



Mary Taylor, CPA
Auditor of State

City of Willoughby Hills, Ohio
Basic Financial Statements
For the Year Ended December 31, 2005
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INDEPENDENT ACCOUNTANTS' REPORT

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

To the City Council:

We were engaged to audit the financial statements of the City of Willoughby Hills, Lake County, Ohio, (the City) as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management.

The City could not provide a complete and accurate cash receipts ledger. The City's receipt ledger contained many unsupported entries. Consequently, we were unable to verify the occurrence and completeness of receipts and we were unable to verify the classification of individual receipt line items on the financial statements.

The City could not provide a complete and accurate cash expenditure ledger. The City's expenditure ledger contained many unsupported entries. Consequently, we were unable to verify the occurrence and completeness of expenditures and we were unable to verify the classification of individual expenditure line items on the financial statements.

The City could not provide adequate support or authority for transactions classified as transfers made between various City funds. The transactions classified as transfers in and transfers out did not equal. Consequently, we were unable to verify the occurrence, completeness and rights and obligations, and classification of transfers.

As a result of paragraphs two through four, we could not determine the existence, completeness, rights and obligations of individual fund's fund balance.

Since the City did not provide the evidence described in paragraphs two through five above, the scope of our auditing procedures was not sufficient to enable us to express, and we do not express an opinion on these financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 8, 2008, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an engagement performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our engagement.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. Since we were unable to express an opinion on the basic financial statements, we could not apply certain limited procedures to the required supplementary information. We did not audit the information and express no opinion on it.

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

Mary Taylor, CPA
Auditor of State

April 8, 2008

City of Willoughby Hills, Ohio
Management's Discussion and Analysis
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The discussion and analysis of the City of Willoughby Hills's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2005. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers are encouraged to consider the information presented here in conjunction with the additional information contained in the financial statements and notes to enhance their understanding of the City's financial performance.

Financial Highlights

- This is the City of Willoughby Hill's second publication of financial statements under the new GASB 34 reporting model.
- Total assets for the City exceeded liabilities by \$10,291,758 at December 31, 2005.
- Total assets increased by \$2,227,321 which represents an increase of 11.2 percent over 2004. The change was due to an increase in governmental activities capital assets of \$2,010,353 which reflects the completion of the Right of Way Acquisition process for the Bishop Road widening project, which is a \$13 million dollar project undertaken in conjunction with the City of Wickliffe and the State of Ohio.
- Total liabilities increased by \$1,324,577, which represents an increase of 12.6 percent compared to 2004. The main factor contributing to this increase is a net increase of \$1,107,619 in outstanding debt. The Ohio Water Development Agency (OWDA) loan obtained for Phase II of the Euclid Creek sanitary sewer project was the contributing factor with the \$604,808 increase in business activity debt, and the addition of a \$770,000 debt issue for the purchase of a new aerial ladder truck
- Total net assets increased by \$902,744. This upward swing was in sharp contrast to 2004 when there was only an \$11,330 increase in net assets. This represents an increase of approximately 9.6 percent over 2004. Revenues outpaced expenses by \$1,047,853 for governmental activities, while business activity expenses exceeded revenue by \$145,109. The \$1,218,997 received in capital grants was the chief cause for the increase in governmental activity and represents an increase of \$1,035,080 over 2004 receipts. This significant revenue increase in program revenues offset another stagnant year in general revenue collections. The collection of municipal income tax, which is the major revenue for the City's general fund, showed a small decline of \$30,134 in 2005.

Using This Annual Financial Report

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

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

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The City of Willoughby Hills as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and asks the questions, "How did we do financially during 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by the private sector. The basis for this accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

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

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

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

Reporting the City's Most Significant Funds

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

Governmental funds Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on *near-term inflows and outflows of expendable resources*, as well as on balances of expendable resources available at the end of the year.

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

The City of Willoughby Hills maintains twenty individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the General, Fire Levy, Road Levy and Street Construction Maintenance and Repair special revenue funds and the Road Improvement capital projects fund, all of which are considered to be major funds. Data from the other governmental funds are combined into single, aggregated presentation.

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

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

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

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

The City as a Whole

As noted earlier, the Statement of Net Assets looks at the City as a whole. The following table provides a summary of the City's net assets for 2005 compared to 2004.

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Table 1
Net Assets

	Governmental Activities		Business-Type Activity		Total	
	2005	2004	2005	2004	2005	2004
Assets						
Current and Other Assets	\$4,760,297	\$5,160,008	\$259,128	\$274,862	\$5,019,425	\$5,434,870
Capital Assets, Net	9,809,202	7,798,849	7,303,398	6,670,985	17,112,600	14,469,834
Total Assets	14,569,499	12,958,857	7,562,526	6,945,847	22,132,025	19,904,704
Liabilities						
Current Liabilities	2,459,912	2,399,934	176,788	19,808	2,636,700	2,419,742
Long-Term Liabilities						
Due Within One Year	327,890	267,530	179,139	8,805	507,029	276,335
Due in More Than One Year	3,104,485	2,662,034	5,592,053	5,157,579	8,696,538	7,819,613
Total Liabilities	5,892,287	5,329,498	5,947,980	5,186,192	11,840,267	10,515,690
Net Assets						
Invested in Capital Assets, Net of Related Debt	6,810,489	5,367,096	1,532,206	1,504,601	8,342,695	6,871,697
Restricted for:						
Capital Projects	428,764	873,325	0	0	428,764	873,325
Debt Service	24,455	49,628	0	0	24,455	49,628
Law Enforcement	148,408	145,272	0	0	148,408	145,272
Street Construction, Maintenance and Repairs	157,746	115,475	0	0	157,746	115,475
Drug Enforcement	79,534	0	0	0	79,534	0
Other Purposes	155,271	166,386	0	0	155,271	166,386
Unrestricted	872,545	912,177	82,340	255,054	954,885	1,167,231
Total Net Assets	\$8,677,212	\$7,629,359	\$1,614,546	\$1,759,655	\$10,291,758	\$9,389,014

For the City of Willoughby Hills, total assets exceeded total liabilities by \$10,291,758 at the close of 2005. Of the total net assets, capital assets, net of related debt make up \$8,092,695 or 78.6 percent of net assets. Total net assets of the City increased from \$9,389,014 in 2004 to \$10,291,759 in 2005. This represents an increase of \$902,744 from 2004. The major component of the City's assets is capital assets, which account for \$17,112,600 of the City's \$22,132,025 total assets. This is a reflection of the commitment of the City to undertake major capital projects to protect the health and safety of its' residents such as the massive multi-phase Euclid Creek sanitary sewer project done in response to administrative findings and orders by both the Federal and State Environmental Protection Agencies (EPA) to alleviate wastewater pollution in the western portion of the City.

Governmental activities net assets increased by \$1,047,853 during 2005 and business-type activity net assets decreased \$145,109. The City of Willoughby Hills was able to report positive balances for combined net assets as well as for the separate governmental and business-type activities. The increase of \$1,035,080 in revenue from capital grants was the chief reason for the increase in revenues. General revenues from property taxes showed a small increase of \$65,967. Expenses for governmental activities increased by \$602,644 over 2004 levels. In April of 2005, the City entered into collective bargaining agreements with the Cities five bargaining units. The agreements called for retro-active pay increase back to the first pay of the 2005. The total employee compensation costs rose by \$218,175 in 2005, which reflects the implementation of these agreements.

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Table 2
Change in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues						
Program Revenues						
Charges for Services	\$1,193,264	\$1,064,178	\$800,110	\$775,455	\$1,993,374	\$1,839,633
Operating Grants, Contributions and Assessments	782,760	502,016	0	16,690	782,760	518,706
Capital Grants	1,218,997	183,917	0	0	1,218,997	183,917
Total Program Revenues	3,195,021	1,750,111	800,110	792,145	3,995,131	2,542,256
General Revenues						
Property Taxes	1,849,399	1,783,432	0	0	1,849,399	1,783,432
Income Taxes	2,760,557	2,790,691	0	0	2,760,557	2,790,691
Grants and Entitlements	1,116,208	1,001,132	0	0	1,116,208	1,001,132
Investment Earnings	45,852	29,510	743	1,483	46,595	30,993
Other	159,765	257,728	16,812	100	176,577	257,828
Total General Revenues	5,931,781	5,862,493	17,555	1,583	5,949,336	5,864,076
<i>Total Revenues</i>	<i>9,126,802</i>	<i>7,612,604</i>	<i>817,665</i>	<i>793,728</i>	<i>9,944,467</i>	<i>8,406,332</i>
Program Expenses						
General Government	1,580,612	1,643,128	0	0	1,580,612	1,643,128
Security of Persons and Property:						
Police	2,724,745	2,160,707	0	0	2,724,745	2,160,707
Fire	1,722,809	1,788,520	0	0	1,722,809	1,788,520
Transportation	1,549,592	1,166,635	0	0	1,549,592	1,166,635
Community Environment	132,417	114,917	0	0	132,417	114,917
Leisure Time Activities	216,146	213,585	0	0	216,146	213,585
Basic Utility Services	0	266,369	0	0	0	266,369
Interest and Fiscal Charges	152,628	128,297	0	0	152,628	128,297
Sewer	0	0	962,774	912,844	962,774	912,844
Total Program Expenses	8,078,949	7,482,158	962,774	912,844	9,041,723	8,395,002
Increase(Decrease) in Net Assets	1,047,853	130,446	(145,109)	(119,116)	902,744	11,330
Net Assets Beginning of Year	7,629,359	7,498,913	1,759,655	1,878,771	9,389,014	9,377,684
Net Assets End of Year	\$8,677,212	\$7,629,359	\$1,614,546	\$1,759,655	\$10,291,758	\$9,389,014

Governmental Activities

Several sources fund our governmental activities with the municipal income tax being the largest component. The City has a current municipal income tax rate of 1.5 percent. This is the lowest rate of any municipality in Lake County. All of our adjacent Lake County cities have a rate of 2.0 percent. The City tried twice, unsuccessfully, to raise the rate. The City's charter requires any increase in the rate to be approved by the

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voters. The City's proposed charter amendment to increase the income tax rate failed in November 2002 and February 2003 with 60 percent of the voters voting against the charter change both times. The City grants a one percent credit to residents who pay municipal income tax to another city. Property tax collections are the next largest source of revenue for governmental activities. The City collects 3 mills of inside millage and 4.4 mills of outside millage. The outside millage is generated from a 1.8 mill perpetual levy for fire and EMS services and a 2.6 mill road levy. In November 2004, the voters approved a five year replacement road levy at a rate of 2.5 mills. Since property valuations have increased (the 2.6 mill levy was based on the 2000 valuation and the 2.5 mill replacement levy is based on the 2003 valuation), the proceeds of this levy will increase from \$575,000 a year to \$715,000 per year. The collection of this levy will begin in 2006. The City is constantly reviewing its fee structure to insure that all fees constitute a fair charge for the cost of providing government services. As expected, given the depressed short term interest rate, investment earnings were insignificant again in 2005. In 2002, the City was awarded a \$212,000 COPS grant for a computer aided dispatch and records program for the mobile computers in our patrol cars. In 2004, the City was awarded a \$40,000 CDBG grant to be received in 2005 to coordinate the existing 911 system with this new software. In 2005 the City reached a historic agreement with the City of Wickliffe to share expenses and revenues on a 50/50 basis for the \$13 million dollar Bishop Road widening project. Since federal funds are involved, the City had to use federal FMVE guidelines in acquiring the property. These FMVE guidelines prohibit the donation of the property to the City, or multi year payment options. In addition, the City was forced to go through an appropriation process to acquire most of the parcels necessary for this project. The City received over \$1.4 million in reimbursements from the City of Wickliffe in 2005 which was beneficial in helping the City maintain its fiscal integrity in 2005.

