



**CITY OF WILLOUGHBY HILLS
LAKE COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2007 and 2006



Mary Taylor, CPA
Auditor of State

**CITY OF WILLOUGHBY HILLS
LAKE COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the City Council:

We were engaged to audit the financial statements of the City of Willoughby Hills, Lake County, Ohio, (the City) as of and for the years ended December 31, 2007 and December 31, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management.

The City could not provide a complete and accurate cash receipts ledger for both FY2007 and FY2006. 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 for both FY2007 and FY2006. 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 did not reconcile all cash accounts as of December 31, 2007 and 2006.

As a result of paragraphs two through four, we could not determine the existence, occurrence, completeness, rights and obligations of individual funds' transactions or balances.

Since the City did not provide the evidence described in paragraphs two through four above, the scope of our auditing procedures was not sufficient to enable us to express, and we do not express an opinion on whether these financial statements are fairly presented in accordance with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 4, 2010, 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

June 4, 2010

City of Willoughby Hills, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2007
Unaudited

The discussion and analysis of the City of Willoughby Hills's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2007. 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 fourth publication of financial statements under the new GASB 34 reporting model.
- Total assets for the City exceeded liabilities by \$12,225,309 at December 31, 2007.
- Total assets increased by \$899,714 which represents an increase of 2.86 percent over 2006. The change was due mainly to an increase of \$401,719 in business-type activities capital assets and an increase of \$461,063 in governmental activities capital assets.
- Total net assets increased by \$1,011,801. This represents an increase of approximately 9.02 percent from \$11,213,508 in 2006 to \$12,225,309 in 2007
- Total capital assets increased \$862,782 or 3.37 percent from \$25,572,620 in 2006 to \$26,435,402 in 2007.
- Total long-term liabilities increased \$148,098 or .86 percent from \$17,230,287 in 2006 to \$17,378,385 in 2007.

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 2007?" 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 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.

City of Willoughby Hills, Ohio
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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-five 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, 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 2007 compared to 2006.

City of Willoughby Hills, Ohio
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For the Year Ended December 31, 2007
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Table 1
Net Assets

	Governmental Activities		Business-Type Activity		Total	
	2007	2006	2007	2006	2007	2006
Assets						
Current and Other Assets	\$5,169,631	\$5,284,336	\$707,611	\$555,974	\$5,877,242	\$5,840,310
Capital Assets, Net	10,116,023	9,654,960	16,319,379	15,917,660	26,435,402	25,572,620
Total Assets	15,285,654	14,939,296	17,026,990	16,473,634	32,312,644	31,412,930
Liabilities						
Current Liabilities	2,693,520	2,906,733	15,430	60,402	2,708,950	2,967,135
Long-Term Liabilities						
Due Within One Year	317,491	314,085	353,633	191,600	671,124	505,685
Due in More Than One Year	2,892,169	3,008,087	13,815,092	13,716,515	16,707,261	16,724,602
Total Liabilities	5,903,180	6,228,905	14,184,155	13,968,517	20,087,335	20,197,422
Net Assets						
Invested in Capital Assets, Net of Related Debt	7,557,277	6,880,971	2,150,654	2,009,545	9,707,931	8,890,516
Restricted for:						
Capital Projects	720,338	634,162	0	0	720,338	634,162
Debt Service	118,155	9,631	0	0	118,155	9,631
Law Enforcement	74,911	72,451	0	0	74,911	72,451
Street Construction, Maintenance and Repairs	0	71,729	0	0	0	71,729
Drug Enforcement	293,640	331,080	0	0	293,640	331,080
Other Purposes	214,310	165,584	0	0	214,310	165,584
Unrestricted	403,843	542,783	692,181	495,572	1,096,024	1,038,355
Total Net Assets	\$9,382,474	\$8,708,391	\$2,842,835	\$2,505,117	\$12,225,309	\$11,213,508

For the City of Willoughby Hills, total assets exceeded total liabilities by \$12,225,309 at the close of 2007. Of the total net assets, capital assets, net of related debt make up \$9,707,931 or 79.41 percent of net assets. Total net assets of the City increased from \$11,213,508 in 2006 to \$12,225,309 in 2007. This represents an increase of \$1,011,801 from 2006. The major component of the City's assets is capital assets, which account for \$26,435,402 of the City's \$32,312,644 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 Euclid sewer, Woodlands sewers and sewer laterals sanitary sewer projects.

Governmental activities net assets increased by \$674,083 during 2007 and business-type activity net assets increased \$337,718. 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. Total revenues increased \$311,152 due to increases in charges for services, property and municipal income taxes. Property and municipal income taxes increased due to increases in the number of residents and new housing developments. Expenses for governmental activities decreased by \$406,528 from 2006 levels. Decreases in road maintenance projects resulted in decreased transportation expenses. Regular fire expenses decreased in 2007 due to a large part of the fire department's budget being used to purchase capital assets instead of regular expenses.

City of Willoughby Hills, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2007
Unaudited

Table 2

Change in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues						
Program Revenues						
Charges for Services	\$1,457,978	\$1,134,533	\$1,102,212	\$1,254,895	\$2,560,190	\$2,389,428
Operating Grants, Contributions and Assessments	995,754	915,168	0	0	995,754	915,168
Capital Grants	284,175	447,507	476,859	249,999	761,034	697,506
Total Program Revenues	2,737,907	2,497,208	1,579,071	1,504,894	4,316,978	4,002,102
General Revenues						
Property Taxes	2,114,199	1,962,105	0	0	2,114,199	1,962,105
Other Taxes	0	93,948	0	0	0	93,948
Income Taxes	3,330,741	3,228,961	0	0	3,330,741	3,228,961
Grants and Entitlements	933,051	810,690	0	0	933,051	810,690
Gain on Sale of Capital Assets	0	1,425	0	0	0	1,425
Investment Earnings	39,674	50,339	0	94	39,674	50,433
Other	154,532	428,359	0	0	154,532	428,359
Total General Revenues	6,572,197	6,575,827	0	94	6,572,197	6,575,921
<i>Total Revenues</i>	<i>9,310,104</i>	<i>9,073,035</i>	<i>1,579,071</i>	<i>1,504,988</i>	<i>10,889,175</i>	<i>10,578,023</i>
Program Expenses						
General Government	1,612,397	1,708,275	0	0	1,612,397	1,708,275
Security of Persons and Property:						
Police	2,826,992	2,805,734	0	0	2,826,992	2,805,734
Fire	1,877,229	2,040,511	0	0	1,877,229	2,040,511
Leisure Time Activities	218,311	244,123	0	0	218,311	244,123
Community Environment	143,411	143,932	0	0	143,411	143,932
Transportation	1,824,311	1,913,826	0	0	1,824,311	1,913,826
Interest and Fiscal Charges	132,677	185,455	0	0	132,677	185,455
Sewer	0	0	1,242,046	614,417	1,242,046	614,417
Total Program Expenses	8,635,328	9,041,856	1,242,046	614,417	9,877,374	9,656,273
Transfers	(693)	0	693	0	0	0
Increase in Net Assets	674,083	31,179	337,718	890,571	1,011,801	921,750
Net Assets Beginning of Year	8,708,391	8,677,212	2,505,117	1,614,546	11,213,508	10,291,758
Net Assets End of Year	\$9,382,474	\$8,708,391	\$2,842,835	\$2,505,117	\$12,225,309	\$11,213,508

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For the Year Ended December 31, 2007
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Governmental Activities

Several sources fund our governmental activities with the municipal income tax being the largest component. The City has a current municipal income tax rate of 1.5 percent. This is the lowest rate of any city 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 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 one hundred 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 began 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.

The largest expense is the police and fire departments. In 2007, the police department had total expenses of \$2,826,992 and the fire department had total expenses of \$1,877,229. Expenses in the police department increased by \$21,258 from 2006 levels, while expenses in the fire department decreased by \$163,282 from 2006 levels. The rise in the police department 2007 expenses was caused by an overall increase in compensation levels due to the implementation of collective bargaining agreements. 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'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. The main reason for the decrease in the fire department 2007 regular expenses was the purchase of a new EMS vehicle and various other pieces of protective fire equipment that were capitalized instead of expensed.

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 made major road repairs in 2006 so fewer road repairs were necessary in 2007.

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

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was the Euclid Creek Interceptor Project, which was completed in 2005. The next scheduled project was the Euclid Sewer project. In 2005, the City began construction on this next phase of the Euclid Creek Interceptor Project. There is \$10,242,065 in construction in progress reflective of this project. The project is financed through Ohio Public Works Commission (OPWC) grants and low or no interest OWDA and OPWC loans. In 2006, the City began construction on the Woodlands Sewers project. This project is also funded through OWDA loans. In 2007, the City began construction on the Sewer Laterals project which was also funded through OWDA loans. As of December 31, 2007, the Euclid Sewer, Woodlands Sewers and Sewer Laterals projects were not completed.

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 2007 the City of Willoughby Hills reported combined governmental fund balances of \$805,875. Of this amount, \$266,068 constitutes unreserved balances, which are available for spending. The remaining \$539,807 is reserved to indicate that it is not available for spending due to contractual commitments and advances of the prior period.

Governmental funds had total revenues of \$9,068,710 and expenditures of \$9,216,677 leaving a difference of expenditures over revenues of \$147,967. 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 2007, had a balance of \$121,323, which is a decrease of \$148,119 from 2006.

The City's other major funds in 2007 were the fire levy, road levy and street construction, maintenance and repair special revenue funds. The fire levy, road levy and street construction, maintenance and repair funds had negative beginning balances. Expenditures outpaced revenues in the road levy and street construction, maintenance and repair funds. The revenues exceeded expenditures by \$82,325 in the fire levy fund but the excess was not enough to overtake the negative beginning balance of \$200,494 and the fund ended the year with a negative balance of \$118,169. The road levy and street construction, maintenance and repair funds ended the year with negative cash balances. Management is reviewing the situation to determine the best action.

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 2007, 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.

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The original and final 2007 general fund revenues were budgeted at \$5,870,222, with actual revenues of \$6,057,884, which is a variance of \$187,662. Original appropriations in the general fund were budgeted at \$5,815,217, and final appropriations were \$5,846,954, with actual expenditures coming in at \$5,908,649 which is a negative variance of \$61,695.

The difference between the general fund's final amended budget and actual are due to an increase in fines and forfeitures collected in 2007.

Capital Assets and Debt Administration

Capital Assets: Table 3 shows 2007 balances of capital assets as compared to 2006.

(Table 3)
 Capital Assets at December 31
 (Net of Accumulated Depreciation)

	Governmental Activities		Business-Type Activity		Total	
	2007	2006	2007	2006	2007	2006
Land	\$34,400	\$34,400	\$268,613	\$268,613	\$303,013	\$303,013
Construction in Progress	350,993	0	10,242,065	9,789,855	10,593,058	9,789,855
Land Improvements	554,579	345,140	0	0	554,579	345,140
Buildings and Improvements	5,610,494	5,759,648	0	0	5,610,494	5,759,648
Machinery and Equipment	2,054,740	2,006,745	90,618	80,150	2,145,358	2,086,895
Infrastructure	1,510,817	1,509,027	19,104	0	1,529,921	1,509,027
Sewer Improvements	0	0	5,698,979	5,779,042	5,698,979	5,779,042
Total Capital Assets	\$10,116,023	\$9,654,960	\$16,319,379	\$15,917,660	\$26,435,402	\$25,572,620

Total capital assets for the City of Willoughby Hills were \$26,435,402, an increase of \$862,782 from 2006. Capital assets for governmental activities increased \$461,063. This increase is attributed to additions of \$999,234 for road projects were offset by \$529,729 in annual depreciation expenses. Capital assets for business-type activities were \$16,319,379, an increase of \$401,719 from 2006. The increase is attributed to work on the Euclid Sewer, Woodlands Sewers and Sewer Laterals projects. Additional information concerning the City's capital assets can be found in Note 11 to the basic financial statements.

