxes	2,150,000	2,150,000	2,126,536	(23,464)
Other local taxes	70,000	70,000	82,355	12,355
Intergovernmental	1,762,837	1,777,775	1,951,853	174,078
Charges for services	26,181	26,403	28,988	2,585
Licenses and permits	125,943	127,010	139,447	12,437
Fines and forfeitures	224,668	226,571	248,757	22,186
Investment income	74,906	75,541	82,938	7,397
Other	64,910	65,460	71,870	6,410
Total revenues	<u>6,532,666</u>	<u>6,958,800</u>	<u>7,235,013</u>	<u>276,213</u>
Expenditures:				
Current operations and maintenance:				
Security of persons and property	3,391,287	3,201,545	3,196,885	4,660
Public health	95,000	87,193	87,193	-
Leisure time activities	917,682	834,580	833,090	1,490
Community development	417,699	360,902	360,902	-
Basic utility services	690,100	691,886	691,886	-
Transportation	207,014	155,784	155,784	-
General government	<u>1,741,829</u>	<u>1,482,382</u>	<u>1,455,399</u>	<u>26,983</u>
Total expenditures	<u>7,460,611</u>	<u>6,814,272</u>	<u>6,781,139</u>	<u>33,133</u>
Excess of revenues over (under) expenditures	(927,945)	144,528	453,874	309,346
Other financing sources (uses):				
Transfers - out	<u>(353,650)</u>	<u>(353,650)</u>	<u>(353,650)</u>	<u>-</u>
Net change in fund balance	(1,281,595)	(209,122)	100,224	309,346
Fund balance beginning of year, restated	1,307,676	1,307,676	1,307,676	-
Outstanding encumbrances	<u>296,464</u>	<u>296,464</u>	<u>296,464</u>	<u>-</u>
Fund balance end of year	\$ <u>322,545</u>	\$ <u>1,395,018</u>	\$ <u>1,704,364</u>	\$ <u>309,346</u>

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

City of Willowick, Ohio

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

Fire Emergency Fund Special Revenue

For The Year Ended December 31, 2004

	Budget		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
Revenues:				
Property taxes	\$ 546,566	\$ 655,924	\$ 672,654	\$ 16,730
Intergovernmental	1,967	1,967	4,075	2,108
Charges for services	350,000	240,000	298,843	58,843
Other	<u>33</u>	<u>33</u>	<u>68</u>	<u>35</u>
Total revenues	<u>898,566</u>	<u>897,924</u>	<u>975,640</u>	<u>77,716</u>
Expenditures:				
Current operations and maintenance:				
Security of persons and property	<u>777,129</u>	<u>714,531</u>	<u>712,856</u>	<u>1,675</u>
Excess of revenue over (under) expenditures	121,437	183,393	262,784	79,391
Other financing sources (uses):				
Transfers - out	<u>(8,600)</u>	<u>(8,600)</u>	<u>(8,600)</u>	<u>-</u>
Net change in fund balance	112,837	174,793	254,184	79,391
Fund balance beginning of year	421,577	421,577	421,577	-
Outstanding encumbrances	<u>28,463</u>	<u>28,463</u>	<u>28,463</u>	<u>-</u>
Fund balance end of year	\$ <u>562,877</u>	\$ <u>624,833</u>	\$ <u>704,224</u>	\$ <u>79,391</u>

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

City of Willowick, Ohio

Statement of Fund Net Assets Proprietary Funds

December 31, 2004

	<u>Business-Type Activities</u>
	<u>Sewer</u>
Assets:	
Current assets:	
Equity in pooled cash and cash equivalents	\$ 1,964,939
Accounts receivable	312,859
Prepaid items	<u>11,431</u>
Total current assets	2,289,229
Non-current assets:	
Depreciable capital assets, net	<u>4,008,234</u>
Total assets	<u>6,297,463</u>
Liabilities:	
Current liabilities:	
Accounts payable	7,650
Accrued wages and benefits	23,567
Intergovernmental payable	117,247
Accrued interest payable	9,667
Notes payable	800,000
Due in one year	<u>12,193</u>
Total current liabilities	970,324
Long-term liabilities (net of current portion)	
Compensated absences	<u>33,534</u>
Total liabilities	<u>1,003,858</u>
Net assets:	
Invested in capital assets, net of related debt	3,208,234
Unrestricted	<u>2,085,371</u>
Total net assets	\$ <u><u>5,293,605</u></u>