The largest expense is the police and fire departments. In 2005, the police department had total expenses of \$2,730,598 and the fire department had total expenses of \$1,722,809. Expenses in the police department increased by \$569,891 from 2004 levels, while expenses in the fire department actually decreased by \$65,711 from 2004 levels. The rise in the police department 2005 expenses was caused by an overall increase in compensation levels due to the implementation of collective bargaining agreements. In addition, the expense for part-time police officers rose by approximately \$60,000. The City had one Sergeant injured and used part-time employees to cover the shift.. The City, in conjunction with the Federal Drug Enforcement Agency, vigorously enforces drug laws. They have made several large drug busts and confiscated large quantities of illegal substances. The City places confiscated funds in two special revenue funds. The use of these confiscated funds is governed by the police department control policy. The City, in July of 2005, began working with the Drug Enforcement Agency (DEA) in the prosecution of drug related offenses. A new law enforcement trust fund was established to handle the DEA monies. Reflective of the increased enforcement activities, the law enforcement trust fund increased revenues by over \$67,000 in 2005.

The City's fire department consists of six officers, three class A firemen and approximately forty part-time firemen. All of these personnel are cross trained as paramedics. In the late 1990's the City began charging for ambulance rides. Proceeds of the ambulance billings are pledged by ordinance to help defray the costs of the \$1,153,000 bond taken-out in 2001 for a major renovation of the fire station. In addition, the City had an agreement with the Village of Waite Hill to provide dispatch, fire and emergency management services (EMS). The dispatch contract generates \$10,200 in revenue while the fire and EMS contract provides \$40,000. In 2005, the City received approximately \$200,000 in revenue from ambulance charges, dispatch services and fire runs. Of the total revenue, 25 percent was generated by the City of Waite Hill and 75 percent was generated by the City of Willoughby Hills.

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Another major expense is transportation. The City uses a combination of the state license and gasoline excise taxes to fund a ten person service department. In 2001, the City made a change in budgeting and moved all of the department costs into the street construction, maintenance and repair special revenue fund. Prior to this, there were duplicate expense codes for personnel and materials. By combining all transportation services in one fund, the City can monitor the expenses more easily. The City annually adopts a "road program" which details the streets that will be resurfaced each year. The City did not resurface any roads in 2005 and is saving the money for the Bishop Road widening project. In addition, the City annually enters into a contract for street resurfacing. As mentioned earlier, the City will receive \$140,000 more in levy funds in 2006, thanks to the passage of a 2.5 mill replacement levy approved by the voters in November 2004.

Business-Type Activity

The City's business-type activity is comprised of one enterprise fund, which is the City's sanitary sewer system. The City has been under EPA findings and orders related to illegal discharge of waste since 2000. In 2002, the City paid a \$16,000 fine to the EPA. The City initiated major renovation projects. The first one was the Euclid Creek Interceptor Project, which was completed in 2005. The next scheduled project is the Euclid Creek Phase II Project. In 2005, the City began construction on this next phase of the Euclid Creek Interceptor Project. There is \$1,292,742 in construction in progress reflective of this project. The City's sanitary system has 519 customers and will add an additional 388 customers when Phase II is completed. The basic funding sources are a \$3,000 tap-in fee and a user charge of \$38.23 per thousand cubic feet (MCF). Sewage is conveyed to the City of Euclid for treatment. Euclid charges \$24.26 per MCF for treating the waste. In 2002, the City adopted an early tap-in fee rebate. Persons who paid their tap-in fee by January 15, 2003 received a \$1,000 reduction. This provided the start-up revenue for the project. The project is financed through Ohio Public Works Commission (OPWC) grants and low or no interest OWDA and OPWC loans.

Governmental Funds

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

At the end of 2005 the City of Willoughby Hills reported combined governmental fund balances of \$817,134. Of this amount, \$488,876, constitutes unreserved balances, which are available for spending. The remaining \$328,258 is reserved to indicate that is not available for spending due to contractual commitments and advances of the prior period.

Governmental funds had total revenues of \$9,138,553 and expenditures of \$10,380,408 leaving a difference of expenditures over revenues of \$1,241,855. The City made budgetary adjustments and expenditure reductions within the general fund as a first step in bringing spending in line with revenues.

The general fund is the primary operating fund of the City and at the end of 2005, had a balance of \$183,456, which is an increase of \$3,516 from 2004. This reflects another year of stagnant revenue collections especially in the area of municipal income tax collections which were down again by \$30,134. This stagnation of the City's major revenue source is why the City's general fund balance did not increase more in 2005.

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General Fund Budgeting Highlights

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the general fund. During the course of 2005, the City amended its general fund numerous times as the City tried to avoid waiting until the end of the year to adjust appropriations. All recommendations for budget changes are presented to the Finance Committee of Council before going to City Council for legislative action to approve the change. Budgetary changes normally consist of requests for capital expenditures as the City of Willoughby Hills operates with a legal level of control at the fund level. The control level of the general fund however is by department within the fund. This allows the City to make small interdepartmental budget modifications within departments. The general fund is monitored closely with regard to revenues and related expenditures.

The original 2005 general fund revenues were budgeted at \$5,410,168 and final budgeted revenues were revised to \$5,445,930, with actual revenues of \$5,407,612, which is a variance of \$38,318. Original appropriations in the general fund were budgeted at \$4,922,459, and final appropriations were \$5,050,502, with actual expenditures coming in at \$5,019,870 which is a variance of \$30,632.

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

Capital Assets and Debt Administration

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

	Capital Assets at December 31 (Net of Accumulated Depreciation)					
	Governmental Activities		Business-Type Activity		Total	
	2005	2004	2005	2004	2005	2004
Land	\$33,000	\$33,000	\$233,000	\$233,000	\$266,000	\$266,000
Construction in Progress	1,452,749	0	1,292,742	638,641	2,745,491	638,641
Land Improvements	373,490	409,181	0	0	373,490	409,181
Buildings	5,907,601	5,967,018	0	0	5,907,601	5,967,018
Sewer Improvements	0	0	5,758,739	5,799,344	5,758,739	5,799,344
Machinery and Equipment	2,042,362	1,389,650	18,917	0	2,061,279	1,389,650
Total Capital Assets	\$9,809,202	\$7,798,849	\$7,303,398	\$6,670,985	\$17,112,600	\$14,469,834

Total capital assets for the City of Willoughby Hills were \$17,112,600, an increase of \$2,642,766 from 2004. Capital assets for governmental activities increased \$2,010,353. This increase is attributed to the completion of the right of way acquisition for the Bishop Road widening project, which would be the \$1,452,749 listed in 2005 as construction in progress, and the acquisition of a new \$770,000 aerial ladder truck for the City's fire department. Capital assets for business-type activities were \$7,303,398, an increase of \$632,413 from 2004. The increase is attributable to an increase in construction in progress expenditures of \$654,101 associated with the phase II of the Euclid Creek Interceptor project. Additional information concerning the City's capital assets can be found in Note 11 to the basic financial statements.

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Debt

At December 31, 2005, the City of Willoughby Hills had governmental obligations of \$3,432,375 in bonds, capital leases and compensated absences. At December 31, 2005, the City had \$5,771,192 outstanding in long-term business-type obligations which include OPWC and OWDA loans. Table 4 summarizes the City's long-term obligations outstanding.

(Table 4)
 Outstanding Obligations at Year End

	Governmental Activities		Business-Type Activity		Total	
	2005	2004	2005	2004	2005	2004
	General Obligation Bond	\$2,980,536	\$2,344,678	\$0	\$0	\$2,980,536
Special Assessment Bonds	152,864	177,222	0	0	152,864	177,222
OPWC Loans	0	0	535,997	419,105	535,997	419,105
OWDA Loans	0	0	5,235,195	4,747,279	5,235,195	4,747,279
Capital Leases	56,881	110,853	0	0	56,881	110,853
Compensated Absences	242,094	296,811	0	0	242,094	296,811
Total	\$3,432,375	\$2,929,564	\$5,771,192	\$5,166,384	\$9,203,567	\$8,095,948

The general obligation bonds outstanding consist of the 1986 city hall addition bonds, 1993 service garage addition bonds, 1993 sanitary sewer improvement bonds, 2001 fire station improvement bonds, 2004 municipal complex improvement bonds and 2005 \$770,000 aerial ladder truck bonds.

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

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

Current Related Financial Activities

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

Contacting the City of Willoughby Hill's Financial Management

This financial report is designed to provide the citizens, taxpayers, creditors, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, contact the, Finance Director, City of Willoughby Hills, 35405 Chardon Road. Willoughby Hills, Ohio 44094-9103. Phone: (440) 946-1234, Fax: (440) 975-3533 or email whfinance@comcast.net.