Debt

At December 31, 2007, the City of Willoughby Hills had governmental obligations of \$3,209,660 in bonds and compensated absences. At December 31, 2007, the City had \$14,168,725 outstanding in long-term business-type obligations which include OPWC and OWDA loans. Table 4 summarizes the City's long-term obligations outstanding.

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

	Governmental Activities		Business-Type Activity		Total	
	2007	2006	2007	2006	2007	2006
General Obligation Bonds	\$2,588,652	\$2,808,294	\$0	\$0	\$2,588,652	\$2,808,294
Special Assessment Bond	104,148	121,506	0	0	104,148	121,506
OPWC Loans	0	0	705,275	736,500	705,275	736,500
OWDA Loans	0	0	13,463,450	13,171,615	13,463,450	13,171,615
Compensated Absences	516,860	394,372	0	0	516,860	394,372
Total	\$3,209,660	\$3,324,172	\$14,168,725	\$13,908,115	\$17,378,385	\$17,232,287

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

The special assessment bonds outstanding are for sanitary sewer improvements. The principal and interest for these bonds are retired with assessments levied against property owners of the City based on the benefit to the respective parties. Assessments are collected by the Lake County Auditor and will be received over the next six years.

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 finance@willoughbyhills-oh.gov.

Basic Financial Statements

City of Willoughby Hills, Ohio

Statement of Net Assets

December 31, 2007

	<u>Governmental Activities</u>	<u>Business-Type Activity</u>	<u>Total</u>
Assets			
Equity in Pooled Cash and Cash Equivalents	\$808,688	\$707,471	\$1,516,159
Materials and Supplies Inventory	78,929	0	78,929
Accrued Interest Receivable	2,887	0	2,887
Accounts Receivable	13,443	140	13,583
Intergovernmental Receivable	840,095	0	840,095
Prepaid Items	39,970	0	39,970
Special Assessments Receivable	111,148	0	111,148
Income Taxes Receivable	1,036,259	0	1,036,259
Property Taxes Receivable	2,224,158	0	2,224,158
Deferred Charges	14,054	0	14,054
Nondepreciable Capital Assets	385,393	10,510,678	10,896,071
Depreciable Capital Assets, Net	9,730,630	5,808,701	15,539,331
<i>Total Assets</i>	<u>15,285,654</u>	<u>17,026,990</u>	<u>32,312,644</u>
Liabilities			
Accounts Payable	86,594	3,938	90,532
Accrued Wages	168,567	0	168,567
Intergovernmental Payable	294,268	77	294,345
Accrued Interest Payable	37,645	11,415	49,060
Deferred Revenue	2,106,446	0	2,106,446
Long-Term Liabilities:			
Due Within One Year	317,491	353,633	671,124
Due In More Than One Year	2,892,169	13,815,092	16,707,261
<i>Total Liabilities</i>	<u>5,903,180</u>	<u>14,184,155</u>	<u>20,087,335</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	7,557,277	2,150,654	9,707,931
Restricted for:			
Capital Projects	720,338	0	720,338
Debt Service	118,155	0	118,155
Law Enforcement	74,911	0	74,911
Drug Enforcement	293,640	0	293,640
Other Purposes	214,310	0	214,310
Unrestricted	403,843	692,181	1,096,024
<i>Total Net Assets</i>	<u>\$9,382,474</u>	<u>\$2,842,835</u>	<u>\$12,225,309</u>

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Statement of Activities
For the Year Ended December 31, 2007

	Program Revenues			
	Expenses	Charges for Services	Operating Grants Contributions and Assessments	
Governmental Activities:				
General Government	\$1,612,397	\$278,955	\$120,880	\$284,175
Security of Persons and Property:				
Police	2,826,992	472,915	81,810	0
Fire	1,877,229	512,158	129,542	0
Leisure Time Activities	218,311	168,629	2,120	0
Community Environment	143,411	25,321	0	0
Transportation	1,824,311	0	661,402	0
Interest and Fiscal Charges	132,677	0	0	0
<i>Total Governmental Activities</i>	8,635,328	1,457,978	995,754	284,175
Business-Type Activity:				
Sewer	1,242,046	1,102,212	0	476,859
<i>Total</i>	\$9,877,374	\$2,560,190	\$995,754	\$761,034

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

Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets Beginning of Year

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
(\$928,387)	\$0	(\$928,387)
(2,272,267)	0	(2,272,267)
(1,235,529)	0	(1,235,529)
(47,562)	0	(47,562)
(118,090)	0	(118,090)
(1,162,909)	0	(1,162,909)
(132,677)	0	(132,677)
(5,897,421)	0	(5,897,421)
<u>0</u>	<u>337,025</u>	<u>337,025</u>
(5,897,421)	337,025	(5,560,396)
667,203	0	667,203
136,479	0	136,479
88,099	0	88,099
528,594	0	528,594
693,824	0	693,824
3,330,741	0	3,330,741
933,051	0	933,051
39,674	0	39,674
154,532	0	154,532
6,572,197	0	6,572,197
(693)	693	0
<u>6,571,504</u>	<u>693</u>	<u>6,572,197</u>
674,083	337,718	1,011,801
8,708,391	2,505,117	11,213,508
<u>\$9,382,474</u>	<u>\$2,842,835</u>	<u>\$12,225,309</u>

City of Willoughby Hills, Ohio

Balance Sheet

Governmental Funds

December 31, 2007

	General	Fire Levy	Road Levy	Street Construction, Maintenance and Repair	Other Governmental Funds	Total Governmental Funds
Assets						
Equity in Pooled Cash and Cash Equivalents	\$6,519	\$59,640	\$0	\$0	\$742,529	\$808,688
Materials and Supplies Inventory	10,880	0	0	68,049	0	78,929
Accrued Interest Receivable	2,887	0	0	0	0	2,887
Accounts Receivable	13,173	0	0	0	270	13,443
Interfund Receivable	112,477	0	0	0	516,162	628,639
Intergovernmental Receivable	484,379	23,843	30,982	246,202	54,689	840,095
Prepaid Items	39,970	0	0	0	0	39,970
Special Assessments Receivable	0	0	0	0	111,148	111,148
Municipal Income Tax Receivable	1,036,259	0	0	0	0	1,036,259
Property Tax Receivable	694,295	558,721	734,236	0	236,906	2,224,158
<i>Total Assets</i>	<u>\$2,400,839</u>	<u>\$642,204</u>	<u>\$765,218</u>	<u>\$314,251</u>	<u>\$1,661,704</u>	<u>\$5,784,216</u>
Liabilities						
Accounts Payable	\$54,567	\$0	\$31,018	\$0	\$1,009	\$86,594
Accrued Wages	126,065	21,671	0	20,831	0	168,567
Intergovernmental Payable	212,548	36,155	529	43,875	1,161	294,268
Interfund Payable	45,000	119,983	112,477	173,661	177,518	628,639
Deferred Revenue	1,841,336	582,564	765,218	214,130	397,025	3,800,273
<i>Total Liabilities</i>	<u>2,279,516</u>	<u>760,373</u>	<u>909,242</u>	<u>452,497</u>	<u>576,713</u>	<u>4,978,341</u>
Fund Balances						
Reserved for Encumbrances	61,440	1,295	57,523	8,506	29,456	158,220
Reserved for Long-Term Advances	0	0	0	0	381,587	381,587
Unreserved						
Undesignated (Deficit), Reported in:						
General Fund	59,883	0	0	0	0	59,883
Special Revenue Funds	0	(119,464)	(201,547)	(146,752)	462,863	(4,900)
Debt Service Funds	0	0	0	0	(127,568)	(127,568)
Capital Projects Funds	0	0	0	0	338,653	338,653
<i>Total Fund Balances (Deficit)</i>	<u>121,323</u>	<u>(118,169)</u>	<u>(144,024)</u>	<u>(138,246)</u>	<u>1,084,991</u>	<u>805,875</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$2,400,839</u>	<u>\$642,204</u>	<u>\$765,218</u>	<u>\$314,251</u>	<u>\$1,661,704</u>	<u>\$5,784,216</u>

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 December 31, 2007*

Total Governmental Funds Balances	\$805,875
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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.	10,116,023
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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	707,865
Special Assessments	111,148
Income Taxes	757,102
Property and Other Taxes	117,712
Total	1,693,827

In the statement of activities, interest is accrued on outstanding liabilities, whereas in governmental funds, an interest expenditure is reported when due.	(37,645)
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Bond issuance costs will be amortized over the life of the bonds on the statement of net assets.	14,054
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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	(2,588,652)
Special Assessment Bonds	(104,148)
Compensated Absences	(516,860)
Total	(3,209,660)

<i>Net Assets of Governmental Activities</i>	\$9,382,474
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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, 2007

	General	Fire Levy	Road Levy	Street Construction, Maintenance and Repair	Other Governmental Funds	Total Governmental Funds
Revenues						
Property Taxes	\$654,468	\$518,314	\$681,177	\$0	\$220,181	\$2,074,140
Municipal Income Taxes	3,094,401	0	0	0	0	3,094,401
Special Assessments	0	0	0	0	17,358	17,358
Intergovernmental	991,673	127,150	171,129	403,339	534,411	2,227,702
Charges for Services	13,069	135,313	0	0	172,296	320,678
Fees, Licenses and Permits	158,144	0	0	0	49,000	207,144
Fines and Forfeitures	773,663	0	0	0	0	773,663
Rentals	68,665	0	0	0	87,828	156,493
Contributions and Donations	805	0	0	0	2,120	2,925
Interest	39,674	0	0	0	0	39,674
Other	116,708	0	1,579	2,800	33,445	154,532
<i>Total Revenues</i>	<u>5,911,270</u>	<u>780,777</u>	<u>853,885</u>	<u>406,139</u>	<u>1,116,639</u>	<u>9,068,710</u>
Expenditures						
Current:						
General Government	1,287,890	0	0	0	104,031	1,391,921
Security of Persons and Property						
Police	2,469,770	0	0	0	190,243	2,660,013
Fire	1,058,133	698,452	0	0	0	1,756,585
Leisure Time Activities	126,341	0	0	0	88,751	215,092
Community Environment	143,411	0	0	0	0	143,411
Transportation	0	0	917,687	724,442	37,247	1,679,376
Capital Outlay	558,993	0	0	155,602	284,639	999,234
Debt Service:						
Principal Retirement	0	0	0	0	237,000	237,000
Interest and Fiscal Charges	0	0	0	0	134,045	134,045
<i>Total Expenditures</i>	<u>5,644,538</u>	<u>698,452</u>	<u>917,687</u>	<u>880,044</u>	<u>1,075,956</u>	<u>9,216,677</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>266,732</u>	<u>82,325</u>	<u>(63,802)</u>	<u>(473,905)</u>	<u>40,683</u>	<u>(147,967)</u>
Other Financing Sources (Uses)						
Sale of Capital Assets	4,406	0	0	0	0	4,406
Transfers In	0	0	0	400,000	18,564	418,564
Transfers Out	(419,257)	0	0	0	0	(419,257)
<i>Total Other Financing Sources (Uses)</i>	<u>(414,851)</u>	<u>0</u>	<u>0</u>	<u>400,000</u>	<u>18,564</u>	<u>3,713</u>
<i>Net Change in Fund Balances</i>	<u>(148,119)</u>	<u>82,325</u>	<u>(63,802)</u>	<u>(73,905)</u>	<u>59,247</u>	<u>(144,254)</u>
<i>Fund Balances (Deficit) Beginning of Year</i>	<u>269,442</u>	<u>(200,494)</u>	<u>(80,222)</u>	<u>(64,341)</u>	<u>1,025,744</u>	<u>950,129</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>\$121,323</u>	<u>(\$118,169)</u>	<u>(\$144,024)</u>	<u>(\$138,246)</u>	<u>\$1,084,991</u>	<u>\$805,875</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, 2007*

Net Change in Fund Balances - Total Governmental Funds (\$144,254)

*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
depreciation exceeded capital outlay in the current period.