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

City of Willowick, Ohio

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

For The Year Ended December 31, 2004

	<u>Business-Type Activities</u>
	<u>Sewer</u>
Operating revenues:	
Charges for services	\$ <u>1,542,786</u>
Operating expenses:	
Personal services	404,097
Contractual services	1,011,667
Depreciation	<u>183,341</u>
Total operating expenses	<u>1,599,105</u>
Operating loss	<u>(56,319)</u>
Non-operating revenue (expenses):	
Property taxes	34,094
Investment income	4,540
Interest and fiscal charges	<u>(11,021)</u>
Total non-operating revenues (expenses)	<u>27,613</u>
Change in net assets	(28,706)
Net assets beginning of year, restated	<u>5,322,311</u>
Net assets end of year	\$ <u><u>5,293,605</u></u>

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

City of Willowick, Ohio

Statement of Cash Flows Proprietary Funds

For The Year Ended December 31, 2004

<u>Increase (Decrease) in Cash and Cash Equivalents:</u>	<u>Sewer</u>
Cash Flows from Operating Activities	
Cash received from customers	\$ 1,535,573
Cash payments for goods and services	(1,017,698)
Cash payments to employees for services	<u>(386,432)</u>
Net cash provided by operating activities	<u>131,443</u>
Cash Flows from NonCapital Financing Activities	
Property taxes	<u>34,094</u>
Cash Flows from Capital and Related Financing Activities	
Acquisition and construction of assets	(80,713)
Proceeds from debt	800,000
Principal paid on debt	(500,000)
Interest paid	<u>(6,215)</u>
Net cash provided by capital and related financing activities	<u>213,072</u>
Cash Flows from Investing Activities	
Interest received	<u>4,540</u>
Net increase in cash and cash equivalents	383,149
Cash and cash equivalents, beginning of year, restated	<u>1,581,790</u>
Cash and cash equivalents, end of year	\$ <u><u>1,964,939</u></u>
<u>Reconciliation of Operating Loss to Net Cash Provided By Operating Activities:</u>	
Operating loss	\$ (56,319)
Adjustments:	
Depreciation	183,341
Changes in assets/liabilities:	
(increase)decrease in accounts receivable	(7,213)
(increase)decrease in prepaids	(936)
Increase (decrease) in accounts payable	3,453
Increase (decrease) in accrued wages and benefits	1,172
Increase (decrease) in compensated absences payable	8,408
Increase (decrease) in accrued pension	1,445
Increase (decrease) in intergovernmental payable	<u>(1,908)</u>
Total adjustments	<u>187,762</u>
Net cash provided by operating activities	\$ <u><u>131,443</u></u>

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

City of Willowick, Ohio

Statement of Fiduciary Net Assets Fiduciary Funds

December 31, 2004

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ <u>69,054</u>
Liabilities	
Deposits held	\$ <u>69,054</u>

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

City of Willowick, Ohio

Notes To Basic Financial Statements

For The Year Ended December 31, 2004

Note 1: The Reporting Entity

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

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

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

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

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

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

Jointly Governed Organization

Lake County General Health District – The Lake County General Health District, a jointly governed organization, provides health services to the citizens within the County. The Board of Health, which consists of a representative from each of the participating governments, oversees the operation of the District. The members are elected to staggered five year terms. Two members are elected by the City of Mentor. The remaining 13 members are elected by the various mayors of villages, chairmen of the township trustees, and the County Commissioners. Five townships, nine villages, and nine cities, including the City of Willowick, participate in the District. The City contributed \$87,193 during 2004 for the operation of the District.

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 2: Summary of Significant Accounting Policies

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

A. Basis of Presentation

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

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid doubling up revenues and expenses. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

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

Fund Financial Statements

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

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 2: Summary of Significant Accounting Policies (continued)

B. Fund Accounting

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

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

General Fund – This fund is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the City for any purpose provided it is expended or transferred according to the general laws of Ohio.

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

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

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

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

Fiduciary Funds – Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are, therefore, not available to support the City's own programs. The City has no trust funds. The City's agency funds are purely custodial (assets equal liabilities) and, thus, do not involve measurement of results of operations. The City's only agency fund is used to account for security deposits.