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City of Willoughby Hills, Ohio

Statement of Net Assets

December 31, 2005

	Governmental Activities	Business-Type Activity	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$806,445	\$259,128	\$1,065,573
Cash and Cash Equivalents			
In Segregated Accounts	3,322	0	3,322
Materials and Supplies Inventory	53,895	0	53,895
Accrued Interest Receivable	3,710	0	3,710
Accounts Receivable	11,681	0	11,681
Intergovernmental Receivable	1,002,712	0	1,002,712
Prepaid Items	2,722	0	2,722
Special Assessments Receivable	152,864	0	152,864
Income Taxes Receivable	792,883	0	792,883
Property Taxes Receivable	1,912,495	0	1,912,495
Deferred Charges	17,568	0	17,568
Nondepreciable Capital Assets	1,485,749	1,525,742	3,011,491
Depreciable Capital Assets, Net	8,323,453	5,777,656	14,101,109
<i>Total Assets</i>	<u>14,569,499</u>	<u>7,562,526</u>	<u>22,132,025</u>
Liabilities			
Accounts Payable	139,536	175,100	314,636
Accrued Wages	167,018	0	167,018
Intergovernmental Payable	236,718	425	237,143
Matured Compensated Absences Payable	44,591	0	44,591
Accrued Interest Payable	2,907	1,263	4,170
Deferred Revenue	1,869,142	0	1,869,142
Long-Term Liabilities:			
Due Within One Year	327,890	179,139	507,029
Due In More Than One Year	3,104,485	5,592,053	8,696,538
<i>Total Liabilities</i>	<u>5,892,287</u>	<u>5,947,980</u>	<u>11,840,267</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	6,810,489	1,532,206	8,342,695
Restricted for:			
Capital Projects	428,764	0	428,764
Debt Service	24,455	0	24,455
Law Enforcement	148,408	0	148,408
Street Construction, Maintenance and Repair	157,746	0	157,746
Drug Enforcement	79,534	0	79,534
Other Purposes	155,271	0	155,271
Unrestricted	872,545	82,340	954,885
<i>Total Net Assets</i>	<u>\$8,677,212</u>	<u>\$1,614,546</u>	<u>\$10,291,758</u>

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Statement of Activities
For the Year Ended December 31, 2005

	Program Revenues			
	Expenses	Charges for Services	Operating Grants Contributions and Assessments	Capital Grants
Governmental Activities:				
General Government	\$1,580,612	\$796,737	\$65,122	\$226,679
Security of Persons and Property:				
Police	2,724,745	42,637	186,434	0
Fire	1,722,809	199,097	460	0
Leisure Time Activities	216,146	64,473	0	2,800
Community Environment	132,417	90,320	0	0
Transportation	1,549,592	0	530,744	989,518
Interest and Fiscal Charges	152,628	0	0	0
<i>Total Governmental Activities</i>	8,078,949	1,193,264	782,760	1,218,997
Business-Type Activity:				
Sewer	962,774	800,110	0	0
<i>Total</i>	\$9,041,723	\$1,993,374	\$782,760	\$1,218,997

General Revenues

Property Taxes Levied for:

 General Purposes

 Debt Service

 Police Pension

 Fire Levy

 Road Levy

Income Tax Levied for General Purposes

Grants and Entitlements not Restricted to Specific Programs

Interest

Other

Total General Revenues

Change in Net Assets

Net Assets Beginning of Year - See Note 3

Net Assets End of Year

See accompanying notes to the basic financial statements

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
(\$492,074)	\$0	(\$492,074)
(2,495,674)	0	(2,495,674)
(1,523,252)	0	(1,523,252)
(148,873)	0	(148,873)
(42,097)	0	(42,097)
(29,330)	0	(29,330)
(152,628)	0	(152,628)
(4,883,928)	0	(4,883,928)
0	(162,664)	(162,664)
(4,883,928)	(162,664)	(5,046,592)
683,155	0	683,155
120,760	0	120,760
78,542	0	78,542
478,461	0	478,461
488,481	0	488,481
2,760,557	0	2,760,557
1,116,208	0	1,116,208
45,852	743	46,595
159,765	16,812	176,577
5,931,781	17,555	5,949,336
1,047,853	(145,109)	902,744
7,629,359	1,759,655	9,389,014
<u>\$8,677,212</u>	<u>\$1,614,546</u>	<u>\$10,291,758</u>

City of Willoughby Hills, Ohio

Balance Sheet

Governmental Funds

December 31, 2005

	General	Fire Levy	Road Levy	Street Construction, Maintenance and Repair
Assets				
Equity in Pooled Cash and Cash Equivalents	\$50,570	\$54,935	\$38,322	\$24,028
Cash and Cash Equivalents				
In Segregated Accounts	3,322	0	0	0
Materials and Supplies Inventory	14,580	0	0	39,315
Accrued Interest Receivable	3,710	0	0	0
Accounts Receivable	6,588	2,196	0	0
Interfund Receivable	48,175	0	0	0
Intergovernmental Receivable	602,537	27,955	31,316	267,706
Prepaid Items	2,722	0	0	0
Special Assessments Receivable	0	0	0	0
Municipal Income Tax Receivable	792,883	0	0	0
Property Tax Receivable	586,661	473,839	649,897	0
<i>Total Assets</i>	<u>\$2,111,748</u>	<u>\$558,925</u>	<u>\$719,535</u>	<u>\$331,049</u>
Liabilities				
Accounts Payable	\$54,288	\$0	\$22,012	\$46,929
Accrued Wages	116,849	24,436	0	25,733
Intergovernmental Payable	198,951	7,638	211	29,355
Matured Compensated Absences Payable	20,184	0	0	24,407
Interfund Payable	45,000	119,983	0	0
Deferred Revenue	1,493,020	501,794	681,213	238,975
<i>Total Liabilities</i>	<u>1,928,292</u>	<u>653,851</u>	<u>703,436</u>	<u>365,399</u>
Fund Balances				
Reserved for Encumbrances	79,949	1,000	20,665	16,696
Reserved for Interfund Loans	0	0	0	0
Unreserved				
Undesignated (Deficit), Reported in:				
General Fund	103,507	0	0	0
Special Revenue Funds	0	(95,926)	(4,566)	(51,046)
Debt Service Funds	0	0	0	0
Capital Projects Funds	0	0	0	0
<i>Total Fund Balances (Deficit)</i>	<u>183,456</u>	<u>(94,926)</u>	<u>16,099</u>	<u>(34,350)</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$2,111,748</u>	<u>\$558,925</u>	<u>\$719,535</u>	<u>\$331,049</u>

See accompanying notes to the basic financial statements

Road Improvement	Other Governmental Funds	Total Governmental Funds
\$5,255	\$633,335	\$806,445
0	0	3,322
0	0	53,895
0	0	3,710
0	2,897	11,681
0	164,983	213,158
0	73,198	1,002,712
0	0	2,722
0	152,864	152,864
0	0	792,883
0	202,098	1,912,495
<u>\$5,255</u>	<u>\$1,229,375</u>	<u>\$4,955,887</u>
\$12,083	\$4,224	\$139,536
0	0	167,018
0	563	236,718
0	0	44,591
0	48,175	213,158
0	422,730	3,337,732
<u>12,083</u>	<u>475,692</u>	<u>4,138,753</u>
3,954	41,011	163,275
0	137,985	137,985
0	0	103,507
0	281,298	129,760
0	17,260	17,260
(10,782)	276,129	265,347
<u>(6,828)</u>	<u>753,683</u>	<u>817,134</u>
<u>\$5,255</u>	<u>\$1,229,375</u>	<u>\$4,955,887</u>

City of Willoughby Hills, Ohio
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 December 31, 2005*

Total Governmental Funds Balances	\$817,134
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*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.	9,809,202
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Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds:

Intergovernmental	815,802		
Special Assessments	152,864		
Income Taxes	456,571		
Property and Other Taxes	43,353		
Total			1,468,590

In the statement of activities, interest is accrued on outstanding liabilities, whereas in governmental funds, an interest expenditure is reported when due.	(2,907)
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Bond issuance costs will be amortized over the life of the bonds on the statement of net assets.	17,568
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:

General Obligation Bonds	(2,980,536)		
Special Assessment Bonds	(152,864)		
Capital Leases	(56,881)		
Compensated Absences	(242,094)		
Total			<u>(3,432,375)</u>

<i>Net Assets of Governmental Activities</i>	<u><u>\$8,677,212</u></u>
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See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2005

	General	Fire Levy	Road Levy	Street Construction Maintenance Repair	Road Improvement	Other Governmental Funds	Total Governmental Funds
Revenues							
Property and Other Taxes	\$685,142	\$479,050	\$486,319	\$0	\$0	\$198,297	\$1,848,808
Municipal Income Taxes	2,870,654	0	0	0	0	0	2,870,654
Special Assessments	0	0	0	0	0	24,358	24,358
Intergovernmental	943,267	55,147	60,133	363,304	958,868	575,796	2,956,515
Charges for Services	0	86,476	0	0	0	138,429	224,905
Fees, Licenses and Permits	208,973	0	0	0	0	0	208,973
Fines and Forfeitures	614,477	0	0	0	0	0	614,477
Rentals	81,227	0	0	0	0	63,682	144,909
Contributions and Donations	5,887	0	0	0	30,650	2,800	39,337
Interest	21,220	0	2,492	0	2,000	20,140	45,852
Other	36,183	0	3,914	12,653	0	107,015	159,765
<i>Total Revenues</i>	<u>5,467,030</u>	<u>620,673</u>	<u>552,858</u>	<u>375,957</u>	<u>991,518</u>	<u>1,130,517</u>	<u>9,138,553</u>
Expenditures							
Current:							
General Government	1,232,713	0	0	0	0	61,730	1,294,443
Security of Persons and Property							
Police	2,382,806	0	0	0	0	273,347	2,656,153
Fire	1,007,674	637,972	0	0	0	0	1,645,646
Leisure Time Activities	130,676	0	0	0	0	80,949	211,625
Community Development	132,417	0	0	0	0	0	132,417
Transportation	0	0	143,475	960,085	0	27,488	1,131,048
Capital Outlay	0	0	0	0	1,775,074	1,150,838	2,925,912
Debt Service:							
Principal Retirement	40,479	0	0	13,493	0	158,500	212,472
Interest and Fiscal Charges	3,892	0	0	1,297	0	146,471	151,660
Bond Issuance Costs	0	0	0	0	0	19,032	19,032
<i>Total Expenditures</i>	<u>4,930,657</u>	<u>637,972</u>	<u>143,475</u>	<u>974,875</u>	<u>1,775,074</u>	<u>1,918,355</u>	<u>10,380,408</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>536,373</u>	<u>(17,299)</u>	<u>409,383</u>	<u>(598,918)</u>	<u>(783,556)</u>	<u>(787,838)</u>	<u>(1,241,855)</u>
Other Financing Sources (Uses)							
Sale of Capital Assets	5,853	0	0	0	0	0	5,853
Bonds Issued	0	0	0	0	0	770,000	770,000
Transfers In	0	0	0	538,710	435,000	18,720	992,430
Transfers Out	(538,710)	0	(409,000)	0	0	(44,720)	(992,430)
<i>Total Other Financing Sources (Uses)</i>	<u>(532,857)</u>	<u>0</u>	<u>(409,000)</u>	<u>538,710</u>	<u>435,000</u>	<u>744,000</u>	<u>775,853</u>
<i>Net Change in Fund Balances</i>	<u>3,516</u>	<u>(17,299)</u>	<u>383</u>	<u>(60,208)</u>	<u>(348,556)</u>	<u>(43,838)</u>	<u>(466,002)</u>
<i>Fund Balances (Deficit) Beginning of Year</i>	<u>179,940</u>	<u>(77,627)</u>	<u>15,716</u>	<u>25,858</u>	<u>341,728</u>	<u>797,521</u>	<u>1,283,136</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>\$183,456</u>	<u>(\$94,926)</u>	<u>\$16,099</u>	<u>(\$34,350)</u>	<u>(\$6,828)</u>	<u>\$753,683</u>	<u>\$817,134</u>

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2005*

Net Change in Fund Balances - Total Governmental Funds (\$466,002)

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

Governmental funds report capital outlays as expenditures.