Capital Outlay	999,234	
Depreciation	(529,729)	
Total		469,505

Governmental funds only report the disposal of capital assets
to the extent proceeds are received from the sale. In the
statement of activities, a gain or loss is reported for each
disposal. (8,442)

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

Property Taxes	40,059	
Income Taxes	236,340	
Special Assessments	(17,358)	
Intergovernmental	(17,647)	
Total		241,394

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. 237,000

In the statement of activities, interest is accrued on outstanding
bonds, whereas in governmental funds, an interest expenditure
is reported when due. 1,368

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	(122,488)
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Change in Net Assets of Governmental Activities \$674,083

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, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$683,310	\$683,310	\$656,628	(\$26,682)
Municipal Income Taxes	3,260,000	3,260,000	3,208,930	(51,070)
Intergovernmental	995,334	995,334	1,023,561	28,227
Fees, Licenses and Permits	199,618	199,618	159,590	(40,028)
Fines and Forfeitures	576,800	576,800	773,663	196,863
Rentals	73,600	73,600	67,188	(6,412)
Contributions and Donations	1,960	1,960	805	(1,155)
Interest	43,900	43,900	43,561	(339)
Other	35,700	35,700	123,958	88,258
<i>Total Revenues</i>	5,870,222	5,870,222	6,057,884	187,662
Expenditures				
Current:				
General Government	1,475,859	1,481,359	1,205,123	276,236
Security of Persons and Property:				
Police	2,466,070	2,473,070	2,676,170	(203,100)
Fire	989,822	1,006,059	1,174,478	(168,419)
Leisure Time Activities	151,022	151,022	138,040	12,982
Community Environment	173,451	176,451	155,745	20,706
Basic Utility Services	0	0	100	(100)
Capital Outlay	558,993	558,993	558,993	0
<i>Total Expenditures</i>	5,815,217	5,846,954	5,908,649	(61,695)
<i>Excess of Revenues Over Expenditures</i>	55,005	23,268	149,235	125,967
Other Financing Sources (Uses)				
Sale of Capital Assets	0	0	4,406	4,406
Transfers Out	(419,257)	(419,257)	(419,257)	0
<i>Total Other Financing Sources (Uses)</i>	(419,257)	(419,257)	(414,851)	4,406
<i>Net Change in Fund Balance</i>	(364,252)	(395,989)	(265,616)	130,373
<i>Fund Balance Beginning of Year</i>	315,833	315,833	315,833	0
Prior Year Encumbrances Appropriated	188,566	188,566	188,566	0
<i>Fund Balance End of Year</i>	\$140,147	\$108,410	\$238,783	\$130,373

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, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$551,179	\$551,179	\$518,314	(\$32,865)
Intergovernmental	118,521	118,521	127,150	8,629
Charges for Services	37,250	37,250	135,313	98,063
<i>Total Revenues</i>	706,950	706,950	780,777	73,827
Expenditures				
Current:				
Security of Persons and Property:				
Fire	657,181	742,681	758,998	(16,317)
<i>Net Change in Fund Balance</i>	49,769	(35,731)	21,779	57,510
<i>Fund Balance Beginning of Year</i>	36,637	36,637	36,637	0
Prior Year Encumbrances Appropriated	8,000	8,000	8,000	0
<i>Fund Balance End of Year</i>	<u>\$94,406</u>	<u>\$8,906</u>	<u>\$66,416</u>	<u>\$57,510</u>

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Road Levy Fund
For the Year Ended December 31, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$723,959	\$723,959	\$681,177	(\$42,782)
Intergovernmental	162,595	162,595	171,129	8,534
Other	0	0	1,579	1,579
<i>Total Revenues</i>	886,554	886,554	853,885	(32,669)
Expenditures				
Current:				
Transportation	1,093,297	1,093,297	971,848	121,449
<i>Net Change in Fund Balance</i>	(206,743)	(206,743)	(117,963)	88,780
<i>Fund Balance Beginning of Year</i>	112,743	112,743	112,743	0
Prior Year Encumbrances Appropriated	68,670	68,670	68,670	0
<i>Fund Balance (Deficit) End of Year</i>	<u>(\$25,330)</u>	<u>(\$25,330)</u>	<u>\$63,450</u>	<u>\$88,780</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, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$401,450	\$401,450	\$402,689	\$1,239
Other	0	0	2,800	2,800
<i>Total Revenues</i>	401,450	401,450	405,489	4,039
Expenditures				
Current:				
Transportation	890,540	910,142	837,039	73,103
Capital Outlay	157,781	158,179	155,602	2,577
<i>Total Expenditures</i>	1,048,321	1,068,321	992,641	75,680
<i>Excess of Revenues</i> <i>Under Expenditures</i>	(646,871)	(666,871)	(587,152)	79,719
Other Financing Sources				
Transfers In	630,000	630,000	400,000	(230,000)
<i>Net Change in Fund Balance</i>	(16,871)	(36,871)	(187,152)	(150,281)
<i>Fund Balance Beginning of Year</i>	18,043	18,043	18,043	0
Prior Year Encumbrances Appropriated	22,715	22,715	22,715	0
<i>Fund Balance (Deficit) End of Year</i>	<u>\$23,887</u>	<u>\$3,887</u>	<u>(\$146,394)</u>	<u>(\$150,281)</u>

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio

Statement of Fund Net Assets

Enterprise Fund

December 31, 2007

	<u>Sewer</u>
Assets	
<i>Current Assets</i>	
Equity in Pooled Cash and Cash Equivalents	\$707,471
Accounts Receivable	140
	<hr/>
<i>Total Current Assets</i>	707,611
	<hr/>
<i>Noncurrent Assets</i>	
Nondepreciable Capital Assets	10,510,678
Depreciable Capital Assets, Net	5,808,701
	<hr/>
<i>Total Noncurrent Assets</i>	16,319,379
	<hr/>
<i>Total Assets</i>	17,026,990
	<hr/>
Liabilities	
<i>Current Liabilities</i>	
Accounts Payable	3,938
Intergovernmental Payable	77
Accrued Interest Payable	11,415
OPWC Loans Payable	37,450
OWDA Loans Payable	316,183
	<hr/>
<i>Total Current Liabilities</i>	369,063
	<hr/>
<i>Long-Term Liabilities</i>	
OWDA Loans Payable	13,147,267
OPWC Loans Payable	667,825
	<hr/>
<i>Total Long-Term Liabilities</i>	13,815,092
	<hr/>
<i>Total Liabilities</i>	14,184,155
	<hr/>
Net Assets	
Invested in Capital Assets, Net of Related Debt	2,150,654
Unrestricted	692,181
	<hr/>
<i>Total Net Assets</i>	\$2,842,835
	<hr/> <hr/>

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, 2007*

	Sewer
Operating Revenue	
Charges for Services	\$1,102,212
Operating Expenses	
Personal Services	59,198
Materials and Supplies	76,838
Contractual Services	574,351
Fringe Benefits	6,602
Depreciation	89,923
Other	316,043
<i>Total Operating Expenses</i>	1,122,955
<i>Operating Loss</i>	(20,743)
Non-Operating Revenue (Expense)	
Special Assessments	476,859
Interest and Fiscal Charges	(119,091)
<i>Total Non-Operating Revenue (Expense)</i>	357,768
<i>Income before Transfers</i>	337,025
Transfers In	693
<i>Change in Net Assets</i>	337,718
<i>Net Assets Beginning of Year</i>	2,505,117
<i>Net Assets End of Year</i>	\$2,842,835

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, 2007

	Sewer
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Customers	\$1,145,604
Cash Payments to Suppliers for Materials and Supplies	(77,015)
Cash Payments for Employee Services and Benefits	(65,858)
Cash Payments for Contractual Services	(658,776)
Other Cash Payments	(315,731)
	28,224
<i>Net Cash Provided by Operating Activities</i>	<i>28,224</i>
Cash Flows from Noncapital Financing Activities	
Transfers In	693
	693
Cash Flows from Capital and Related Financing Activities	
Acquisition of Capital Assets	(491,642)
Proceeds from Special Assessments	476,859
Proceeds from OWDA Loans	452,210
Principal Paid on OWDA Loans	(160,375)
Principal Paid on OPWC Loans	(31,225)
Interest Paid on OWDA Loans	(117,576)
	(117,576)
<i>Net Cash Provided by Capital and Related Financing Activities</i>	<i>128,251</i>
<i>Net Increase in Cash and Cash Equivalents</i>	<i>157,168</i>
<i>Cash and Cash Equivalents Beginning of Year</i>	<i>550,303</i>
<i>Cash and Cash Equivalents End of Year</i>	<i>\$707,471</i>
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities	
Operating Loss	(\$20,743)
Adjustments:	
Depreciation	89,923
Decrease in Accounts Receivable	5,531
Decrease in Liabilities:	
Accounts Payable	(39,906)
Intergovernmental Payable	(6,581)
	48,967
<i>Total Adjustments</i>	<i>48,967</i>
<i>Net Cash Provided by Operating Activities</i>	<i>\$28,224</i>

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Fund
December 31, 2007

Assets

Equity in Pooled Cash and Cash Equivalents	<u><u>\$199,188</u></u>
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Liabilities

Deposits Held and Due to Others	<u><u>\$199,188</u></u>
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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, 2007

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, 2007

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 firemen.

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, 2007

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.

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

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

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

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

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

C. Measurement Focus

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

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

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

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

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, 2007, but which were levied to finance 2008 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

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".

During 2007, 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, 2007.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2007 amounted to \$39,674, which includes \$39,523 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, 2007, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount at the time of purchase and reflecting the expenditure/expense in the year in which the services are consumed.

G. Inventory

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

H. Capital Assets

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in the governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the enterprise fund are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

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	Estimated Lives
Land Improvements	20 - 50 years
Buildings and Improvements	20 - 50 years
Machinery and Equipment	10 - 20 years
Infrastructure	20 - 50 years

The City's infrastructure consists of roads, sidewalks, sanitary sewers, storm sewers and traffic signals and includes infrastructure acquired prior to December 31, 1980.

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 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.

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.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

The City records a liability for accumulated unused sick leave for employees after five years of service with the City.

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 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 interfund 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 \$1,421,354 of restricted net assets, none of which is restricted by enabling legislation. Net assets restricted for other purposes include resources for court improvements, recreation, police pensions and federal grants.