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 2: Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting

Government-Wide Financial Statements

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

Fund Financial Statements

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

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

D. Basis of Accounting

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

Revenues – Exchange and Non-Exchange Transactions

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

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 2: Summary of Significant Accounting Policies (continued)

D. Basis of Accounting (continued)

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

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

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

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: income tax, state-levied locally shared taxes (including gasoline tax), fines and forfeitures, licenses and permits, interest, grants and rentals.

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 year 2004 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures

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

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 2: Summary of Significant Accounting Policies (continued)

E. Budgetary Process

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

Tax Budget

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

Estimated Resources

The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include encumbered cash balances at December 31 of the preceding year. The certificate may be further amended during the year if the Finance Director determines, and the Budget Commission agrees, that an estimate needs to be either increased or decreased. The amounts reported on the budgetary statement reflect the amounts in the fiscal amended official certificate of estimated resources issued during 2004.

Appropriations

A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 to December 31. The appropriation ordinance fixes spending authority at the fund, department, and object level. The appropriation ordinance may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. The allocation of appropriations among departments and objects within a fund may only be modified during the year by an ordinance of Council. The budget figures which appear in the statement of budgetary comparisons represent the final appropriation amounts, including all amendments and modifications.

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 2: Summary of Significant Accounting Policies (continued)

E. Budgetary Process (continued)

Lapsing of Appropriations

At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. Encumbrances are carried forward and are not re-appropriated as part of the subsequent year appropriations.

Encumbrances

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

F. Cash and Cash Equivalents

Cash received by the City is deposited into several bank accounts. Monies for all funds, including the enterprise fund, are maintained in these accounts or temporarily used to purchase short-term investments. Individual fund integrity is maintained through the City's records. Each fund's interest in the pooled bank accounts is presented as "cash and cash equivalents" on the combined balance sheet. During fiscal year 2004, investments were limited to STAR Ohio. STAR Ohio is an investment pool managed by the State Treasurer's office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 2004. All investment earnings accrue to the general fund except those specifically related to certain capital projects and the proprietary fund.

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

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

G. Inventory

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

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 2: Summary of Significant Accounting Policies (continued)

H. Prepaid Items

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

I. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of three thousand dollars. The City's infrastructure consists of roadways, sidewalks, drive aprons, curbs, storm sewers, and sanitary sewers. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

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

<u>Description</u>	<u>Estimated Lives</u>
Buildings	45 years
Improvements other than buildings (sewer lines)	50 years
Machinery and equipment	5-30 years
Infrastructure	25-50 years

J. Interfund Balances

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

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 2: Summary of Significant Accounting Policies (continued)

K. Compensated Absences

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

The entire compensated absence liability is reported on the government-wide financial statements.

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

L. Accrued Liabilities and Long-Term Obligations

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

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

M. Fund Balance Reserves

The City reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent expendable resources and therefore are not available for appropriation or expenditure. Fund balance reserves have been established for encumbrances and inventories.

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 2: Summary of Significant Accounting Policies (continued)

N. Net Assets

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

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

O. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for the sewer operations. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the fund.

P. Interfund Activity

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

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

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2004.

R. Estimates

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

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 3: Change in Accounting Principle

For 2004, the City has implemented GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units."

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.

The implementation of GASB No. 39 did not affect the presentation of the financial statements of the City.

Note 4: Budgetary Basis of Accounting

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

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

- 1) Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
- 2) Expenditures/expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
- 3) Encumbrances are treated as expenditures for all funds (budget) rather than as a reservation of fund balances for governmental fund types (GAAP).
- 4) Short-term note proceeds and note principal retirement for governmental funds are operating transactions (budget) as opposed to balance sheet transactions (GAAP).
- 5) State statute requires short-term note debt to be repaid from the debt service fund (budget) as opposed to the fund that received the proceeds (GAAP). Debt service fund resources used to pay both principal and interest have been allocated accordingly.

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

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 4: Budgetary Basis of Accounting (continued)

	<u>Net Change in Fund Balance</u>	
	<u>General</u>	<u>Fire Emergency</u>
GAAP basis	\$ 478,729	\$ 278,702
Increase (decrease) due to:		
Revenue accruals	(4,585)	23,291
Expenditure accruals	(670,384)	(76,272)
Encumbrances outstanding	<u>296,464</u>	<u>28,463</u>
Budget basis	\$ <u>100,224</u>	\$ <u>254,184</u>

Note 5: Deposits and Investments

State statutes require the classification of moneys held by the City into three categories.