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

Capital Outlay	2,460,981	
Depreciation	(450,628)	
Total		2,010,353

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

Property and Other Taxes	591	
Income Taxes	(110,097)	
Special Assessments	(24,358)	
Intergovernmental	122,113	
Total		(11,751)

Proceeds of debt is an other financing source in governmental funds, but increases liabilities in governmental activities statement of net assets. (770,000)

Repayment of bond principal and capital leases is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 212,472

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.

Accrued Interest	(968)	
Bond Issuance Costs	19,032	
Total		18,064

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	54,717	

<i>Change in Net Assets of Governmental Activities</i>	\$1,047,853
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See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property and Other Taxes	\$650,381	\$650,381	\$685,142	\$34,761
Municipal Income Tax	2,925,000	2,925,000	2,811,225	(113,775)
Licenses and Permits	134,244	134,244	201,153	66,909
Fines and Forfeitures	655,193	655,193	622,418	(32,775)
Intergovernmental	882,650	918,412	916,182	(2,230)
Interest	25,000	25,000	21,658	(3,342)
Rentals	77,700	77,700	79,996	2,296
Contributions and Donations	0	0	5,887	5,887
Other	60,000	60,000	63,951	3,951
<i>Total Revenues</i>	5,410,168	5,445,930	5,407,612	(38,318)
Expenditures				
Current:				
General Government	1,284,323	1,295,116	1,293,009	2,107
Security of Persons and Property:				
Police	2,271,023	2,388,273	2,381,481	6,792
Fire	1,081,335	1,081,335	1,068,600	12,735
Leisure Time Activities	159,868	159,868	145,182	14,686
Community Environment	125,910	125,910	131,598	(5,688)
<i>Total Expenditures</i>	4,922,459	5,050,502	5,019,870	30,632
<i>Excess of Revenues Over Expenditures</i>	487,709	395,428	387,742	(7,686)
Other Financing Sources (Uses)				
Sale of Capital Assets	8,000	8,000	5,853	(2,147)
Transfers Out	(540,000)	(540,000)	(538,710)	1,290
<i>Net Change in Fund Balance</i>	(44,291)	(136,572)	(145,115)	(8,543)
<i>Fund Balance Beginning of Year</i>	56,468	56,468	56,468	0
Prior Year Encumbrances Appropriated	130,943	130,943	130,943	0
<i>Fund Balance End of Year</i>	\$143,120	\$50,839	\$42,296	(\$8,543)

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Fire Levy Fund
For the Year Ended December 31, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property and Other Taxes	\$468,000	\$438,399	\$479,050	\$40,651
Charges for Services	153,110	177,300	94,132	(83,168)
Intergovernmental	56,700	53,300	55,147	1,847
<i>Total Revenues</i>	677,810	668,999	628,329	(40,670)
Expenditures				
Current:				
Security of Persons and Property:				
Fire	704,521	709,521	641,008	68,513
<i>Net Change in Fund Balance</i>	(26,711)	(40,522)	(12,679)	27,843
<i>Fund Balance Beginning of Year</i>	38,813	38,813	38,813	0
Prior Year Encumbrances Appropriated	27,681	27,681	27,681	0
<i>Fund Balance End of Year</i>	\$39,783	\$25,972	\$53,815	\$27,843

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Road Levy Fund
For the Year Ended December 31, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
Revenues				
Property and Other Taxes	\$454,500	\$454,500	\$486,319	\$31,819
Intergovernmental	140,843	130,843	60,133	(70,710)
Interest	0	0	2,516	2,516
Other	584	584	3,914	3,330
<i>Total Revenues</i>	595,927	585,927	552,882	(33,045)
Expenditures				
Current:				
Transportation	181,614	226,914	179,879	47,035
<i>Excess of Revenues Over Expenditures</i>	414,313	359,013	373,003	13,990
Other Financing Uses				
Transfers Out	(400,000)	(400,000)	(409,000)	(9,000)
<i>Net Change in Fund Balance</i>	14,313	(40,987)	(35,997)	4,990
<i>Fund Balance Beginning of Year</i>	34,504	34,504	34,504	0
Prior Year Encumbrances Appropriated	6,614	6,614	6,614	0
<i>Fund Balance End of Year</i>	<u>\$55,431</u>	<u>\$131</u>	<u>\$5,121</u>	<u>\$4,990</u>

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
*Statement of Revenues, Expenditures and Changes
 In Fund Balance - Budget (Non-GAAP Basis) and Actual
 Street Construction Maintenance and Repair Fund
 For the Year Ended December 31, 2005*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental	\$430,000	\$465,000	\$361,610	(\$103,390)
Other	0	0	12,653	12,653
<i>Total Revenues</i>	430,000	465,000	374,263	(90,737)
Expenditures				
Current:				
Transportation	995,630	1,028,630	964,175	64,455
<i>Excess of Revenues Under Expenditures</i>	(565,630)	(563,630)	(589,912)	(26,282)
Other Financing Sources				
Transfers In	540,000	540,000	538,710	(1,290)
<i>Net Change in Fund Balance</i>	(25,630)	(23,630)	(51,202)	(27,572)
<i>Fund Balance Beginning of Year</i>	0	0	0	0
Prior Year Encumbrances Appropriated	51,426	51,426	51,426	0
<i>Fund Balance End of Year</i>	<u>\$25,796</u>	<u>\$27,796</u>	<u>\$224</u>	<u>(\$27,572)</u>

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio

Statement of Fund Net Assets

Enterprise Fund

December 31, 2005

	<u>Sewer</u>
Assets	
<i>Current Assets:</i>	
Equity in Pooled Cash and Cash Equivalents	<u>\$259,128</u>
<i>Noncurrent Assets:</i>	
Nondepreciable Capital Assets	1,525,742
Depreciable Capital Assets, Net	<u>5,777,656</u>
<i>Total Noncurrent Assets</i>	<u>7,303,398</u>
<i>Total Assets</i>	<u>7,562,526</u>
Liabilities	
<i>Current Liabilities:</i>	
Accounts Payable	175,100
Intergovernmental Payable	425
Accrued Interest Payable	1,263
OPWC Loans Payable	12,500
OWDA Loans Payable	<u>166,639</u>
<i>Total Current Liabilities</i>	<u>355,927</u>
<i>Long-Term Liabilities (net of current portion):</i>	
OWDA Loans Payable	5,068,556
OPWC Loans Payable	<u>523,497</u>
<i>Total Long-Term Liabilities</i>	<u>5,592,053</u>
<i>Total Liabilities</i>	<u>5,947,980</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	1,532,206
Unrestricted	<u>82,340</u>
<i>Total Net Assets</i>	<u><u>\$1,614,546</u></u>

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
*Statement of Revenues,
Expenses and Changes in Fund Net Assets
Enterprise Fund
For the Year Ended December 31, 2005*

	Sewer
Operating Revenues	
Charges for Services	\$800,110
Other	16,812
	816,922
<i>Total Operating Revenues</i>	
Operating Expenses	
Personal Services	128,234
Materials and Supplies	79,187
Contractual Services	536,222
Depreciation	129,517
Other	77,289
	950,449
<i>Total Operating Expenses</i>	
<i>Operating Loss</i>	(133,527)
Non-Operating Revenues (Expenses)	
Interest	743
Interest and Fiscal Charges	(12,325)
	(11,582)
<i>Total Non-Operating Revenues (Expenses)</i>	
<i>Change in Net Assets</i>	(145,109)
<i>Net Assets Beginning of Year</i>	1,759,655
<i>Net Assets End of Year</i>	\$1,614,546

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Statement of Cash Flows
Enterprise Fund
For the Year Ended December 31, 2005

	Sewer
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Customers	\$808,267
Other Operating Revenues	16,812
Cash Payments to Suppliers for Materials and Supplies	(79,187)
Cash Payments for Employee Services and Benefits	(128,203)
Cash Payments for Contractual Services	(382,252)
Other Cash Payments	(74,954)
	160,483
<i>Net Cash Provided by Operating Activities</i>	
Cash Flows from Capital and Related Financing Activities	
Acquisition of Capital Assets	(761,930)
Proceeds from OWDA Loans	626,122
Proceeds from OPWC Loans	116,892
Principal Paid on OWDA Loans	(138,206)
Interest Paid on OWDA Loans	(11,681)
	(168,803)
<i>Net Cash Used for Capital and Related Financing Activities</i>	
Cash Flows from Investing Activities	
Interest on Investments	743
	743
<i>Net Decrease in Cash and Cash Equivalents</i>	
	(7,577)
<i>Cash and Cash Equivalents Beginning of Year</i>	
	266,705
<i>Cash and Cash Equivalents End of Year</i>	
	\$259,128
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities	
Operating Loss	(\$133,527)
Adjustments:	
Depreciation	129,517
Decrease in Assets:	
Decrease in Accounts Receivable	8,157
Increase in Liabilities:	
Accounts Payable	156,305
Intergovernmental Payable	31
	294,010
<i>Total Adjustments</i>	
	\$160,483
<i>Net Cash Provided by Operating Activities</i>	

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Fund
December 31, 2005

Assets	
Equity in Pooled Cash and Cash Equivalents	<u><u>\$80,052</u></u>
Liabilities	
Deposits Held and Due to Others	<u><u>\$80,052</u></u>

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Note 1 - Reporting Entity

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

Reporting Entity

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

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance deficits of or provide financial support to the organization; or the City is obligated for the debt of the organization. Component units may also include organizations for which the City approves the budget, the issuance of debt, or the levying of taxes. The reporting entity of the City does not include any component units.

The City participates in the Northeast Ohio Public Energy Council, a jointly governed organization. This organization is discussed in Note 9 of the Basic Financial Statements.

Note 2 - Summary of Significant Accounting Policies

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

A. Basis of Presentation

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

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

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

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

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

B. Fund Accounting

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

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

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

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

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

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Street Construction Maintenance and Repair Fund The street construction, maintenance and repair special revenue fund is used to account for gas tax, municipal cents per gallon, permissive motor vehicle license tax, and motor vehicle license tax revenues from the State to be used to construct, maintain and repair roads, bridges and culverts.