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.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

P. Interfund Activity

Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the statement of activities. Payments for interfund services provided and used are not eliminated.

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

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, 2007

Note 3 – Changes in Accounting Principles

For 2007, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 45, “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions”, GASB Statement No. 48, “Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues”, and GASB Statement No. 50, “Pension Disclosures”.

GASB Statement No. 45 improves the relevance and usefulness of financial reporting by requiring systematic, accrual-basis measurement and recognition of OPEB costs over a period that approximates employees’ years of service and providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan. An OPEB liability at transition was determined in accordance with this Statement for both the OPERS and the OP&F post-employment healthcare plans in the amount of \$2,587, \$3,655 for police and \$2,308 for fire, respectively, which are the same as the previously reported liabilities.

GASB Statement No. 48 addresses how to account for the exchange of an interest in expected cash flows from collecting specific receivables or specific future revenues for immediate cash payments. The statement established criteria used to determine whether the transaction should be recorded as revenue or as a liability (a sale or a collateralized borrowing). The implementation of this statement did not result in any change to the financial statements.

GASB Statement No. 50 requires employers contributing to defined benefit pension plans to include the legal or contractual maximum contribution rates in the notes to the financial statements. The implementation of this statement did not result in any change to the financial statements.

Note 4 - Budgetary Basis of Accounting

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

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
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.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

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	(\$148,119)	\$82,325	(\$63,802)	(\$73,905)
Net Adjustment for				
Revenue Accruals	146,614	0	0	(650)
Ending Unrecorded Cash	(302,873)	(8,071)	(147,760)	137,889
Net Adjustment for				
Expenditure Accruals	109,371	(51,180)	177,909	(241,981)
Encumbrances	(70,609)	(1,295)	(84,310)	(8,505)
Budget Basis	<u>(\$265,616)</u>	<u>\$21,779</u>	<u>(\$117,963)</u>	<u>(\$187,152)</u>

Note 5 – Accountability and Compliance

A. Accountability

Fund Balance at December 31, 2007, included the following individual fund deficits:

Fund	Amount
<i>Major Special Revenue Funds:</i>	
Fire Levy	\$118,169
Road Levy	144,024
Street Construction, Maintenance and Repair	138,246
 <i>Non-Major Special Revenue Fund:</i>	
BRF	42,943
 <i>Debt Service Fund:</i>	
General Obligation Bond Retirement	134,575

The fire levy, road levy, street construction, maintenance, and repair and BRF special revenue funds had fund deficits due to adjustments for accrued 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.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

B. Legal Compliance

Contrary to Ohio Revised Code Section 5705.10, the City had negative cash balances in the following funds indicating that revenues from other sources were used to pay obligations of these funds:

Fund	Amount
<i>Special Revenue Fund:</i>	
Road Levy Fund	\$28,046
Street Construction, Maintenance and Repair Fund	137,889

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

	Appropriations	Expenditures Plus Encumbrances	Excess
<i>General Fund</i>			
Courts			
Personal Services	\$40,840	\$48,061	\$7,221
Security of Persons and Property			
Police Department			
Fringe Benefits	427,690	559,484	131,794
Contractual Services	64,750	76,150	11,400
Fire Department			
Personal Services	642,470	663,703	21,233
Fringe Benefits	270,796	406,698	135,902
Other	130,912	142,196	11,284
Dispatching			
Fringe Benefits	112,548	135,069	22,521
Service Department			
Fringe Benefits	0	100	100
Leisure Time Activity			
Recreation Department			
Fringe Benefits	6,555	9,096	2,541
<i>Special Revenue Fund</i>			
Fire Levy	\$742,681	\$758,998	\$16,317
Law Enforcement Trust	89,015	89,316	301

The law enforcement trust special revenue fund had total original appropriations in excess of estimated resources plus carryover balances of \$16,333 and the road levy special revenue fund had total original and final appropriations in excess of estimated resources plus carryover balances of \$25,330 contrary to Section 5705.39, Revised Code.

Although these budgetary violations were not corrected by fiscal year end, management has indicated that appropriations will be closely monitored to prevent future violations.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

Note 6 - Deposits and Investments

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

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, Notes 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

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

6. The State Treasurer's investment pool (STAROhio).
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty day from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

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

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

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

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, \$741,278 of the City's bank balance of \$1,058,969 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, 2007, the City had the following investments:

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

	Fair Value	Maturity
Repurchase Agreements		
Federal Home Loan Mortgage Bonds	\$448,466	Daily
STAROhio	456,873	41 days average
Total	\$905,339	

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 AAA by Standard and Poor's. STAROhio carries a rating of AAA by Standard and Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The City has no policy that addresses credit risk.

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, 2007:

	Investment	Investment
Repurchase Agreements		
Federal Home Loan Mortgage Bonds		49.54%
STAROhio		50.46%

Note 7 - Receivables

Receivables at December 31, 2007, consisted primarily of municipal income taxes, property 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. All receivables except property taxes and special assessments are expected to be received within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

Special assessments expected to be collected in more than one year amount to \$111,148 in the special assessment bond retirement fund. At December 31, 2007, the amount of delinquent special assessments was \$6,920.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

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 2007 for real and public property taxes represents collections of 2006 taxes. Property tax payments received during 2007 for tangible personal property (other than public utility property) are for 2007 taxes.

2007 real property taxes are levied after October 1, 2007, on the assessed value as of January 1, 2007, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2007 real property taxes are collected in and intended to finance 2008.

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.

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. 2007 public utility property taxes which became a lien December 31, 2006, are levied after October 1, 2007, and are collected in 2008 with real property taxes.

2007 tangible personal property taxes are levied after October 1, 2006, on the values as of December 31, 2006. Collections are made in 2007. Tangible personal property assessments are being phased out – the assessment percentage for all property including inventory for 2007 is 12.5 percent. This will be reduced to 6.25 percent for 2008 and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

The full tax rate for all City operations for the year ended December 31, 2007, was \$7.30 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2006 property tax receipts were based are as follows:

<u>Category</u>	<u>Assessed Value</u>
Real Estate	\$294,860,270
Tangible Personal	6,400,575
Public Utility	<u>4,949,400</u>
Total	<u><u>\$306,210,245</u></u>

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 represents real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2007 and for which there is an enforceable legal claim. In the general fund, the police pension, fire levy and road levy special revenue funds, and general obligation bond retirement debt service fund, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2007 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, delinquent property taxes have been recorded as revenue while the remainder of the receivable is deferred.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

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 2007, the proceeds were allocated one hundred percent to the general fund.

C. Intergovernmental Receivable

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
Local Government	\$417,664
Gasoline Tax	196,516
Homestead and Rollback	94,564
Estate Tax	29,760
Motor Vehicle License Tax	37,591
Permissive Motor Vehicle Tax	37,023
Municipal Cents Per Gallon Tax	19,561
Willoughby Municipal Court	1,250
Willoughby Public Library	<u>6,166</u>
Total	<u><u>\$840,095</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, 2007.

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.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

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 126 communities who have been authorized by ballot to purchase electricity on behalf of their citizens. The intent of NOPEC is to provide electricity at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity to the citizens of its member communities.

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives 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. Financial information can be obtained by contacting Joseph Migliorini, Board Chairman, 175 South Main Street, Akron, Ohio 44308 or at the website www.nopecinfo.org.

Note 10 – Interfund Transactions

A. Interfund Transfers

Transfers made during the year ended December 31, 2007 were as follows:

Transfer To	Transfer From
General	
Other Governmental Funds:	
Street Construction, Maintenance and Repair	\$400,000
Fire Department/Capital Improvement	17,400
Road Improvement	1,164
Sewer	693
Total	\$419,257

The general fund transfers to the street construction, maintenance and repair special revenue fund, the fire department/capital improvement, and road improvement capital projects funds and the sewer enterprise fund. The transfers were made to provide additional resources for current operations.

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. No payments have been made as of December 31, 2007. At the end of fiscal year 2007 the street construction, maintenance and repair and BRF special

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

revenue funds had payables of \$173,661 and \$42,943, respectively, to the capital improvement capital projects fund. Road levy special revenue fund also had an interfund payable of \$112,477 to the general fund. Lastly, the general bond retirement debt service fund had a payable of \$134,575 due to the recreation improvement special revenue fund.

Note 11 - Capital Assets

Capital asset activity for the year ended December 31, 2007, was as follows:

	Balance 12/31/2006	Additions	Reductions	Balance 12/31/2007
Governmental Activities:				
Capital assets not being depreciated				
Land	\$34,400	\$0	\$0	\$34,400
Construction in progress	0	350,993	0	350,993
Total capital assets not being depreciated	34,400	350,993	0	385,393
Capital assets being depreciated				
Land Improvements	923,198	258,514	0	1,181,712
Buildings and Improvements	7,510,947	0	0	7,510,947
Machinery and Equipment	4,752,653	356,224	(117,356)	4,991,521
Infrastructure	1,539,988	33,503	0	1,573,491
Total capital assets being depreciated	14,726,786	648,241	(117,356)	15,257,671
Accumulated depreciation				
Land Improvements	(578,058)	(49,075)	0	(627,133)
Buildings and Improvements	(1,751,299)	(149,154)	0	(1,900,453)
Machinery and Equipment	(2,745,908)	(299,787)	108,914	(2,936,781)
Infrastructure:	(30,961)	(31,713)	0	(62,674)
Total accumulated depreciation	(5,106,226)	(529,729) *	108,914	(5,527,041)
Capital assets being depreciated, net	9,620,560	118,512	(8,442)	9,730,630
Governmental activities capital assets, net	\$9,654,960	\$469,505	(\$8,442)	\$10,116,023

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

	Balance 12/31/2006	Additions	Deductions	Balance 12/31/2007
Business-type activity:				
Capital assets not being depreciated				
Land	\$268,613	\$0	\$0	\$268,613
Construction in progress	9,789,855	452,210	0	10,242,065
Total capital assets not being depreciated	<u>10,058,468</u>	<u>452,210</u>	<u>0</u>	<u>10,510,678</u>
Capital assets being depreciated				
Machinery and Equipment	89,756	20,328	0	110,084
Infrastructure	6,571,269	19,104	0	6,590,373
Total capital assets being depreciated	<u>6,661,025</u>	<u>39,432</u>	<u>0</u>	<u>6,700,457</u>
Accumulated depreciation				
Machinery and Equipment	(9,606)	(9,860)	0	(19,466)
Infrastructure	(792,227)	(80,063)	0	(872,290)
Total accumulated depreciation	<u>(801,833)</u>	<u>(89,923)</u>	<u>0</u>	<u>(891,756)</u>
Capital assets being depreciated, net	<u>5,859,192</u>	<u>(50,491)</u>	<u>0</u>	<u>5,808,701</u>
Business-type activity capital assets, net	<u>\$15,917,660</u>	<u>\$401,719</u>	<u>\$0</u>	<u>\$16,319,379</u>

*Depreciation expense was charged to governmental activities as follows:

General Government	\$198,490
Security of Persons and Property:	
Police	115,772
Fire	96,580
Lesiure Time Activities	4,525
Transportation	114,362
Total	<u>\$529,729</u>