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

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

Interim deposits are deposits of interim 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 pass book accounts. Interim monies may be invested in the following obligations provided they mature or are redeemable within two years from the date of principal and interest;

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 other obligations or securities issued by any federal government's agency or instrumentality;
3. Written repurchase agreements for a period not to exceed thirty days in securities listed above that mature within five years from the date of purchase;

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 5: Deposits and Investments (continued)

4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in divisions (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's Investment Pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt interests rated in either of the two highest rated classifications by at least two nationally recognized rating agencies.

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 moneys deposited with the institution.

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

GASB Statement 3 "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reserve Repurchase Agreements" requires disclosures to help assess actual and potential future deposit and investment market and credit risk. The following information regarding deposits and investments is presented using the categories of risk identified in GASB Statement 3.

A. Deposits

At year-end, the carrying amount of the City's deposits was \$2,063,924 and the bank balance was \$2,194,534. Of the bank balance:

1. \$300,000 was covered by federal depository insurance.
2. \$1,894,534 was covered by collateral held by financial institutions not in the City's name or by single financial institution collateralized pools held in the financial institution's name as specified by Section 135.181 of the Ohio Revised Code.

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 5: Deposits and Investments (continued)

B. Investments

The City's investments are detailed below and are categorized to give an indication of the level of risk assumed by the City at year end. The City's investments are categorized as either (1) insured or registered for which the securities are held by the government or its agent in the government's name, (2) uninsured and unregistered for which the securities are held by the broker's or dealer's trust department or agent in the government's name or (3) uninsured and unregistered for which the securities are held by the broker or dealer, or by its trust department or agent but not in the City's name.

<u>Description</u>	<u>Fair Value</u>
State treasurer's investment pool (STAR Ohio)*	\$ <u>6,972,501</u>

* Noncategorized

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.

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>
GASB Statement No. 9	\$ 9,036,425	\$ -
Investments: STAROhio	<u>(6,972,501)</u>	<u>6,972,501</u>
GASB Statement No. 3	\$ <u>2,063,924</u>	\$ <u>6,972,501</u>

Note 6: Receivables

A. Property Taxes

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

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 6: Receivables (continued)

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

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

The County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City of Willowick. The County Auditor periodically remits to the City its portion of the taxes collected.

The full tax rate for all City operations for the year ended December 31, 2004 was \$19.50 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2004 property tax receipts were based are as follows:

Real property	\$ 262,185,770
Public utility property	3,230,700
Tangible personal property	<u>3,546,173</u>
Total valuation	\$ <u>268,962,643</u>

B. Income Taxes

The City levies a municipal income tax of two percent on all salaries, wages, commissions and other compensation, and net profits earned within the City as well as incomes of residents earned outside of the City. In the latter case the City allows a credit of 87.5 percent of the tax paid to another municipality to a maximum of the total amount assessed. Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. Income tax proceeds are received by the General Fund.

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 6: Receivables (continued)

C. Intergovernmental Receivables

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
Governmental activities:	
Local government	\$ 869,410
Local government – revenue assistance	93,444
Gasoline\motor vehicle license tax	175,983
Permissive tax	6,967
ODOT	345,848
Lake County	<u>50,000</u>
Total	<u>\$ 1,541,652</u>