Road Improvement Fund The road improvement capital projects fund is used to account for transfers from the road levy and motor vehicle license tax funds to be used to widen and improve the roads of the City.

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

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

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

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

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City only utilizes the agency fund type. The agency fund accounts for construction deposits.

C. Measurement Focus

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

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

Like the government-wide statements, the proprietary fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of fund net assets. The statement of changes in fund net assets presents

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activity.

D. Basis of Accounting

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

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

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes and grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the year in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 7). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

Property taxes for which there is an enforceable legal claim as of December 31, 2005, but which were levied to finance 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

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

E. Pooled Cash and Cash Equivalents

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

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

During fiscal year 2005, investments were limited to STAROhio, certificates of deposit and repurchase agreements.

Nonparticipating investment contracts such as non-negotiable certificates of deposit and repurchase agreements are reported at cost.

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on December 31, 2005.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2005 amounted to \$21,220, which includes \$18,357 assigned from other City funds.

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

F. Prepaid Items

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

G. Inventory

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

H. Capital Assets

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in the governmental funds. General capital assets are

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the enterprise fund are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The City was able to estimate the historical cost for the initial reporting of assets by backtrending (i.e. estimating the current replacement cost of the asset to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of two thousand five hundred dollars. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of proprietary fund capital assets is also capitalized.

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

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

Only general infrastructure assets acquired or improved during 2004 have been reported, consistent with the requirements of GASB Statement No. 34. The City had no additions to infrastructure during 2005.

I. Bond Issuance Costs

On the government-wide financial statements, bond issuance costs are deferred and amortized over the term of the applicable bonds using the effective interest method. Within the governmental fund statements, bond issuance costs are expended when incurred.

J. Interfund Balances

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

K. Compensated Absences

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

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees the City has identified as probable of receiving payment in the future (those employees with sixteen years or more of service). The amount is based on accumulated sick leave and employees' wage rates at year end, taking into consideration any limits specified in the City's termination policy.

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

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

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 constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The government-wide statement of net assets reports \$994,178 of restricted net assets, of which \$222,325 is restricted by enabling legislation. Net assets restricted for other purposes include recreational activities and law enforcement education.

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

O. Operating Revenues and Expenses

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

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

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

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

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.

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.

S. Budgetary Process

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

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

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

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

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

A. Changes in Accounting Principles

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

GASB Statement No. 40 establishes new disclosure requirements for risks associated with deposits and investments.

GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets and clarifies and establishes accounting requirements for insurance recoveries. The implementation of GASB Statement No. 42 did not affect the presentation of the financial statements of the City.

B. Restatement of Net Assets/Fund Balance

At December 31, 2004, the governmental activities had the following restatements. These restatements had the following effect on net assets as previously reported.

	Governmental Activities
Governmental Activities Net Assets, December 31, 2004	\$7,411,357
Overstated Long-Term Liability:	
Compensated Absences	262,510
Overstated Special Assessments Receivable	(44,508)
Restated Net Assets, December 31, 2004	\$7,629,359

Note 4 - Budgetary Basis of Accounting

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

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
4. Unreported cash represents amounts received but not included as revenue on the budgetary statements, but is reported on the operating statements prepared using GAAP.

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

	Net Change in Fund Balance			
	General	Fire Levy	Road Levy	Street Construction Maintenance and Repair
GAAP Basis	\$3,516	(\$17,299)	\$383	(\$60,208)
Net Adjustments for				
Revenue Accruals	(86,509)	7,656	24	(1,694)
Beginning Unrecorded Cash	27,091	0	0	0
Ending Unrecorded Cash	6,140	(120)	0	(279)
Net Adjustments for				
Expenditure Accruals	19,016	(1,916)	(3,238)	34,783
Encumbrances	(114,369)	(1,000)	(33,166)	(23,804)
Budget Basis	<u>(\$145,115)</u>	<u>(\$12,679)</u>	<u>(\$35,997)</u>	<u>(\$51,202)</u>

Note 5 – Accountability and Compliance

A. Accountability

Fund Balance at December 31, 2005, included the following individual fund deficits:

Fund	Amount
<i>Special Revenue Funds:</i>	
Fire Levy	\$94,926
Street Construction Maintenance and Repair	34,350
<i>Debt Service Fund:</i>	
General Obligation Bond Retirement	48,175
<i>Capital Projects Fund:</i>	
Road Improvement	6,828

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

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

B. Legal Compliance

The following funds had expenditures plus encumbrances in excess of final appropriations in violation of Section 5705.39 (B), Ohio Revised Code:

	<u>Appropriations</u>	<u>Expenditures Plus Encumbrances</u>	<u>Excess</u>
<i>Special Revenue Fund</i>			
Recreation	\$89,322	\$91,192	\$1,870
<i>Capital Projects Funds</i>			
Capital Improvement	388,059	425,978	37,919
Recreation Development	130	450	320
Fire Department Capital Equipment	0	770,967	770,967

Contrary to Ohio Revised Code Section 5705.10, the City had a negative cash balance of \$650 in the Mike Ross agency fund indicating that revenues from other sources were used to pay obligations of this fund.

The road improvement capital projects fund had total original appropriations in excess of estimated resources plus carryover balances of \$114,988, contrary to Section 5705.39, Revised Code. This oversight has been identified and corrected as of year end.

The 911 capital upgrade special revenue fund had total final appropriations in excess of estimated resources plus carryover balances of \$16,000, contrary to Section 5705.39, Revised Code. Although this budgetary violation was not corrected by fiscal year end, management has indicated that appropriations will be closely monitored to prevent future violations.

Note 6 - Deposits and Investments

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

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

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

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

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

Interim monies can be deposited or invested in the following securities:

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

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

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

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

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

Deposits

Custodial Credit Risk Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year-end, \$106,923 of the City’s bank balance of \$505,788 was uninsured and uncollateralized. Although the securities were held by the pledging institutions’ trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

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

Investments

Investments are reported at fair value. All investments are in an internal investment pool. As of December 31, 2005, the City had the following investments:

	Fair Value	Average Maturity
Repurchase Agreements		
Federal Home Loan Mortgage Bonds	\$468,688	Daily
STAROhio	32,876	39 days
Total	\$501,564	

Interest Rate Risk As a means of limiting its exposure to fair value losses caused by rising interest rates, the City’s investment policy requires that operating funds be invested primarily in investments so that securities mature to meet cash requirements for ongoing operations. The stated intent of the policy is to avoid the need to sell securities prior to maturity.

Credit Risk The Federal Home Loan Mortgage Bonds carry a rating of AAAM by Standard and Poor’s. STAROhio carries a rating of AAAM by Standard and Poor’s. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service.

City of Willoughby Hills, Ohio
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For the Year Ended December 31, 2005

Concentration of Credit Risk is defined by the Governmental Accounting Standards Board as having five percent or more invested in the securities of a single issuer. The City's investment policy places no limit on the amount it may invest in any one issuer. The following is the City's allocation as of December 31, 2005:

<u>Investment</u>	<u>Percentage of Investment</u>
Repurchase Agreements	
Federal Home Loan Mortgage Bonds	93.44%
STAROhio	6.55%

Note 7 - Receivables

Receivables at December 31, 2005, consisted primarily of municipal income taxes, property and other taxes, intergovernmental receivables arising from entitlements and shared revenues, special assessments and accounts (billings for user charged services including unbilled utility services).

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

Special assessments expected to be collected in more than one year amount to \$128,506 in the special assessment bond retirement fund. At December 31, 2005, the amount of delinquent special assessments was \$3,347.

A. Property Taxes

Property taxes include amounts levied against all real, public utility and tangible personal property located in the City. Property tax revenue received during 2005 for real and public property taxes represents collections of 2004 taxes. Property tax payments received during 2005 for tangible personal property (other than public utility property) is for 2005 taxes.

2005 real property taxes are levied after October 1, 2005, on the assessed value as of January 1, 2005, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2005 real property taxes are collected in and intended to finance 2006.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2005 public utility property taxes became a lien December 31, 2004, are levied after October 1, 2005, and are collected in 2006 with real property taxes.

2005 tangible personal property taxes are levied after October 1, 2004, on the values as of December 31, 2004. Collections are made in 2005. Tangible personal property assessments are 25 percent of true value for capital assets and 23 percent for inventories.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

The full tax rate for all City operations for the year ended December 31, 2005, was \$7.40 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2005 property tax receipts were based are as follows:

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

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

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable at September 20.

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City of Willoughby Hills. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represent real and tangible personal property taxes and public utility taxes which are measurable as of December 31, 2005 and for which there is an enforceable legal claim. In the general, the police pension, fire levy and road levy special revenue and the general obligation bond retirement funds, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2005 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis collectible delinquent property taxes have been recorded as a receivable and revenue while the remainder of the receivable is deferred.

B. Income Taxes

The City levies a municipal income tax of one and one half percent on substantially all income earned within the City; in addition, residents are required to pay tax on income earned outside the City. The City allows a credit of one hundred percent for income tax paid to another municipality up to the total amount owed to the City. Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. Income tax proceeds are to be used for the purposes of general municipal operations, maintenance, new equipment, extension and enlargement of municipal services and facilities and capital improvements of the City of Willoughby Hills. In 2005, the proceeds were allocated one hundred percent to the general fund.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

C. Intergovernmental Receivable

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
Local Government	\$444,160
Gasoline Tax	113,894
Homestead and Rollback	105,863
Estate Tax	123,744
Motor Vehicle License Tax	54,679
Permissive Motor Vehicle Tax	59,716
Municipal Cents Per Gallon Tax	<u>100,656</u>
Total	<u><u>\$1,002,712</u></u>

Note 8 - Contingencies

A. Grants

The City receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2005.

B. Litigation

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

Note 9 - Jointly Governed Organization

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

City of Willoughby Hills, Ohio
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NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives on the governing board from each county then elect one person to serve on the eight-member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. The City of Willoughby Hills did not contribute to NOPEC during 2005. Financial information can be obtained by contacting Joseph Migliorini, Board Chairman, 175 South Main Street, Akron, Ohio 44308.

Note 10 – Interfund Transactions

A. Interfund Transfers

Transfers made during the year ended December 31, 2005 were as follows:

Transfer To	Transfer From			Total
	General	Road Levy	Other Governmental Funds	
Other Governmental Funds:				
Street Construction Maintenance and Repair	\$538,710	\$0	\$0	\$538,710
Road Improvement	0	409,000	26,000	435,000
Pleasant Valley Bridge	0	0	15,000	15,000
Recreation Improvement	0	0	3,720	3,720
Total	\$538,710	\$409,000	\$44,720	\$992,430

The general fund transfer to the street construction maintenance and repair fund was made to provide additional resources for current operations. The transfer out from the road levy special revenue fund to the road improvement capital projects fund was for the Bishop road widening construction project. The transfers from the motor vehicle special revenue fund to the road improvement and Pleasant Valley bridge capital projects funds were to move the additional license fee. The transfer from the recreation special revenue fund to the recreation improvement capital projects fund was for improvements to recreational facilities.