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

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 Water Development Authority Loans:</i>			
Euclid Creek Interceptor - 2005	2.00%	\$3,682,533	N/A
Euclid Sewer - 2006	N/A	8,892,586	N/A
Woodlands Sewers - 2006	3.25%	398,270	2027
Oak Street - 2002	3.64%	232,330	2022
Sewer Laterals - 2007	4.17%	140,985	2027
 <i>Ohio Public Works Commission Loans:</i>			
Euclid Interceptor - 2005	N/A	500,000	N/A
Euclid Sewer Phase II - 2006	N/A	249,000	N/A
 Governmental Activities			
<i>General Obligation Bonds:</i>			
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 Assessment Bonds:</i>			
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, 2007

Changes in long-term obligations of the City during 2007 were as follows:

	Outstanding 1/1/2007	Additions	Reductions	Outstanding 12/31/2007	Due Within One Year
Business-Type Activity					
<i>OWDA Loans</i>					
Euclid Creek Interceptor	\$3,682,533	\$0	\$151,052	\$3,531,481	\$155,663
Euclid Sewer	8,892,586	228,851	0	9,121,437	139,205
Woodlands Sewers	398,270	82,374	0	480,644	9,002
Oak Street	198,226	0	9,323	188,903	9,665
Sewer Laterals	0	140,985	0	140,985	2,648
Total OWDA Loans	13,171,615	452,210	160,375	13,463,450	316,183
<i>OPWC Loans</i>					
Euclid Interceptor	487,500	0	25,000	462,500	25,000
Euclid Sewer Phase II	249,000	0	6,225	242,775	12,450
Total OPWC Loans	736,500	0	31,225	705,275	37,450
Total Business-Type Activity	\$13,908,115	\$452,210	\$191,600	\$14,168,725	\$353,633
Governmental Type Activities					
<i>General Obligation Bonds</i>					
Service Garage Addition	70,000	0	10,000	60,000	10,000
Sanitary Sewer Improvement	18,494	0	2,642	15,852	2,642
Fire Station Improvement	859,800	0	68,000	791,800	71,500
Municipal Complex Improvement	1,125,000	0	65,000	1,060,000	65,000
Fire Truck	735,000	0	74,000	661,000	74,000
Total General Obligation Bonds	2,808,294	0	219,642	2,588,652	223,142
<i>Special Assessments Bond</i>					
Sanitary Sewer Improvement	121,506	0	17,358	104,148	17,358
Total Special Assessments Bond	121,506	0	17,358	104,148	17,358
Compensated Absences					
	394,372	203,573	81,085	516,860	76,991
Total Governmental Type Activities	\$3,324,172	\$203,573	\$318,085	\$3,209,660	\$317,491

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

The City has pledged future revenues to repay OWDA and OPWC loans in the sewer fund. The debt is payable solely from net revenues and is payable through 2027. Net revenues include all revenues received by the sewer utility less all operating expenses other than depreciation expense. Total principal

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

and interest remaining to be paid on the loans is \$5,528,287. OWDA loan principal and interest payments for the current year were \$277,951 and OPWC loan principal payments were \$31,225.

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

The City's overall legal debt margin was \$29,568,431 with an unvoted debt margin of \$14,257,918 at December 31, 2007. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2007, are as follows:

Governmental Activities:

Year	General Obligation Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2008	\$223,142	\$113,813	\$17,358	\$5,520
2009	228,742	103,877	17,358	4,600
2010	239,642	74,524	17,358	3,680
2011	251,642	82,866	17,358	2,760
2012	258,942	71,564	17,358	1,840
2013-2017	1,091,542	182,876	17,358	920
2018-2021	295,000	24,455	0	0
Total	\$2,588,652	\$653,975	\$104,148	\$19,320

Business-Type Activities:

Year	OWDA Loans		OPWC Loans
	Principal	Interest	Principal
2008	\$165,329	\$112,623	\$37,450
2009	170,436	107,515	37,450
2010	175,701	102,250	37,450
2011	181,130	96,821	37,450
2012	186,727	91,225	37,450
2013-2017	806,421	305,384	187,250
2018-2022	1,156,420	233,337	187,250
2023-2027	878,220	53,473	143,525
Total	\$3,720,384	\$1,102,628	\$705,275

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

Note 13 – 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.

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	\$337.45	\$674.91	\$674.91	\$941.51
Comp Benefits - Vision Plan	6.18	12.37	11.75	18.47
Comp Benefits - Dental (DHMO)	12.68	23.14	24.40	32.52
Comp Benefits - Dental (PPO)	33.22	66.52	69.96	113.20

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	\$33.75	\$67.50	\$67.50	\$94.15
Health and Vision	34.37	68.74	68.68	96.00
Health and Dental (DHMO)	35.02	69.81	69.94	97.40
Health, Vision and Dental (DHMO)	35.64	71.05	71.12	99.25

C. Life Insurance

Life insurance is offered to employees through the Standard Insurance Company. Employees receive \$25,000 coverage for \$6.50 per month. The City pays the total monthly premium.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

Note 14 - Defined Benefit Pension Plans

A. Ohio Public Employees Retirement System

Plan Description - 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. While members in the State and local divisions may participate in all three plans, law enforcement (generally sheriffs, deputy sheriffs and townships police) and public safety divisions exist only within the traditional pension plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 800-222-7377.

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions. For the year ended December 31, 2007, members in state and local classifications contributed 9.5 percent of covered payroll, public safety members contributed 9.75 percent and law enforcement members contributed 10.1 percent.

The City's contribution rate for 2007 was 13.85 percent, except for those plan members in law enforcement or public safety, for whom the City's contribution was 17.17 percent of covered payroll. For the period January 1 through June 30, a portion of the City's contribution equal to 5 percent of covered payroll was allocated to fund the post-employment health care plan; for the period July 1 through December 31, 2007 this amount was increased to 6 percent. Employer contribution rates are actuarially determined. State statute sets a maximum contribution rate for the City of 14 percent, except for public safety and law enforcement, where the maximum employer contribution rate is 18.1 percent.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2007, 2006, and 2005 were \$132,236, \$168,426 and \$174,834 respectively; 96.41 percent has been contributed for 2007 and 100 percent for 2006 and 2005. Contributions to the member-directed plan for 2007 were \$3,392 made by the City and \$2,327 made by the plan members.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

B. Ohio Police and Fire Pension Fund

Plan Description - 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 pension 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.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations. The City's contribution was 19.5 percent for police officers and 24 percent for firefighters. Contribution rates are established by State statute. For 2007, a portion of the City's contribution equal to 6.75 percent of covered payroll was allocated to fund the post-employment health care plan. The City's pension contributions to OP&F for police and firefighters were \$191,773 and \$176,575 for the year ended December 31, 2007, \$148,032 and \$107,439 for the year ended December 31, 2006, and \$138,580 and \$105,942 for the year ended December 31, 2005. The full amount has been contributed for 2006 and 2005. 96.96 percent has been contributed for police and 97.38 percent has been contributed for firefighters for 2007.

Note 15 - Postemployment Benefits

A. Ohio Public Employees Retirement System

Plan Description - OPERS maintains a cost-sharing multiple-employer defined benefit post-employment health care plan for qualifying members of both the traditional and combined pension plans. Members of the member directed plan do not qualify for ancillary benefits, including post-employment health care. The plan includes a medical plan, a prescription drug program and Medicare Part B premium reimbursement.

To qualify for post-employment health care coverage, age and service retirees under the traditional and combined plans must have ten or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The Ohio Revised Code permits, but does not require, OPERS to provide health care benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 800-222-7377.

Funding Policy - The post-employment health care plan was established under, and is administered in accordance with, Internal Revenue Code 401 (h). State statute requires that public employers fund post-employment health care through contributions to OPERS. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of post-employment health care.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2007, local government employers contributed 13.85 percent of covered payroll (17.17 percent for public safety and law enforcement). Each year, the OPERS retirement board determines the portion of the employer contribution rate that will be set aside for funding post-employment health care benefits. The amount of the employer contributions which was allocated to fund post-employment health care was 5.00 percent of covered payroll from January 1 through June 30, 2007, and 6.00 percent from July 1 to December 31, 2007.

The retirement board is also authorized to establish rules for the payment of a portion of the health care benefits by the retiree or the retiree's surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the post-employment health care plan.

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2007, 2006, and 2005 were \$88,507, \$219,906 and \$73,229 respectively; 95.20 percent has been contributed for 2007 and 100 percent for 2006 and 2005.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan which was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007, and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

B. Police and Firemen's Disability and Pension Fund

Plan Description – The City contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored healthcare program, a cost-sharing multiple-employer defined post-employment healthcare plan administered by OP&F. OP&F provides healthcare benefits including coverage for medical, prescription drugs, dental, vision, Medicare Part B Premium reimbursement and long term care to retirees, qualifying benefit recipients and their eligible dependents.

OP&F provides access to post-retirement healthcare coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit or is a spouse or eligible dependent child of such person

The Ohio Revised Code allows, but does not mandate, OP&F to provide OPEB benefits. Authority for the OP&B Board of Trustees to provide healthcare coverage to eligible participants and to establish and amend benefits is codified in Chapter 742 of the Ohio Revised Code.

OP&F issues a publicly available financial report that includes a financial information and required supplementary information for the Plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding policy – OP&F's post-employment healthcare plan was established and is administered as an Internal Revenue Code 410(h) account within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees. The Ohio Revised Code sets the contribution rates for participating employers and for plan members to the OP&F. Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.50 percent and 24.00 percent of covered payroll for police and fire employers, respectively.

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The Board of Trustees is authorized to allocate a portion of the total employer contributions made to the pension plan to the 401(h) account as the employer contribution for retiree healthcare benefits. For the year ended December 31, 2007, the employer contribution allocated to the healthcare plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the healthcare plan each year is subject to the trustees' primary responsibility to ensure that pension benefits are adequately funded and also is limited by the provisions of Section 401(h).

The OP&F Board of Trustees is also authorized to establish requirements for contributions to the healthcare plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the OPEB Plan.

The City's contributions to OP&F which were allocated to fund post-employment healthcare benefits for police and firefighters were \$126,489 and \$84,213 for the year ended December 31, 2007, \$97,024 and \$52,136 for the year ended December 31, 2006, and \$91,404 and \$50,526 for the year ended December 31, 2005. The full amount has been contributed for 2006 and 2005. 94.78 percent has been contributed for police and 96.26 percent has been contributed for firefighters for 2007.

Note 16 - 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 2007, the City participated in the Arrowhead Public Risk Municipal Package Plan which contracted with Custis Insurance Service for the following types of insurance:

Type	Coverage
Property	\$10,941,089
Inland Marine	2,048,807
General Liability	1,000,000 / 2,000,000 aggregate
Vehicle Liability	1,000,000 per occurrence
Law Enforcement Liability	1,000,000 aggregate
Public Officials Liability	1,000,000 aggregate
Employment Practices Liability	1,000,000 aggregate
Umbrella	5,000,000 aggregate

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

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

City of Willoughby Hills, Ohio
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Note 17 – Contractual Commitment

As of December 31, 2007, \$950 remained on the contract with Degoia Excavating Company for the Euclid Sewer Phase II project. The total contract amount was \$5,882,451 and \$5,881,501 had been paid by the end of 2007.