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

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 7: Capital Assets

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

	Balance 12/31/03	Restated	12/31/03 Balance Restated	Additions	Disposals	Balance 12/31/04
Governmental Activities:						
Capital assets not being depreciated:						
Construction in progress	\$ -	\$ -	\$ -	\$ 1,122,348	\$ -	\$ 1,122,348
Land	<u>738,242</u>	<u>-</u>	<u>738,242</u>	<u>-</u>	<u>-</u>	<u>738,242</u>
Total capital assets not being depreciated	<u>738,242</u>	<u>-</u>	<u>738,242</u>	<u>1,122,348</u>	<u>-</u>	<u>1,860,590</u>
Capital assets being depreciated:						
Land improvements	395,318	-	395,318	23,734	-	419,052
Building and improvements	9,693,660	-	9,693,660	-	-	9,693,660
Machinery and equipment	4,074,576	101,437	4,176,013	132,607	(112,744)	4,195,876
Infrastructure:						
Roadways	18,670,194	-	18,670,194	-	-	18,670,194
Sidewalks	1,437,584	-	1,437,584	-	-	1,437,584
Drive aprons	1,197,137	-	1,197,137	-	-	1,197,137
Curbs	<u>1,623,285</u>	<u>-</u>	<u>1,623,285</u>	<u>-</u>	<u>-</u>	<u>1,623,285</u>
Total capital assets being depreciated	<u>37,091,754</u>	<u>101,437</u>	<u>37,193,191</u>	<u>156,341</u>	<u>(112,744)</u>	<u>37,236,788</u>
Less accumulated depreciation:						
Land improvements	109,206	-	109,206	27,334	-	136,540
Building and improvements	2,443,782	(237,197)	2,206,585	240,844	-	2,447,429
Machinery and equipment	2,279,961	(150,298)	2,129,663	316,258	(81,729)	2,364,192
Infrastructure:						
Roadways	5,891,276	-	5,891,276	746,808	-	6,638,084
Sidewalks	479,834	-	479,834	57,503	-	537,337
Drive aprons	370,884	-	370,884	47,886	-	418,770
Curbs	<u>547,570</u>	<u>-</u>	<u>547,570</u>	<u>64,931</u>	<u>-</u>	<u>612,501</u>
Total accumulated depreciation	<u>12,122,513</u>	<u>(387,495)</u>	<u>11,735,018</u>	<u>1,501,564</u>	<u>(81,729)</u>	<u>13,154,853</u>
Net capital assets being depreciated	<u>24,969,241</u>	<u>488,932</u>	<u>25,458,173</u>	<u>(1,345,223)</u>	<u>(31,015)</u>	<u>24,081,935</u>
Governmental activities capital assets, net	\$ <u>25,707,483</u>	\$ <u>488,932</u>	\$ <u>26,196,415</u>	\$ <u>(222,875)</u>	\$ <u>(31,015)</u>	\$ <u>25,942,525</u>

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 7: Capital Assets (continued)

	<u>Balance</u> <u>12/31/03</u>	<u>Restated</u>	<u>12/31/03</u> <u>Balance</u> <u>Restated</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/04</u>
Business-type activities:						
Capital assets being depreciated:						
Machinery and equipment	\$ 491,068	\$ (101,437)	\$ 389,631	\$ 80,713	\$ -	\$ 470,344
Infrastructure:						
Sanitary sewers	3,010,878	-	3,010,878	-	-	3,010,878
Storm sewers	<u>5,708,856</u>	<u>-</u>	<u>5,708,856</u>	<u>-</u>	<u>-</u>	<u>5,708,856</u>
 Total capital assets being depreciated	 <u>9,210,802</u>	 <u>(101,437)</u>	 <u>9,109,365</u>	 <u>80,713</u>	 <u>-</u>	 <u>9,190,078</u>
Less accumulated depreciation:						
Machinery and equipment	264,985	(16,539)	248,446	23,833	-	272,279
Infrastructure:						
Sanitary sewers	2,897,715	-	2,897,715	43,081	-	2,940,796
Storm sewers	<u>1,852,342</u>	<u>-</u>	<u>1,852,342</u>	<u>116,427</u>	<u>-</u>	<u>1,968,769</u>
 Total accumulated depreciation	 <u>5,015,042</u>	 <u>(16,539)</u>	 <u>4,998,503</u>	 <u>183,341</u>	 <u>-</u>	 <u>5,181,844</u>
 Business-type activities capital assets, net	 \$ <u>4,195,760</u>	 \$ <u>(84,898)</u>	 \$ <u>4,110,862</u>	 \$ <u>(102,628)</u>	 <u>-</u>	 \$ <u>4,008,234</u>

Depreciation expense was charged to governmental activities as follows:

Security of persons and property	\$ 198,547
Leisure time activities	130,340
Community development	50,420
Basic utility	2,350
Transportation	939,820
General government	<u>180,087</u>
Total	\$ <u>1,501,564</u>

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 8: Long-Term Obligations

A. Original Issues

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

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

Changes in long-term obligations during the year ended December 31, 2004, consisted of the following:

	<u>Balance 12/31/03</u>	<u>Issued (Retired)</u>	<u>Balance 12/31/04</u>	<u>Due Within One Year</u>
Governmental Activities:				
General obligation bonds:				
7.25% Street improvement Series 1986-1 (waterlines)	\$ 70,000	\$ (20,000)	\$ 50,000	\$ 25,000
7.25% Street improvement Series 1986-1 (Bayridge)	<u>240,000</u>	<u>(80,000)</u>	<u>160,000</u>	<u>80,000</u>
Total general obligation bonds	<u>310,000</u>	<u>(100,000)</u>	<u>210,000</u>	<u>105,000</u>
Other long-term obligations:				
Compensated absences	<u>824,769</u>	<u>158,089</u>	<u>982,858</u>	<u>321,656</u>
Total governmental activities	\$ <u>1,134,769</u>	\$ <u>58,089</u>	\$ <u>1,192,858</u>	\$ <u>426,656</u>
	<u>Balance 12/31/2003</u>	<u>Issued (Retired)</u>	<u>Balance 12/31/2004</u>	<u>Due Within One Year</u>
Business-Type Activities:				
Other long-term obligations:				
Compensated absences	\$ <u>37,319</u>	\$ <u>8,408</u>	\$ <u>45,727</u>	\$ <u>12,193</u>

General obligation bonds will be paid from the debt service fund. Compensated absences reported in the "compensated absences payable" account will be paid from the fund from which the employees' salaries are paid.

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 8: Long-Term Obligations (continued)

A. Original Issues (continued)

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2004 are as follows:

General Obligation Bonds			
Year	Principal	Interest	Total
2005	\$ 105,000	\$ 15,225	\$ 120,225
2006	<u>105,000</u>	<u>7,613</u>	<u>112,613</u>
	<u>\$ 210,000</u>	<u>\$ 22,838</u>	<u>\$ 232,838</u>

Note 9: Note Debt

The City's note activity for the year ended December 31, 2004 is as follows:

	Balance 12/31/2003	Issued	Retired	Balance 12/31/2004
Governmental Activities:				
2.10% Community center	\$ 200,000	\$ -	\$ (200,000)	\$ -
1.25% Dudley pool improvement	150,000	-	(150,000)	-
1.85% Community center	-	150,000	-	150,000
1.50% Dudley pool improvement	-	<u>100,000</u>	-	<u>100,000</u>
Total governmental activities	<u>\$ 350,000</u>	<u>\$ 250,000</u>	<u>\$ (350,000)</u>	<u>\$ 250,000</u>
Business-Type Activities:				
1.25% Sanitary sewer improvement	\$ 500,000	\$ -	\$ (500,000)	\$ -
1.50% Sanitary sewer improvement	-	<u>800,000</u>	-	<u>800,000</u>
Total business-type activities	<u>\$ 500,000</u>	<u>\$ 800,000</u>	<u>\$ (500,000)</u>	<u>\$ 800,000</u>

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

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 10: Operating Leases

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

The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2004:

<u>Year</u>	<u>Amounts</u>
2005	\$ 20,147
2006	20,147
2007	<u>18,468</u>
Total minimum payments required	\$ <u><u>58,762</u></u>

Note 11: Employee Benefits – Compensated Absences

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

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

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 12: Pension Plans

A. Ohio Public Employees Retirement System

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

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

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

For the year ended December 31, 2004, the members of all three plans were required to contribute 8.5 percent of their annual covered salary to fund pension obligations. The City contributed 13.55 percent of covered payroll, of which 4.0 percent was used to fund health care coverage for retirees. The contribution rate is determined actuarially. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City of Willowick’s required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2004, 2003, and 2002 were \$341,818, \$379,588, and \$383,569, respectively, equal to the required contributions for each year. The full amount has been contributed for 2003 and 2002. 93% has been contributed for in 2004, with the remainder being reserved as “accrued wages and benefits” in the governmental activities column of the statement of net assets.

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 12: Pension Plans (continued)

B. Ohio Police and Fire Pension Fund

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

Plan members are required to contribute 10 percent of their annual covered salary, while employers are required to contribute 19.5 percent for police. Contributions are authorized by State statute. The City's contributions to the OP&F for police for the years ended December 31, 2004, 2003, and 2002 were \$289,227, \$290,994, and \$276,508, respectively. The full amount has been contributed for 2003 and 2002. 73 percent, has been contributed for 2004 with the remainder being presented as "accrued wages and benefits" in the governmental activities column of the statement of net assets.