B. Interfund Balances

Interfund balances at December 31, 2004 consisted of \$45,000 from the capital improvement capital projects fund to the general fund and \$119,983 to the fire levy special revenue fund. This is to be repaid through annual payments of \$11,998 from the fire levy special revenue fund for ten years and annual payments of \$15,000 from the general fund for three years. There were no payments made as of December 31, 2005. \$48,175 was loaned from the general fund to the general obligation bond retirement fund to eliminate the fund deficit. This will be repaid next year.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Note 11 - Capital Assets

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

	Balance 12/31/04	Additions	Reductions	Balance 12/31/05
Governmental Activities:				
Capital assets not being depreciated				
Land	\$33,000	\$0	\$0	\$33,000
Construction in progress	0	1,452,749	0	1,452,749
Total capital assets not being depreciated	33,000	1,452,749	0	1,485,749
Capital assets being depreciated				
Land Improvements	915,333	0	0	915,333
Buildings and Improvements	7,420,168	87,751	0	7,507,919
Machinery and Equipment	3,716,754	920,481	(33,431)	4,603,804
Total capital assets being depreciated	12,052,255	1,008,232	(33,431)	13,027,056
Accumulated depreciation				
Land Improvements	(506,152)	(35,691)	0	(541,843)
Buildings and Improvements	(1,453,150)	(147,168)	0	(1,600,318)
Machinery and Equipment	(2,327,104)	(267,769)	33,431	(2,561,442)
Total accumulated depreciation	(4,286,406)	(450,628) *	33,431	(4,703,603)
Capital assets being depreciated, net	7,765,849	557,604	0	8,323,453
Governmental activities capital assets, net	\$7,798,849	\$2,010,353	\$0	\$9,809,202
Business-type activity:				
Capital assets not being depreciated				
Land	\$233,000	\$0	\$0	\$233,000
Construction in progress	638,641	654,101	0	1,292,742
Total capital assets not being depreciated	871,641	654,101	0	1,525,742
Capital assets being depreciated				
Sewer Improvements	6,413,408	88,912	0	6,502,320
Machinery and Equipment	0	18,917	0	18,917
Total capital assets being depreciated	6,413,408	107,829	0	6,521,237
Accumulated depreciation				
Sewer Improvements	(614,064)	(129,517)	0	(743,581)
Capital assets being depreciated, net	5,799,344	(21,688)	0	5,777,656
Business-type activity capital assets, net	\$6,670,985	\$632,413	\$0	\$7,303,398

City of Willoughby Hills, Ohio
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For the Year Ended December 31, 2005

* Depreciation expense was charged to governmental activities as follows:

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

Note 12 - Long-term Obligations

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

Debt Issue	Interest Rate	Original Issue Amount	Year of Maturity
Business Type Activities			
<i>Ohio Public Works Commission Loans:</i>			
Euclid Interceptor-2002	N/A	\$500,000	N/A
Euclid Sewer-2002	N/A	1,256,746	N/A
 <i>Ohio Water Development Authority Loans:</i>			
Euclid Interceptor-2002	N/A	3,900,762	N/A
Euclid Sewer-2002	N/A	1,256,746	N/A
Oak Street-2002	3.64%	232,330	2022
 Governmental Activities			
<i>General Obligations Bond:</i>			
City Hall Addition Bond-1986	7.38%	560,000	2006
Service Garage Addition Bond-1993	2.65-5.30%	135,000	2013
Sanitary Sewer Improvement Bond-1993	2.65-5.30%	56,785	2013
Fire Station Improvement Bond-2001	5.05%	1,153,000	2016
Municipal Complex Improvement Bond-2004	4.11%	1,200,000	2021
Fire Truck Bonds-2005	4.16%	770,000	2016
 <i>Special Assessments Bond:</i>			
Chardon Sewer System Improvement Bond-1993	2.65-5.30%	107,000	2007
Sanitary Sewer Improvement Bond-1986	7.13%	373,215	2013

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Changes in long-term obligations of the City during 2005 were as follows:

	Outstanding 1/1/2005	Additions	Reductions	Outstanding 12/31/2005	Due Within One Year
Business-Type Activity					
<i>OWDA Loans</i>					
Euclid Interceptor	\$3,892,744	\$8,018	\$129,532	\$3,771,230	\$157,646
Euclid Sewer	638,642	618,104	0	1,256,746	0
Oak Street	215,893	0	8,674	207,219	8,993
<i>Total OWDA Loans</i>	<u>4,747,279</u>	<u>626,122</u>	<u>138,206</u>	<u>5,235,195</u>	<u>166,639</u>
<i>OPWC Loan</i>					
Euclid Interceptor	419,105	80,895	0	500,000	12,500
Euclid Sewer	0	35,997	0	35,997	0
<i>Total OPWC Loans</i>	<u>419,105</u>	<u>116,892</u>	<u>0</u>	<u>535,997</u>	<u>12,500</u>
<i>Total Business-Type Activity</i>	<u>\$5,166,384</u>	<u>\$743,014</u>	<u>\$138,206</u>	<u>\$5,771,192</u>	<u>\$179,139</u>
Governmental Type Activities					
<i>General Obligation Bonds</i>					
City Hall Addition	\$80,000	\$0	\$40,000	\$40,000	\$40,000
Service Garage Addition	80,000	0	5,000	75,000	5,000
Sanitary Sewer Improvement	23,778	0	2,642	21,136	2,642
Fire Station Improvement	985,900	0	61,500	924,400	64,600
Municipal Complex Improvement	1,175,000	0	25,000	1,150,000	25,000
Fire Truck	0	770,000	0	770,000	35,000
<i>Total General Obligation Bonds</i>	<u>2,344,678</u>	<u>770,000</u>	<u>134,142</u>	<u>2,980,536</u>	<u>172,242</u>
<i>Special Assessments Bonds</i>					
Chardon Sewer System Improvement	21,000	0	7,000	14,000	7,000
Sanitary Sewer Improvement	156,222	0	17,358	138,864	17,358
<i>Total Special Assessments Bonds</i>	<u>177,222</u>	<u>0</u>	<u>24,358</u>	<u>152,864</u>	<u>24,358</u>
Capital Leases	110,853	0	53,972	56,881	56,881
Compensated Absences	296,811	25,116	79,833	242,094	74,409
<i>Total Governmental Type Activities</i>	<u>\$2,929,564</u>	<u>\$795,116</u>	<u>\$292,305</u>	<u>\$3,432,375</u>	<u>\$327,890</u>

The Ohio Water Development Authority (OWDA) and the Ohio Public Works Commission (OPWC) loans for the Euclid Sewer Project have not been finalized and therefore repayment schedules are not included in the schedule of debt requirements. The OWDA and OPWC loans for the Euclid Interceptor loans are paid from the sewer enterprise fund.

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

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

City of Willoughby Hills, Ohio
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The City's overall legal debt margin was \$30,525,852 with an unvoted debt margin of \$15,989,732 at December 31, 2005. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2005, are as follows:

Governmental Activities:

Year	General Obligation Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2006	\$172,242	\$132,576	\$24,358	\$8,401
2007	215,642	123,487	24,358	6,991
2008	221,142	113,813	17,358	5,520
2009	227,742	103,877	17,358	4,600
2010	239,642	74,524	17,358	3,680
2011-2015	1,327,626	298,116	52,074	5,520
2016-2020	576,500	63,645	0	0
Total	\$2,980,536	\$910,038	\$152,864	\$34,712

Business-Type Activities:

Year	OWDA Loans		OPWC Loans
	Principal	Interest	Principal
2006	\$166,639	\$14,976	\$12,500
2007	201,254	14,263	25,000
2008	201,981	13,536	25,000
2009	202,720	12,796	25,000
2010	203,474	12,043	25,000
2011-2015	1,029,194	48,390	125,000
2016-2020	1,050,405	27,179	125,000
2021-2025	922,782	5,907	125,000
2026	0	0	12,500
Total	\$3,978,449	\$149,090	\$500,000

Note 13 – Capital Leases

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

City of Willoughby Hills, Ohio
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For the Year Ended December 31, 2005

The assets acquired through capital leases are as follows:

	Governmental Funds
<i>Asset:</i>	
Equipment	\$690,646
Less: Accumulated Depreciation	(309,855)
Total Book Value as of December 31, 2005	\$380,791

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

Year Ending December 31, 2006	Funds
Total Minimum Lease Payments	\$59,160
Less: Amount Representing Interest	(2,279)
Present Value of Minimum Lease Payments	\$56,881

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

Note 14 – Other Employee Benefits

A. Compensated Absences

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

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

B. Health Care Benefits

Medical/surgical and prescription insurance is offered to employees through Medical Mutual Insurance Company of Ohio. Vision and dental insurance is offered through Comp Benefits. Besides offering the Comp Benefits dental (DHMO) option, the City added a dental (PPO) option. If employees elect to have dental coverage, they are covered under the Comp Benefits dental (DHMO). If they elect to have additional coverage, they pay the dental (DHMO) plus the difference between the dental (DHMO) and the dental (PPO) options. For in-network services, there is no deductible and a co-payment of \$15. Out of network services have a co-payment of 30 percent after the deductible and a \$1,000 to \$2,000 deductible for single coverage and a \$3,000 to \$6,000 deductible for family coverage.

City of Willoughby Hills, Ohio
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The cost per month for health care is as follows:

	<u>Employee Only</u>	<u>Employee Plus Spouse</u>	<u>Employee Plus Child</u>	<u>Family</u>
Medical Mutual	\$286.95	\$573.92	\$573.92	\$800.63
Comp Benefits - Vision Plan	6.18	12.37	11.75	18.47
Comp Benefits - Dental (DHMO)	11.28	20.58	21.72	28.94
Comp Benefits - Dental (PPO)	28.66	57.40	60.36	97.68

The employee payroll deduction is 10 percent of the above figures:

	<u>Employee Only</u>	<u>Employee Plus Spouse</u>	<u>Employee Plus Child</u>	<u>Family</u>
Health Only	\$28.70	\$57.39	\$57.39	\$80.06
Health and Vision	29.31	58.63	58.57	81.91
Health and Dental (DHMO)	29.82	59.45	59.56	82.96
Health, Vision and Dental (DHMO)	30.44	60.69	60.74	84.80

C. Life Insurance

Life insurance is offered to employees through the Standard Insurance Company. Employees receive \$25,000 coverage for \$5.50 per month. The City pays the total monthly premium.