City of Willoughby Hills, Ohio
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City of Willoughby Hills, Ohio
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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, 2006. 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 third publication of financial statements under the new GASB 34 reporting model.
- Total assets for the City exceeded liabilities by \$11,213,508 at December 31, 2006.
- Total assets increased by \$9,287,755 which represents an increase of 41.98 percent over 2005. The change was due mainly to an increase in business-type activities capital assets of \$8,614,262 which reflects the majority of the construction on the Euclid Sewer Phase II project.
- Total liabilities increased by \$8,366,005, which represents an increase of 70.7 percent compared to 2005. The main factor contributing to this increase is a net increase of \$8,035,570 in outstanding debt. The Ohio Water Development Agency (OWDA) loan of \$7,635,840 and the Ohio Public Works Commission (OPWC) loan of \$213,003 obtained for Phase II of the Euclid Creek sanitary sewer project were the contributing factors in the increase in business activity debt.
- Total net assets increased by \$921,750. This represents an increase of approximately 8.96 percent over 2005. Revenues outpaced expenses by \$31,179 for governmental activities and by \$890,571 for business activities. Property and other taxes increased \$206,654 and municipal income tax, which is the major revenue for the City's general fund, increased \$468,404 over 2005. Business-type charges for services increased \$454,785 due to sewer rate increases.

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 2006?" 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 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-five 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, 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 2006 compared to 2005.

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Table 1
Net Assets

	Governmental Activities		Business-Type Activity		Total	
	2006	2005	2006	2005	2006	2005
Assets						
Current and Other Assets	\$5,284,336	\$4,753,447	\$555,974	\$259,128	\$5,840,310	\$5,012,575
Capital Assets, Net	9,654,960	9,809,202	15,917,660	7,303,398	25,572,620	17,112,600
Total Assets	14,939,296	14,562,649	16,473,634	7,562,526	31,412,930	22,125,175
Liabilities						
Current Liabilities	2,906,733	2,459,912	60,402	176,788	2,967,135	2,636,700
Long-Term Liabilities						
Due Within One Year	314,085	328,040	191,600	179,139	505,685	507,179
Due in More Than One Year	3,010,087	3,097,485	13,716,515	5,592,053	16,726,602	8,689,538
Total Liabilities	6,230,905	5,885,437	13,968,517	5,947,980	20,199,422	11,833,417
Net Assets						
Invested in Capital Assets, Net of Related Debt	6,880,971	6,849,802	2,009,545	1,532,206	8,890,516	8,382,008
Restricted for:						
Capital Projects	634,162	428,764	0	0	634,162	428,764
Debt Service	9,631	24,455	0	0	9,631	24,455
Law Enforcement	72,451	148,408	0	0	72,451	148,408
Street Construction, Maintenance and Repairs	71,729	157,746	0	0	71,729	157,746
Drug Enforcement	331,080	79,534	0	0	331,080	79,534
Other Purposes	165,584	141,051	0	0	165,584	141,051
Unrestricted	542,783	847,452	495,572	82,340	1,038,355	929,792
Total Net Assets	\$8,708,391	\$8,677,212	\$2,505,117	\$1,614,546	\$11,213,508	\$10,291,758

For the City of Willoughby Hills, total assets exceeded total liabilities by \$11,213,508 at the close of 2006. Of the total net assets, capital assets, net of related debt make up \$8,890,516 or 79.28 percent of net assets. Total net assets of the City increased from \$10,291,758 in 2005 to \$11,213,508 in 2006. This represents an increase of \$921,750 from 2005. The major component of the City's assets is capital assets, which account for \$25,572,620 of the City's \$31,412,930 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 \$31,179 during 2006 and business-type activity net assets increased \$890,571. 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. Total revenues increased \$640,406 due to increases in business-type charges for services, property and other taxes, and municipal income taxes. Business-type charges for services increased due to an increase in sewer rates. Property and other taxes and municipal income taxes increased due to increases in the number of residents and new housing developments. Expenses for governmental activities increased by \$969,057 over 2005 levels. Increases in road maintenance projects and costs resulted in increased transportation expenditures in the governmental activities.

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Table 2
Change in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues						
Program Revenues						
Charges for Services	\$1,134,533	\$1,193,264	\$1,254,895	\$800,110	\$2,389,428	\$1,993,374
Operating Grants, Contributions and Assessments	915,168	782,760	0	0	915,168	782,760
Capital Grants	447,507	1,218,997	249,999	0	697,506	1,218,997
Total Program Revenues	2,497,208	3,195,021	1,504,894	800,110	4,002,102	3,995,131
General Revenues						
Property Taxes	1,962,105	1,847,181	0	0	1,962,105	1,847,181
Other Taxes	93,948	2,218	0	0	93,948	2,218
Income Taxes	3,228,961	2,760,557	0	0	3,228,961	2,760,557
Grants and Entitlements	810,690	1,116,208	0	0	810,690	1,116,208
Gain on Sale of Capital Assets	1,425	0	0	0	1,425	0
Investment Earnings	50,339	39,002	94	743	50,433	39,745
Other	428,359	159,765	0	16,812	428,359	176,577
Total General Revenues	6,575,827	5,924,931	94	17,555	6,575,921	5,942,486
Total Revenues	9,073,035	9,119,952	1,504,988	817,665	10,578,023	9,937,617
Program Expenses						
General Government	1,708,275	1,580,612	0	0	1,708,275	1,580,612
Security of Persons and Property:						
Police	2,805,734	2,724,745	0	0	2,805,734	2,724,745
Fire	2,040,511	1,722,809	0	0	2,040,511	1,722,809
Leisure Time Activities	244,123	216,146	0	0	244,123	216,146
Community Environment	143,932	132,417	0	0	143,932	132,417
Transportation	1,913,826	1,549,592	0	0	1,913,826	1,549,592
Interest and Fiscal Charges	185,455	145,778	0	0	185,455	145,778
Sewer	0	0	614,417	962,774	614,417	962,774
Total Program Expenses	9,041,856	8,072,099	614,417	962,774	9,656,273	9,034,873
Increase(Decrease) in Net Assets	31,179	1,047,853	890,571	(145,109)	921,750	902,744
Net Assets Beginning of Year	8,677,212	7,629,359	1,614,546	1,759,655	10,291,758	9,389,014
Net Assets End of Year	\$8,708,391	\$8,677,212	\$2,505,117	\$1,614,546	\$11,213,508	\$10,291,758

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

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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 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 one hundred 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 began 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 2006.

The largest expense is the police and fire departments. In 2006, the police department had total expenses of \$2,805,734 and the fire department had total expenses of \$2,040,511. Expenses in the police department increased by \$80,989 from 2005 levels, while expenses in the fire department increased by \$317,702 from 2005 levels. The rise in the police department 2006 expenses was caused by an overall increase in compensation levels due to the implementation of collective bargaining agreements. 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 law enforcement trust fund was established to handle the DEA monies.

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 2006, the City received approximately \$200,000 in revenue from ambulance charges, dispatch services and fire runs. The main reason for the increase in the fire department 2006 expenses was caused by an overall increase in compensation levels due to the implementation of collective bargaining agreements. Contractual services also increased sharply due to increased costs for continuing education for paramedics.

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 in anticipation of the Bishop Road widening project. In addition, the City annually enters into a contract for street resurfacing. The City received \$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.

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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 was the Euclid Creek Phase II Project. In 2005, the City began construction on this next phase of the Euclid Creek Interceptor Project. There is \$9,789,855 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. Also, in 2006, the City began construction on the Woodlands Sewers projects. This project is also funded through OWDA 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 2006 the City of Willoughby Hills reported combined governmental fund balances of \$950,129. Of this amount, \$477,860, constitutes unreserved balances, which are available for spending. The remaining \$472,269 is reserved to indicate that it is not available for spending due to contractual commitments and advances of the prior period.

Governmental funds had total revenues of \$9,080,917 and expenditures of \$8,950,784 leaving a difference of expenditures over revenues of \$130,133. 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 2006, had a balance of \$269,442, which is an increase of \$85,986 from 2005.

The City's other major funds in 2006 were the fire levy, road levy and street construction, maintenance and repair special revenue funds. Both the fire levy and the street construction, maintenance and repair funds had negative beginning balances and the road levy fund had a small positive beginning balance. Expenditures outpaced revenues in all three funds and thus the ending balance in each fund was negative. Management is reviewing the situation to determine the best action.

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 2006, 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

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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 2006 general fund revenues were budgeted at \$5,509,725 and final budgeted revenues were revised to \$5,729,076, with actual revenues of \$5,601,932, which is a variance of \$127,144. Original appropriations in the general fund were budgeted at \$5,124,225, and final appropriations were \$5,140,928, with actual expenditures coming in at \$5,170,777 which is a variance of \$29,849.

The difference between the general fund's final amended budget and actual are due to a decrease in municipal income tax collections and fewer fines and forfeitures collected in 2006.

Capital Assets and Debt Administration

Capital Assets: Table 3 shows 2006 balances of capital assets as compared to 2005.

	Capital Assets at December 31 (Net of Accumulated Depreciation)					
	Governmental Activities		Business-Type Activity		Total	
	2006	2005	2006	2005	2006	2005
Land	\$34,400	\$33,000	\$268,613	\$233,000	\$303,013	\$266,000
Construction in Progress	0	1,452,749	9,789,855	1,292,742	9,789,855	2,745,491
Land Improvements	345,140	373,490	0	0	345,140	373,490
Buildings and Improvements	5,759,648	5,907,601	0	0	5,759,648	5,907,601
Machinery and Equipment	2,006,745	2,042,362	80,150	18,917	2,086,895	2,061,279
Infrastructure	1,509,027	0	0	0	1,509,027	0
Sewer Improvements	0	0	5,779,042	5,758,739	5,779,042	5,758,739
Total Capital Assets	\$9,654,960	\$9,809,202	\$15,917,660	\$7,303,398	\$25,572,620	\$17,112,600

Total capital assets for the City of Willoughby Hills were \$25,572,620, an increase of \$8,460,020 from 2005. Capital assets for governmental activities decreased \$154,242. This decrease is attributed to the fact that additions of \$344,381 were offset by \$497,186 in annual depreciation expenses. Capital assets for business-type activities were \$15,917,660, an increase of \$8,614,262 from 2005. The increase is attributable to expenditures of \$8,316,062 associated with phase II of the Euclid Sewer project. This is a major sewer project that was begun in 2004. Additional information concerning the City's capital assets can be found in Note 10 to the basic financial statements.

Debt

At December 31, 2006, the City of Willoughby Hills had governmental obligations of \$3,324,172 in bonds, capital leases and compensated absences. At December 31, 2006, the City had \$13,908,115 outstanding in long-term business-type obligations which include OPWC and OWDA loans. Table 4 summarizes the City's long-term obligations outstanding.

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(Table 4)
 Outstanding Obligations at Year End

	Governmental Activities		Business-Type Activity		Total	
	2006	2005	2006	2005	2006	2005
General Obligation Bond	\$2,808,294	\$2,980,536	\$0	\$0	\$2,808,294	\$2,980,536
Special Assessment Bonds	121,506	146,014	0	0	121,506	146,014
OPWC Loans	0	0	736,500	535,997	736,500	535,997
OWDA Loans	0	0	13,171,615	5,235,195	13,171,615	5,235,195
Capital Leases	0	56,881	0	0	0	56,881
Compensated Absences	394,372	242,094	0	0	394,372	242,094
Total	\$3,324,172	\$3,425,525	\$13,908,115	\$5,771,192	\$17,232,287	\$9,196,717

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 11 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.