C. Social Security System

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

Note 13: Postemployment Benefits

A. Ohio Public Employees Retirement System

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

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

In order to qualify for post-retirement health care coverage, age and service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and qualified survivor recipients is available. The health care coverage provided by the Retirement System is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority requiring employers to fund post-retirement health care through their contributions to OPERS. The 2004 employer contribution rate was 13.55 percent of covered payroll; 4.0 percent was the portion that was used to fund health care.

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 13: Postemployment Benefits (continued)

A. Ohio Public Employees Retirement System (continued)

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2003, include a rate of return on investments of 8.0 percent. An annual increase of 4.0 percent, compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increase, over and above the 4.0 percent base increase, were assumed to range from 0.50 percent to 6.3 percent. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1 percent to 6 percent for the next eight years. In subsequent years (9 and beyond) health care costs were assumed to increase at 4 percent (the projected wage inflation rate).

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

At December 31, 2004, the number of active contributing participants in the Traditional and Combined Plans totaled 369,885. The City's actual contributions for 2004, which were used to fund postemployment benefits, were \$100,906. 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 unfounded actuarially 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 skyrocketing health care costs.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retirement Medical Account that can be used to fund future health care expenses.

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 benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22 if attending school full-time or on a two-thirds basis.

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 13: Postemployment Benefits (continued)

B. Ohio Police and Fire Pension Fund (continued)

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the Ohio Police and Fire Pension Fund shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution is 19.50 percent of covered payroll, 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 and survivors have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2004 that were used to fund postemployment benefits were \$114,965 for police. The OP&F's total health care expenses for the year ended December 31, 2002, (the latest information available) were \$141,028,006, which was net of member contributions of \$12,623,875. The number of OP&F participants eligible to receive health care benefits as of December 31, 2002, was 13,527 for police.

Note 14: Risk Management

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2004, the City contracted with Pease-Kerr-Canfield Insurance for various types of insurance as follows:

Type of Coverage:	
Property	\$ 16,099,743
Boilers and machinery	16,099,743
Inland marine	1,058,445
Crime	100,000
Automobile liability	1,000,000
General liability	1,000,000
Law enforcement liability	1,000,000
Public officials liability	1,000,000
Umbrella liability	5,000,000

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

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

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 15: Transfers

Interfund transfers for the year ended December 31, 2004, consisted of the following:

<u>Transfer to</u>	<u>Transfer From</u>		
	<u>General Fund</u>	<u>Fire Emergency Fund</u>	<u>Total</u>
Nonmajor governmental funds	\$ 341,100	\$ 8,600	\$ 349,700
Capital improvements fund	<u>12,550</u>	<u>-</u>	<u>12,550</u>
	\$ <u>353,650</u>	\$ <u>8,600</u>	\$ <u>362,250</u>

Note 16: Contingencies/Pending Litigation

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

Note 17: Restatement of Prior Year Fund Balances

	<u>Capital Improvement Fund</u>	<u>Total Governmental Funds</u>
Fund balance, December 31, 2003	\$ 2,345,155	\$ 4,821,322
Reclassification adjustments:		
Fund reclassification	<u>232,568</u>	<u>232,568</u>
Restated fund balance, December 31, 2003	\$ <u>2,577,723</u>	\$ <u>5,053,890</u>

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 17: Restatement of Prior Year Fund Balances (continued)

	<u>Total Governmental Activities</u>	<u>Total Business-Type Activities</u>
Net assets, December 31, 2003	\$ 31,208,253	\$ 5,639,777
Reclassification adjustments:		
Restatement of capital assets	488,932	(84,898)
Fund reclassification	<u>232,568</u>	<u>(232,568)</u>
Restated net assets, December 31, 2003	\$ <u>31,929,753</u>	\$ <u>5,322,311</u>

It has been determined that a fund was inaccurately disclosed in the prior year financial statements as part of the Capital Improvement Fund instead of being combined with the Sewer Fund. Also, a restatement was required for the understatement/overstatement of Capital Assets in the prior year.