Note 15 - Defined Benefit Pension Plans

A. Ohio Public Employees Retirement System

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

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6701 or (800) 222-7377.

City of Willoughby Hills, Ohio
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For the year ended December 31, 2005, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The employer contribution rate for pension benefits for 2005 was 9.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the employer's pension contributions were 12.7 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2005, 2004, and 2003 were \$174,834, \$130,165, and \$132,348 respectively; 97.40 percent has been contributed for 2005 and 100 percent for 2004 and 2003. Contributions to the member-directed plan for 2005 were \$5,138 made by the City and \$3,223 made by the plan members.

B. Ohio Police and Fire Pension Fund

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

Plan members are required to contribute 10 percent of their annual covered salary to fund pension benefits while the employer is required to contribute 11.75 percent for police officers and 16.25 percent for firefighters. Contributions are authorized by State statute. The City's contributions to OP&F for police and firefighters were \$138,580 and \$105,942 for the year ended December 31, 2005, \$128,084 and \$103,810 for the year ended December 31, 2004 and \$127,676 and \$110,310 for the year ended December 31, 2003. The full amount has been contributed for 2004 and 2003. 92.73 percent and 98.44 percent has been contributed for 2005.

Note 16 - Postemployment Benefits

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2005 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 4 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2004, include a rate

City of Willoughby Hills, Ohio
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of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between 0.50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1 to 6 percent annually for the next eight years and 4 percent annually after eight years.

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

The number of active contributing participants in the traditional and combined plans was 376,109. Actual City contributions for 2005 which were used to fund postemployment benefits were \$73,229. The actual contribution and the actuarially required contribution amounts are the same. The actuarial value of OPERS's net assets available for payment of benefits at December 31, 2004, (the latest information available) was \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs. Member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

B. Ohio Police and Fire Pension Fund

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

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in *GASB Statement No. 12*. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2005 and 2004. In addition, since July 1, 1992, most retirees and survivors have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2005 that were used to fund postemployment health care benefits were \$91,404 for police and \$50,526 for firefighters. The OP&F's total health care expense for the year ended December 31, 2004, (the latest information available) was \$102,173,796, which was net of member contributions of \$55,665,341. The number of OP&F participants eligible to receive health care benefits as of December 31, 2004, was 13,812 for police and 10,528 for firefighters.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Note 17 - Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2005, the City participated in the Arrowhead Public Risk Municipal Package Plan which contracted with Curtis Insurance Service for the following types of insurance:

Type	Coverage
Property	\$9,624,499
Inland Marine	1,808,883
General Liability	7,000,000 aggregate
Vehicle	
Comprehensive	6,000,000 per occurrence
Collision	6,000,000 per occurrence
Law Enforcement Liability	6,000,000 aggregate
Public Officials Liability	6,000,000 aggregate
Employment Practices Liability	6,000,000 aggregate

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

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

Note 18 – Contractual Commitment

As of December 31, 2005, the City had the following significant contractual commitment for the Euclid Sewer Phase II project:

Contractor	Contract Amount	Amount Paid	Remaining on Contract
Degoia Excavating Company	\$6,310,682	\$399,969	\$5,910,713

Note 19 – Subsequent Event

On March 8, 2006, the cities of Willoughby Hills and Wickliffe contracted with Perk Company Incorporated for the Bishop Road widening project. The total contract amount is \$10,506,186.



Mary Taylor, CPA

Auditor of State

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

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

To the City Council:

We were engaged to audit the financial statements of the City of Willoughby Hills, Lake County, Ohio, (the City) as of and for the year ended December 31, 2005 and have issued our report thereon dated April 8, 2008. Our report indicated that because of the inability of the City to provide a complete and accurate receipts ledger, the inability to provide a complete and accurate expenditure ledger, the inability to provide support and authority for transfers, and the inability to provide a complete cash reconciliation we did not express an opinion on the financial statements.

Internal Control Over Financial Reporting

In planning and performing our engagement, we considered the City's internal control over financial reporting to determine our auditing procedures to express our opinions on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2005-003 through 2005-006.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we were engaged to audit, may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We consider reportable conditions 2005-003 through 2005-005 listed above to be material weaknesses. In a separate letter to the City's management dated April 8, 2008, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2005-001 through 2005-003. In a separate letter to the City's management dated April 8, 2008, we reported other matters related to noncompliance we deemed immaterial.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on them.

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



Mary Taylor, CPA
Auditor of State

April 8, 2008

CITY OF WILLOUGHBY HILLS
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2005

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

FINDING NUMBER 2005-001

Material Noncompliance Citation

Proper Encumbering

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

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

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

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

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

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

Fifty-six percent (38 of 68) transactions tested were not certified by the Finance Director at the time the commitment was incurred and there was no evidence the City followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

**CITY OF WILLOUGHBY HILLS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005
(Continued)**

FINDING NUMBER 2005-001 (Continued)

Proper Encumbering (Continued)

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

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

Official's Response:

The City concurs with this recommendation. City policy requires that all employees responsible for purchasing goods or services on the City's behalf obtain a properly approved purchase order prior to making a purchase commitment. It should be noted that all of the transactions tested were accompanied by a purchase order approved by the Department Head, making the purchase, the Finance Director and the Mayor.

FINDING NUMBER 2005-002

Material Noncompliance Citation

Expenditures plus Encumbrances Exceeded Appropriations

Ohio Revised Code Section 5705.41(B)(D) prohibits a subdivision or taxing unit from making an expenditure or encumbrance unless it has been properly appropriated. Budgetary expenditures as enacted by the City may not exceed appropriations at the legal level of control for all funds. The City's legal level of control is fund, function, and object for all funds.

The City had the following violations at July 31, 2005.

	<u>Appropriations</u>	<u>Expenditures Plus Encumbrances</u>	<u>Variance</u>
General Fund			
Administration			
Contract Services - Hart 05	\$0.00	\$20,705.35	(\$20,705.35)
Contract Services - Zoning Update	0.00	12,623.71	(12,623.71)
Court			
Other - Office Exp	313.48	672.40	(358.92)
Police Department			
Other Operations - Building Exp.	0.00	971.33	(971.33)
Dispatching			
Other Operations - Communication	495.00	1,310.18	(815.18)

**CITY OF WILLOUGHBY HILLS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005
(Continued)**

FINDING NUMBER 2005-002 (Continued)

Expenditures plus Encumbrances Exceeded Appropriations (Continued)

	<u>Appropriations</u>	<u>Expenditures Plus Encumbrances</u>	<u>Variance</u>
General Fund			
Fire Department			
Employee Benefits - PERS	4,500.00	5,412.45	(912.45)
Contract Services - Water	1,468.20	1,900.00	(431.80)
Other Operations - Dues & Permits	2,230.02	3,673.70	(1,443.68)
Building Dept.			
Personnel Services - Overtime Planning	0.00	1,053.06	(1,053.06)
Personnel Services - Overtime	0.00	591.66	(591.66)
Special Revenue Funds			
Road Levy Fund			
Payroll	\$0.00	\$9,009.12	(\$9,009.12)
PERS	0.00	2,109.00	(2,109.00)
Treasurer Fees	0.00	4,173.37	(4,173.37)
Recreation Operating Fund			
Ball Fields	0.00	490.00	(490.00)
Pancake Breakfast	2,500.00	4,594.71	(2,094.71)
Sewer Planning Fund			
Euclid Sewer	0.00	900.00	(900.00)
Debt Service Fund			
General Bond Retirement Fund			
Bond Interest	30,000.00	65,941.91	(35,941.91)
Capital Projects Funds			
Capital Improvement Fund			
Equipment	0.00	7,513.00	(7,513.00)
Bishop Road Fund			
Property Acquisition	921,400.00	1,255,359.43	(333,959.43)
Enterprise Fund			
Sewer Funds			
Stark Electric	192.64	944.23	(751.59)
Martin Electric	37.46	861.76	(824.30)
Property Acquisition	0.00	47,550.00	(47,550.00)

**CITY OF WILLOUGHBY HILLS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005
(Continued)**

FINDING NUMBER 2005-002 (Continued)

Expenditures plus Encumbrances Exceeded Appropriations (Continued)

The City had the following violations at December 31, 2005.

General Fund	<u>Appropriations</u>	<u>Expenditures Plus Encumbrances</u>	<u>Variance</u>
Administration			
Employee Benefits - Medicare	\$5,000.00	\$6,097.51	(\$1,097.51)
Contract Services - Advertising	7,312.20	9,236.10	(1,923.90)
Contract Services - Gas	29,662.67	37,450.86	(7,788.19)
Contract Services - Telephone	9,186.01	13,319.27	(4,133.26)
Contract Services - Service Contracts	16,081.25	21,167.08	(5,085.83)
Contract Services - Professional Services	3,200.00	5,317.94	(2,117.94)
Contract Services - Tech Exp	0.00	951.94	(951.94)
Contract Services - Zoning Update	0.00	6,623.71	(6,623.71)
Materials and Supplies - Building Supplies	3,105.07	4,925.25	(1,820.18)
Other Operations & Maintenance - Office Expense	16,168.25	21,131.39	(4,963.14)
Other Operations & Maintenance - Printing Exp	3,420.00	5,320.83	(1,900.83)
Other Operations & Maintenance - Vehicle Maint	500.00	1,119.20	(619.20)
Other Operations & Maintenance - Improvements	0.00	1,766.98	(1,766.98)
Other Operations & Maintenance - Office Equipment	0.00	1,866.44	(1,866.44)
Police Department			
Personnel Services -OIC Overtime	4,000.00	5,100.00	(1,100.00)
Personnel Services - Traing Overtime	11,000.00	14,116.02	(3,116.02)
Contract Services - Service Contracts	29,885.29	37,501.05	(7,615.76)
Other Operations - Building Exp	0.00	1,358.98	(1,358.98)
Fire Department			
Personnel Services - Holiday Overtime	4,650.00	5,629.20	(979.20)
Employee Benefits - PERS	4,500.00	6,971.57	(2,471.57)
Employee Benefits - FICA	800.00	8,998.56	(8,198.56)
Other Operations - Office Equip	2,800.00	4,299.90	(1,499.90)
Community Center			
Water	2,000.00	2,701.31	(701.31)
Building Exp	17,020.61	21,223.11	(4,202.50)
Building Department			
Personnel Services - Building Dept Clerk	18,000.00	22,894.86	(4,894.86)
Personnel Services - Overtime Planning	0.00	2,153.70	(2,153.70)
Personnel Services - Overtime	0.00	877.14	(877.14)
Employee Benefits - Hospitalization	12,000.00	14,568.11	(2,568.11)
Operations and Maintenance - Office Exp	2,798.83	3,875.88	(1,077.05)
Operations and Maintenance - Refunds	1,000.00	3,337.78	(2,337.78)