Basic Financial Statements

City of Willoughby Hills, Ohio

Statement of Net Assets

December 31, 2006

	Governmental Activities	Business-Type Activity	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$1,178,621	\$550,303	\$1,728,924
Materials and Supplies Inventory	53,895	0	53,895
Accrued Interest Receivable	6,809	0	6,809
Accounts Receivable	3,635	5,671	9,306
Intergovernmental Receivable	898,364	0	898,364
Prepaid Items	3,881	0	3,881
Special Assessments Receivable	128,506	0	128,506
Income Taxes Receivable	914,448	0	914,448
Property Taxes Receivable	2,080,366	0	2,080,366
Deferred Charges	15,811	0	15,811
Nondepreciable Capital Assets	34,400	10,058,468	10,092,868
Depreciable Capital Assets, Net	9,620,560	5,859,192	15,479,752
<i>Total Assets</i>	<u>14,939,296</u>	<u>16,473,634</u>	<u>31,412,930</u>
Liabilities			
Accounts Payable	242,885	43,844	286,729
Contracts Payable	10,719	0	10,719
Accrued Wages	164,753	0	164,753
Retainage Payable	1,367	0	1,367
Intergovernmental Payable	443,526	6,658	450,184
Accrued Interest Payable	40,770	9,900	50,670
Deferred Revenue	2,002,713	0	2,002,713
Long-Term Liabilities:			
Due Within One Year	314,085	191,600	505,685
Due In More Than One Year	3,010,087	13,716,515	16,726,602
<i>Total Liabilities</i>	<u>6,230,905</u>	<u>13,968,517</u>	<u>20,199,422</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	6,880,971	2,009,545	8,890,516
Restricted for:			
Capital Projects	634,162	0	634,162
Debt Service	9,631	0	9,631
Law Enforcement	72,451	0	72,451
Street Construction, Maintenance and Repair	71,729	0	71,729
Drug Enforcement	331,080	0	331,080
Other Purposes	165,584	0	165,584
Unrestricted	542,783	495,572	1,038,355
<i>Total Net Assets</i>	<u>\$8,708,391</u>	<u>\$2,505,117</u>	<u>\$11,213,508</u>

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Statement of Activities
For the Year Ended December 31, 2006

	Program Revenues			
	Expenses	Charges for Services	Operating Grants Contributions and Assessments	Capital Grants
Governmental Activities:				
General Government	\$1,708,275	\$600,781	\$87,639	\$445,507
Security of Persons and Property:				
Police	2,805,734	3,614	38,526	0
Fire	2,040,511	209,743	17,723	0
Leisure Time Activities	244,123	101,826	0	2,000
Community Environment	143,932	218,569	0	0
Transportation	1,913,826	0	771,280	0
Interest and Fiscal Charges	185,455	0	0	0
<i>Total Governmental Activities</i>	9,041,856	1,134,533	915,168	447,507
Business-Type Activity:				
Sewer	614,417	1,254,895	0	249,999
<i>Total</i>	\$9,656,273	\$2,389,428	\$915,168	\$697,506

General Revenues

Property Taxes Levied for:

 General Purposes

 Debt Service

 Police Pension

 Fire Levy

 Road Levy

Other Local Taxes

Income Tax Levied for General Purposes

Grants and Entitlements not Restricted to Specific Programs

Gain on Sale of Capital Assets

Interest

Other

Total General Revenues

Change in Net Assets

Net Assets Beginning of Year

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
(\$574,348)	\$0	(\$574,348)
(2,763,594)	0	(2,763,594)
(1,813,045)	0	(1,813,045)
(140,297)	0	(140,297)
74,637	0	74,637
(1,142,546)	0	(1,142,546)
(185,455)	0	(185,455)
(6,544,648)	0	(6,544,648)
0	890,477	890,477
(6,544,648)	890,477	(5,654,171)
584,659	0	584,659
127,586	0	127,586
81,108	0	81,108
492,376	0	492,376
676,376	0	676,376
93,948	0	93,948
3,228,961	0	3,228,961
810,690	0	810,690
1,425	0	1,425
50,339	94	50,433
428,359	0	428,359
6,575,827	94	6,575,921
31,179	890,571	921,750
8,677,212	1,614,546	10,291,758
<u>\$8,708,391</u>	<u>\$2,505,117</u>	<u>\$11,213,508</u>

City of Willoughby Hills, Ohio

Balance Sheet

Governmental Funds

December 31, 2006

	General	Fire Levy	Road Levy	Street Construction, Maintenance and Repair	Other Governmental Funds	Total Governmental Funds
Assets						
Equity in Pooled Cash and Cash Equivalents	\$78,924	\$36,570	\$0	\$4,986	\$1,058,141	\$1,178,621
Materials and Supplies Inventory	14,580	0	0	39,315	0	53,895
Accrued Interest Receivable	6,774	0	0	0	35	6,809
Accounts Receivable	3,635	0	0	0	0	3,635
Interfund Receivable	254,820	0	0	0	164,983	419,803
Intergovernmental Receivable	543,948	22,256	30,501	227,361	74,298	898,364
Prepaid Items	3,881	0	0	0	0	3,881
Special Assessments Receivable	0	0	0	0	128,506	128,506
Municipal Income Tax Receivable	914,448	0	0	0	0	914,448
Property Tax Receivable	652,249	525,252	679,696	0	223,169	2,080,366
<i>Total Assets</i>	<i>\$2,473,259</i>	<i>\$584,078</i>	<i>\$710,197</i>	<i>\$271,662</i>	<i>\$1,649,132</i>	<i>\$5,688,328</i>
Liabilities						
Accounts Payable	\$135,683	\$0	\$998	\$69,238	\$36,966	\$242,885
Contracts Payable	0	0	0	10,719	0	10,719
Accrued Wages	127,625	19,361	0	17,767	0	164,753
Retainage Payable	0	0	0	1,367	0	1,367
Intergovernmental Payable	303,476	97,720	400	40,973	957	443,526
Interfund Payable	45,000	119,983	78,824	0	175,996	419,803
Deferred Revenue	1,592,033	547,508	710,197	195,939	409,469	3,455,146
<i>Total Liabilities</i>	<i>2,203,817</i>	<i>784,572</i>	<i>790,419</i>	<i>336,003</i>	<i>623,388</i>	<i>4,738,199</i>
Fund Balances						
Reserved for Encumbrances	175,118	8,000	67,672	13,626	42,870	307,286
Reserved for Interfund Loans	0	0	0	0	164,983	164,983
Unreserved						
Undesignated (Deficit), Reported in:						
General Fund	94,324	0	0	0	0	94,324
Special Revenue Funds	0	(208,494)	(147,894)	(77,967)	442,380	8,025
Debt Service Funds	0	0	0	0	(71,943)	(71,943)
Capital Projects Funds	0	0	0	0	447,454	447,454
<i>Total Fund Balances (Deficit)</i>	<i>269,442</i>	<i>(200,494)</i>	<i>(80,222)</i>	<i>(64,341)</i>	<i>1,025,744</i>	<i>950,129</i>
<i>Total Liabilities and Fund Balances</i>	<i>\$2,473,259</i>	<i>\$584,078</i>	<i>\$710,197</i>	<i>\$271,662</i>	<i>\$1,649,132</i>	<i>\$5,688,328</i>

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 December 31, 2006*

Total Governmental Funds Balances	\$950,129
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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.	9,654,960
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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	725,512
Special Assessments	128,506
Income Taxes	520,762
Property and Other Taxes	77,653
Total	1,452,433

In the statement of activities, interest is accrued on outstanding liabilities, whereas in governmental funds, an interest expenditure is reported when due.	(40,770)
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Bond issuance costs will be amortized over the life of the bonds on the statement of net assets.	15,811
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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	(2,808,294)
Special Assessment Bonds	(121,506)
Compensated Absences	(394,372)
Total	(3,324,172)

<i>Net Assets of Governmental Activities</i>	\$8,708,391
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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, 2006

	General	Fire Levy	Road Levy	Street Construction Maintenance Repair	Other Governmental Funds	Total Governmental Funds
Revenues						
Property Taxes	\$573,885	\$483,680	\$665,267	\$0	\$205,928	\$1,928,760
Other Taxes	93,948	0	0	0	0	93,948
Municipal Income Taxes	3,164,770	0	0	0	0	3,164,770
Special Assessments	0	0	0	0	17,508	17,508
Intergovernmental	841,606	22,925	30,457	713,163	635,322	2,243,473
Charges for Services	2,773	105,850	0	0	159,781	268,404
Fees, Licenses and Permits	199,616	0	0	0	0	199,616
Fines and Forfeitures	548,367	0	0	0	0	548,367
Rentals	75,383	0	0	0	42,763	118,146
Contributions and Donations	17,227	0	0	0	2,000	19,227
Interest	46,052	0	968	0	3,319	50,339
Other	101,490	0	0	0	326,869	428,359
<i>Total Revenues</i>	<u>5,665,117</u>	<u>612,455</u>	<u>696,692</u>	<u>713,163</u>	<u>1,393,490</u>	<u>9,080,917</u>
Expenditures						
Current:						
General Government	1,396,981	0	0	0	123,429	1,520,410
Security of Persons and Property						
Police	2,456,494	0	0	0	222,795	2,679,289
Fire	1,111,235	718,023	0	0	0	1,829,258
Leisure Time Activities	148,968	0	0	0	90,395	239,363
Community Environment	143,932	0	0	0	0	143,932
Transportation	0	0	137,982	978,364	27,303	1,143,649
Capital Outlay	5,163	0	655,031	0	335,223	995,417
Debt Service:						
Principal Retirement	42,661	0	0	14,220	196,750	253,631
Interest and Fiscal Charges	1,710	0	0	570	143,555	145,835
<i>Total Expenditures</i>	<u>5,307,144</u>	<u>718,023</u>	<u>793,013</u>	<u>993,154</u>	<u>1,139,450</u>	<u>8,950,784</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>357,973</u>	<u>(105,568)</u>	<u>(96,321)</u>	<u>(279,991)</u>	<u>254,040</u>	<u>130,133</u>
Other Financing Sources (Uses)						
Sale of Capital Assets	2,862	0	0	0	0	2,862
Transfers In	0	0	0	250,000	53,784	303,784
Transfers Out	(274,849)	0	0	0	(28,935)	(303,784)
<i>Total Other Financing Sources (Uses)</i>	<u>(271,987)</u>	<u>0</u>	<u>0</u>	<u>250,000</u>	<u>24,849</u>	<u>2,862</u>
<i>Net Change in Fund Balances</i>	<u>85,986</u>	<u>(105,568)</u>	<u>(96,321)</u>	<u>(29,991)</u>	<u>278,889</u>	<u>132,995</u>
<i>Fund Balances (Deficit) Beginning of Year</i>	<u>183,456</u>	<u>(94,926)</u>	<u>16,099</u>	<u>(34,350)</u>	<u>746,855</u>	<u>817,134</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>\$269,442</u>	<u>(\$200,494)</u>	<u>(\$80,222)</u>	<u>(\$64,341)</u>	<u>\$1,025,744</u>	<u>\$950,129</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, 2006*

Net Change in Fund Balances - Total Governmental Funds \$132,995

*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
depreciation exceeded capital outlay in the current period.