Note 18: Subsequent Events

The City of Willowick is implementing a major sewer rehabilitations project during the period 1999 through 2004. Engineer estimates show that the total cost of the project may be as high as \$10 million. During 2005, the City retired \$500,000 of the maturing anticipation notes and renewed \$800,000. Upon completion, the total cost of the project will be financed through bonds.

During 2005, the City retired \$50,000 of maturing Community Center Notes and renewed \$150,000 of the \$200,000 outstanding notes payable at December 31, 2004.

Also during 2005, the City retired \$50,000 of the maturing notes and issued \$100,000 of bond anticipation notes for additional Dudley Pool improvements.

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Report on Internal Control over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

Members of the City Council
Willowick, Ohio

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Willowick (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 June 3, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Members of the City Council
Willowick, Ohio

This report is intended solely for the information and use of the City Council, Finance Committee, Management, Auditor of State's office, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Cini & Parichi, Inc.

Cleveland, Ohio
June 3, 2005

Report on Compliance with Requirements
Applicable to Each Major Program and Internal Control over
Compliance in Accordance with OMB Circular A-133

Members of the City Council
Willowick, Ohio

Compliance

We have audited the compliance of the City of Willowick (the “City”), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2004. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended December 31, 2004.

Internal Control Over Compliance

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

Members of the City Council
Willowick, Ohio

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

Schedule of Expenditures of Federal Awards

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, as of and for the year ended December 31, 2004, and have issued our report thereon dated June 3, 2005.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the City Council, Finance Committee, Management, Auditor of State's office, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Cini & Parichi, Inc.

Cleveland, Ohio
June 3, 2005

City of Willowick

Schedule of Expenditures of Federal Awards

For The Year Ended December 31, 2004

Federal Grantor/Pass-Through Entity	Federal CFDA Number	Pass-Through Entity Identifying Number	Disbursements
U.S. Department of Justice			
Office of Community Oriented Policing Services (COPS)	16.711	N/A	\$ 20,386
Byrne Formula Grant Program (Victim Assistance)	16.579	N/A	13,408
Total U.S Department of Justice			33,794
U.S. Federal Highway Administration:			
Pass through Programs from Ohio Department of Transportation Highway Planning and Construction	20.205	TE21G020	159,955
Pass through Programs from Ohio Department of Transportation Highway Planning and Construction	20.205	TE21E031	316,135
Total U.S Federal Highway Administration			476,090
Community Planning and Development, Department and Urban Development:			
Community Development Block Grant	14.218	N/A	8,591
Total Expenditures of Federal Awards			\$ 518,475

The accompanying notes are an integral part of this schedule

City of Willowick

Notes to Schedule of Expenditures of Federal Awards

For The Year Ended December 31, 2004

Note 1: General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards of the City of Willowick (the "City").

Note 2: Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the cash basis of accounting. The City's expenditures for the year ended December 31, 2004 as reported on the Schedule reflect federal expenditures only and do not include matching expenditures.

City of Willowick

Schedule of Findings
OMB Circular A-133 Section .505

December 31, 2004

1. Summary of Auditors' Results

(d)(I)(i)	Type of Financial Statement Opinion	Unqualified
(d)(I)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(I)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(I)(iii)	Was there any material reported noncompliance at the financial statement level (GAGAS)?	No
(d)(I)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(I)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(I)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(I)(vi)	Are there any reportable findings under Section .510?	No
(d)(I)(vii)	Major Programs	Transportation Highway Planning and Construction Grant, CFDA No. 20.205
(d)(I)(viii)	Dollar Threshold: Type A/B Programs	Type A: >\$300,000 Type B: All Others
(d)(I)(ix)	Low Risk Auditee?	No

2. Findings Related To The Financial Statements Required To Be Reported In Accordance With GAGAS

None.

3. Findings for Federal Awards

None.

City of Willowick, Ohio

Schedule of Prior Audit Findings
OMB Circular A-133-Section .315(b)

December 31, 2004

There was no prior year audit.

City of Willowick

30435 Lakeshore Boulevard

Willowick, Ohio 44095

(440) 585-3700

**Response to Findings Associated with
Audit Conducted in Accordance with *Government Auditing Standards*
for the Year Ended December 31, 2004**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
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Not applicable.



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

CITY OF WILLOWICK

LAKE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 4, 2005**