**CITY OF WILLOUGHBY HILLS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005
(Continued)**

FINDING NUMBER 2005-002 (Continued)

Expenditures plus Encumbrances Exceeded Appropriations (Continued)

	<u>Appropriations</u>	<u>Expenditures Plus Encumbrances</u>	<u>Variance</u>
Special Revenue Funds			
Court Improvement Fund			
Court Assistants	2,400.00	3,685.68	(1,285.68)
Fire Levy Fund			
Overtime	5,400.00	7,362.45	(1,962.45)
EMS Grant Payments	913.37	1,913.00	(999.63)
Street Construction, Maintenance, & Repair Fund			
Contract Services - Engineering Fees	7,000.90	9,299.32	(2,298.42)
Other - Tub Grinding	0.00	4,500.00	(4,500.00)
Contract Services - Rubish Removal	5,047.35	9,128.04	(4,080.69)
Contract Services - Service Contracts	4,049.99	5,459.49	(1,409.50)
Other - Equipment Repairs	19,818.55	23,916.62	(4,098.07)
Road Levy Fund			
Payroll	0.00	35,208.16	(35,208.16)
Overtime	0.00	6,853.52	(6,853.52)
PERS	0.00	2,109.00	(2,109.00)
Treasurer Fees	0.00	5,411.86	(5,411.86)
Recreation Operating Fund			
Sports Camp	0.00	2,636.10	(2,636.10)
Breakfast w/Santa	1,934.28	3,090.86	(1,156.58)
Pancake Breakfast	2,500.00	4,594.71	(2,094.71)
Park Maintenance Fund			
PERS	2,200.00	3,592.38	(1,392.38)
Sewer Planning Fund			
Calfee, Halter, Griswold	14,155.80	20,000.00	(5,844.20)
Euclid Sewer	1,800.00	2,700.00	(900.00)
Refunds	6,000.00	26,904.00	(20,904.00)
Euclid	0.00	78,783.44	(78,783.44)
Debt Service Funds			
General Bond Retirement Fund			
Bond Interest	30,000.00	71,611.91	(41,611.91)
Special Assessment Fund			
FDX	0.00	843.00	(843.00)
Capital Projects Funds			
Capital Improvement Fund			
Zetron Comm	0.00	15,000.00	(15,000.00)
Local Share Cops Grant	1,000.00	47,364.28	(46,364.28)
Equipment	0.00	15,030.00	(15,030.00)

**CITY OF WILLOUGHBY HILLS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005
(Continued)**

FINDING NUMBER 2005-002 (Continued)

Expenditures plus Encumbrances Exceeded Appropriations (Continued)

	<u>Appropriations</u>	<u>Expenditures Plus Encumbrances</u>	<u>Variance</u>
Capital Projects Funds			
Bishop Road Fund			
Transfer	0.00	20,000.00	(20,000.00)
Reimburse Wickliffe	0.00	13,770.00	(13,770.00)
Fire Department Fund			
Fire Engine	0.00	745,867.07	(745,867.07)
Enterprise Fund			
Sewer Funds			
Service Payroll	30,000.00	39,110.76	(9,110.76)
PERS	3,000.00	6,200.00	(3,200.00)
Eddy Road Electric	3,034.61	3,979.18	(944.57)
Stark Electric	192.64	1,406.39	(1,213.75)
Martin Electric	37.46	1,620.80	(1,583.34)
Property Acquisition	0.00	47,581.46	(47,581.46)
Workers Comp	0.00	8,529.10	(8,529.10)
Eddy Rd	3,081.20	4,092.25	(1,011.05)
Construction Management	0.00	15,105.85	(15,105.85)

Immaterial violations have been reported in the Management Letter.

We recommend the City verify all expenditures and encumbrances have proper appropriation authority prior to expending funds or certifying encumbrances and compare appropriations to expenditures and encumbrances in all funds which are legally required to be budgeted, at the legal level of control. The Finance Director should deny payment request for expenditures lacking available appropriations.

Official's Response:

The City acknowledges this citation. Budgetary obligations should never exceed appropriations. It should be noted though, that for 2005, the City's level of budgetary control was at the object line level, an extremely restrictive level of control. It is extremely difficult to maintain day-to-day operations while maintaining such a strict level of budgetary control.

**CITY OF WILLOUGHBY HILLS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005
(Continued)**

FINDING NUMBER 2005-003

Material Noncompliance Citation and Material Weakness

Interfund Transfers

Ohio Revised Code Section 5705.14 states that except in the case of transfer from the General Fund to any other fund of the subdivision, transfers may be made only by resolution of the taxing authority passed with the affirmative vote of two thirds of the members. Transfers from the General Fund require a resolution of the taxing authority passed with the affirmative vote of a majority of the members.

During our testing of transfers, we noted the City had numerous transactions which were classified as transfers that were not approved by Council and lacked sufficient evidence to determine if the transaction was properly classified as a transfer. See also finding number 2005-004. Due to this we are not able to determine the completeness, existence/occurrence, classification and rights and obligation of the transfers in and transfers out line items on the financial statements.

We recommend the City remove all transfers not approved by Council and the Council approve all transfers prior to the actual transfer occurring.

Official's Response:

The City concurs with this citation. The Finance Director will request the Auditors office to supply the City with a list of all unauthorized interfund transfers made in 2005. Appropriate transfers will be presented to City Council for retroactive approval. Inappropriate transfers will be presented to City Council for approval to reverse the transfers. In 2008, Council approval will be requested for any interfund transfer. A section will be added to future operating appropriation ordinances detailing all interfund transfers by fund.

FINDING NUMBER 2005-004

Material Weakness

Accounting Software

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

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

**CITY OF WILLOUGHBY HILLS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005
(Continued)**

FINDING NUMBER 2005-004 (Continued)

Accounting Software (Continued)

We noted the City, which uses accounting software produced by CMI, has not performed software updates which made it difficult to provide us with the appropriate reports. The City had difficulties accessing reports for 2005 because the previous finance director maintained various reports in the system that were not viewable by CMI and the location of these reports within the system was not passed on to the current staff. The City also did not create proper back-ups of financial information and maintain the back-ups off site.

Within an accounting software system all reports should be linked together so when information is entered into a report, that same information is carried over to all related reports. At the City, crucial reports are not linked. Currently, information must be entered properly in several different places. This did not occur during the audit period. We compared the ending fund balance between the combined year-to-date fund report and budget report. The fund balance between these two reports, which should always agree, did not agree at fiscal year end or during the year. Due to reports not being properly linked and therefore the fund balances not agreeing, we had difficulty in determining which fund balance was the proper fund balance to agree to the City's fiscal year end cash balance.

A computerized accounting software system should be used to aid in the integrity of the accounting records. We noted numerous entries in the system which did not appear to be normal accounting entries. These included:

- An extensive amount of negative revenue and negative expenditure transactions which affected all City funds.
- Memo receipt, expenditure, and transfer entries which moved monies illegally between funds without Council's approval. See also finding number 2005-003.

These entries did not have any support to determine their validity. However, we did note the entries balanced and were not one sided.

Additionally, we noted funds 251 and 291 were included in the City's ledgers and were comprised solely of the above types of entries. These funds were not approved by Council or the Auditor of State in the years they were established. They also did not appear on the budget reports mentioned above or reports given to Council and they were never included on the certificate of estimated resources or appropriated. At year end fund 291 had a negative fund balance of \$42,943.31 and fund 251 had a positive balance of \$1,046.22.

The above conditions resulted in our inability to determine the completeness, existence/occurrence, presentation and disclosure, rights and obligations of individual account balances or fund balances as of December 31, 2005.

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

Official's Response:

The City concurs with this citation. The City's financial software system has been updated by the vendor to its most current version.

**CITY OF WILLOUGHBY HILLS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005
(Continued)**

FINDING NUMBER 2005-005

Material Weakness

Cash Reconciliation

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

During our testing of cash we noted the following:

- A complete reconciliation, including all City bank accounts and investments was not performed during 2005. The main general checking account was the only account the City reconciled and this was not performed every month.
- The City was unable to provide us with complete and accurate outstanding check listings for the main general checking account, a dormant general checking account, or the payroll account for December 31, 2005.
- The City did not maintain support for adjustments made on the monthly bank reconciliation.
- At December 31, 2005, the reconciliation reported \$1,010 more than the fund balances reported in the financial statements.

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

Official's Response:

The City concurs with this citation and acknowledges the importance of completing cash reconciliations in a timely manner. The Finance Department staff is in the process of reviewing past reconciliations and bringing this function to a current status. Cash reconciliations are being completed by the Assistant Finance Director and reviewed by the Finance Director. A copy of the monthly reconciliation is included in the monthly budgetary reports being submitted to the Mayor and City Council for review.

FINDING NUMBER 2005-006

Reportable Condition

Timely Posting

Receipts should be posted to the accounting system in a timely manner as to reflect the financial position of the City at any given time. It has been the practice of the City to post receipts approximately once a month.

During our testing of intergovernmental receipts, we noted 35 out of 56 receipts tested were not posted within seven days of the receipts.

During our testing of Drug Enforcement Agency (DEA) forfeiture cases, we noted 2 out of 3 receipts tested were not posted within seven days of receipt.

We recommend the City post receipts daily to ensure the financial reports properly reflect the financial position of the City.

**CITY OF WILLOUGHBY HILLS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005
(Continued)**

FINDING NUMBER 2005-006

Timely Posting (Continued)

Official's Response:

The City concurs with this citation. The Finance Department staff is reviewing its procedures to ensure that all electronic fund transfers are recorded and posted once notification of the deposit has been received and verified. Over the counter receipts received by the Finance Department are deposited in the bank and posted to the City's financial system on a daily basis when possible. All departments are required to turn in their receipts to the Finance Department on a daily basis when possible.

**CITY OF WILLOUGHBY HILLS
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2004-001	Proper Encumbering – ORC 5705.41(D) – The City did not properly encumber all expenditures prior to receiving the goods or services	No	Repeated as Finding Number 2005-001.
2004-002	Cash Reconciliation – The City did not properly reconcile their bank accounts or maintain supporting documentation for the reconciliations during the year.	No	Repeated as Finding Number 2005-005.
2004-003	Accounting Software – The City did not properly maintain or utilize their ledgers.	No	Repeated as Finding Number 2005-004.



Mary Taylor, CPA
Auditor of State

CITY OF WILLOUGHBY HILLS

LAKE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 17, 2008**