Capital Outlay	344,381	
Depreciation	(497,186)	
Total		(152,805)

Governmental funds only report the disposal of capital assets
to the extent proceeds are received from the sale. In the
statement of activities, a gain or loss is reported for each
disposal. (1,437)

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

Property Taxes	33,345	
Income Taxes	64,191	
Special Assessments	(17,508)	
Intergovernmental	(89,335)	
Total		(9,307)

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. 253,631

In the statement of activities, interest is accrued on outstanding
bonds, whereas in governmental funds, an interest expenditure
is reported when due. (39,620)

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		(152,278)

<i>Change in Net Assets of Governmental Activities</i>	\$31,179

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, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$573,000	\$573,000	\$573,885	\$885
Other Taxes	108,000	108,000	94,103	(13,897)
Municipal Income Taxes	2,950,000	3,169,351	3,107,396	(61,955)
Intergovernmental	868,000	868,000	873,423	5,423
Fees, Licenses and Permits	168,125	168,125	199,616	31,491
Fines and Forfeitures	641,000	641,000	549,293	(91,707)
Rentals	85,800	85,800	76,614	(9,186)
Contributions and Donations	3,800	3,800	17,227	13,427
Interest	40,000	40,000	43,903	3,903
Other	72,000	72,000	66,472	(5,528)
<i>Total Revenues</i>	5,509,725	5,729,076	5,601,932	(127,144)
Expenditures				
Current:				
General Government	1,411,417	1,416,008	1,383,947	32,061
Security of Persons and Property:				
Police	2,290,245	2,297,807	2,417,273	(119,466)
Fire	1,120,576	1,124,174	1,091,631	32,543
Leisure Time Activities	175,162	175,694	141,637	34,057
Community Environment	126,825	127,245	136,289	(9,044)
<i>Total Expenditures</i>	5,124,225	5,140,928	5,170,777	(29,849)
<i>Excess of Revenues Over Expenditures</i>	385,500	588,148	431,155	(156,993)
Other Financing Sources (Uses)				
Sale of Capital Assets	9,000	9,000	2,862	(6,138)
Transfers In	90,424	90,424	0	(90,424)
Transfers Out	(539,163)	(540,960)	(274,849)	266,111
<i>Total Other Financing Sources (Uses)</i>	(439,739)	(441,536)	(271,987)	169,549
<i>Net Change in Fund Balance</i>	(54,239)	146,612	159,168	12,556
<i>Fund Balance Beginning of Year</i>	49,546	49,546	42,296	(7,250)
Prior Year Encumbrances Appropriated	114,369	114,369	114,369	0
<i>Fund Balance End of Year</i>	\$109,676	\$310,527	\$315,833	\$5,306

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, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$478,098	\$478,098	\$483,680	\$5,582
Intergovernmental	44,712	67,902	22,925	(44,977)
Charges for Services	140,000	140,000	108,166	(31,834)
<i>Total Revenues</i>	662,810	686,000	614,771	(71,229)
Expenditures				
Current:				
Security of Persons and Property:				
Fire	659,519	659,519	632,949	26,570
<i>Net Change in Fund Balance</i>	3,291	26,481	(18,178)	(44,659)
<i>Fund Balance Beginning of Year</i>	53,815	53,815	53,815	0
Prior Year Encumbrances Appropriated	1,000	1,000	1,000	0
<i>Fund Balance End of Year</i>	<u>\$58,106</u>	<u>\$81,296</u>	<u>\$36,637</u>	<u>(\$44,659)</u>

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Road Levy Fund
For the Year Ended December 31, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$618,164	\$618,164	\$665,267	\$47,103
Intergovernmental	87,632	677,836	30,457	(647,379)
Interest	4,000	4,000	1,003	(2,997)
<i>Total Revenues</i>	709,796	1,300,000	696,727	(603,273)
Expenditures				
Current:				
Transportation	91,935	91,935	76,602	15,333
Capital Outlay	655,031	655,031	545,669	109,362
<i>Total Expenditures</i>	746,966	746,966	622,271	124,695
<i>Net Change in Fund Balance</i>	(37,170)	553,034	74,456	(478,578)
<i>Fund Balance Beginning of Year</i>	4,884	4,884	5,121	237
Prior Year Encumbrances Appropriated	33,166	33,166	33,166	0
<i>Fund Balance End of Year</i>	\$880	\$591,084	\$112,743	(\$478,341)

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, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
Revenues				
Intergovernmental	\$799,000	\$799,000	\$710,472	(\$88,528)
Expenditures				
Current:				
Transportation	<u>1,015,112</u>	<u>1,015,112</u>	<u>966,736</u>	<u>48,376</u>
<i>Excess of Revenues</i>				
<i>Under Expenditures</i>	(216,112)	(216,112)	(256,264)	(40,152)
Other Financing Sources				
Transfers In	<u>201,000</u>	<u>201,000</u>	<u>250,000</u>	<u>49,000</u>
<i>Net Change in Fund Balance</i>	(15,112)	(15,112)	(6,264)	8,848
<i>Fund Balance Beginning of Year</i>	224	224	224	0
Prior Year Encumbrances Appropriated	<u>24,083</u>	<u>24,083</u>	<u>24,083</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u><u>\$9,195</u></u>	<u><u>\$9,195</u></u>	<u><u>\$18,043</u></u>	<u><u>\$8,848</u></u>

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio

Statement of Fund Net Assets

Enterprise Fund

December 31, 2006

	<u>Sewer</u>
Assets	
<i>Current Assets</i>	
Equity in Pooled Cash and Cash Equivalents	\$550,303
Accounts Receivable	<u>5,671</u>
<i>Total Current Assets</i>	<u>555,974</u>
<i>Noncurrent Assets</i>	
Nondepreciable Capital Assets	10,058,468
Depreciable Capital Assets, Net	<u>5,859,192</u>
<i>Total Noncurrent Assets</i>	<u>15,917,660</u>
<i>Total Assets</i>	<u>16,473,634</u>
Liabilities	
<i>Current Liabilities</i>	
Accounts Payable	43,844
Intergovernmental Payable	6,658
Accrued Interest Payable	9,900
OPWC Loans Payable	31,225
OWDA Loans Payable	<u>160,375</u>
<i>Total Current Liabilities</i>	<u>252,002</u>
<i>Long-Term Liabilities</i>	
OWDA Loans Payable	13,011,240
OPWC Loans Payable	<u>705,275</u>
<i>Total Long-Term Liabilities</i>	<u>13,716,515</u>
<i>Total Liabilities</i>	<u>13,968,517</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	2,009,545
Unrestricted	<u>495,572</u>
<i>Total Net Assets</i>	<u><u>\$2,505,117</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, 2006*

	Sewer
Operating Revenues	
Charges for Services	\$1,254,895
Operating Expenses	
Personal Services	40,311
Materials and Supplies	395,088
Contractual Services	97,080
Depreciation	58,252
<i>Total Operating Expenses</i>	590,731
<i>Operating Income</i>	664,164
Non-Operating Revenues (Expenses)	
Interest	94
Interest and Fiscal Charges	(23,686)
<i>Total Non-Operating Revenues (Expenses)</i>	(23,592)
<i>Income before Capital Contributions</i>	640,572
Capital Contributions	249,999
<i>Change in Net Assets</i>	890,571
<i>Net Assets Beginning of Year</i>	1,614,546
<i>Net Assets End of Year</i>	\$2,505,117

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, 2006

	Sewer
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Customers	\$1,249,224
Cash Payments to Suppliers for Materials and Supplies	(567,676)
Cash Payments for Employee Services and Benefits	(40,678)
Cash Payments for Contractual Services	(49,148)
	591,722
<i>Net Cash Provided by Operating Activities</i>	
Cash Flows from Capital and Related Financing Activities	
Related Financing Activities	
Acquisition of Capital Assets	(8,672,514)
Capital Grants	249,999
Proceeds from OWDA Loans	8,103,059
Proceeds from OPWC Loans	213,003
Principal Paid on OWDA Loans	(166,639)
Principal Paid on OPWC Loans	(12,500)
Interest Paid on OWDA Loans	(15,049)
	(300,641)
<i>Net Cash Used for Capital and Related Financing Activities</i>	
Cash Flows from Investing Activities	
Interest on Investments	94
	94
<i>Net Increase in Cash and Cash Equivalents</i>	
	291,175
<i>Cash and Cash Equivalents Beginning of Year</i>	
	259,128
<i>Cash and Cash Equivalents End of Year</i>	
	\$550,303
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	\$664,164
Adjustments:	
Depreciation	58,252
Increase in Assets:	
Increase in Accounts Receivable	(5,671)
Increase (Decrease) in Liabilities:	
Accounts Payable	(131,256)
Intergovernmental Payable	6,233
	(72,442)
<i>Total Adjustments</i>	
	(72,442)
<i>Net Cash Provided by Operating Activities</i>	
	\$591,722

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Fund
December 31, 2006

Assets	
Equity in Pooled Cash and Cash Equivalents	<u><u>\$163,394</u></u>
Liabilities	
Deposits Held and Due to Others	<u><u>\$163,394</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, 2006

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 8 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, 2006

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 firemen.

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, 2006

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.

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

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

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

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

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

C. Measurement Focus

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

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

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

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

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 6). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On 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, 2006, but which were levied to finance 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

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".

During 2006, 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, 2006.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2006 amounted to \$46,052, which includes \$43,945 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, 2006, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount at the time of purchase and reflecting the expenditure/expense in the year in which the services are consumed.

G. Inventory

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

H. Capital Assets

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in the governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the enterprise fund are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

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:

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	20 - 50 years
Buildings and Improvements	20 - 50 years
Machinery and Equipment	10 - 20 years
Infrastructure	20 - 50 years

J. 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 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.

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.

The City records a liability for accumulated unused sick leave for employees after one year of service with the City.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

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 interfund loans.

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 \$1,284,637 of restricted net assets, none of which is restricted by enabling legislation. Net assets restricted for other purposes include resources for court improvements, recreation, police pensions and federal grants.

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

Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the statement of activities. Payments for interfund services provided and used are not eliminated.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

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

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.

Note 3 - 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,

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

disbursements and encumbrances. The Statements of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual are presented in the basic financial statements for the General Fund and Major Special Revenue funds on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP Basis (generally accepted accounting principles) are:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
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	\$85,986	(\$105,568)	(\$96,321)	(\$29,991)
Net Adjustment for				
Revenue Accruals	42,910	2,196	0	(2,412)
Beginning Unrecorded Cash	(106,095)	120	35	(279)
Ending Unrecorded Cash	(425,475)	(8,067)	(181,413)	(35,772)
Net Adjustment for				
Expenditure Accruals	750,408	101,141	420,825	84,905
Encumbrances	(188,566)	(8,000)	(68,670)	(22,715)
Budget Basis	<u>\$159,168</u>	<u>(\$18,178)</u>	<u>\$74,456</u>	<u>(\$6,264)</u>

Note 4 – Accountability and Compliance

A. Accountability

Fund Balance at December 31, 2006, included the following individual fund deficits:

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Fund	Amount
<i>Major Special Revenue Funds:</i>	
Fire Levy	\$200,494
Road Levy	80,222
Street Construction, Maintenance and Repair	64,341
<i>Non-Major Special Revenue Fund:</i>	
BRF	42,943
<i>Debt Service Fund:</i>	
General Obligation Bond Retirement	115,344
<i>Capital Projects Fund:</i>	
Fire Department Improvement	7,425

The fire levy, road levy, street construction maintenance and repair and BRF special revenue funds and the fire department 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

Contrary to Ohio Revised Code Section 5705.10, the City had negative cash balances in the following funds indicating that revenues from other sources were used to pay obligations of these funds:

Fund	Amount
<i>Special Revenue Fund:</i>	
2004 Road Levy	\$28,046
<i>Capital Projects Fund:</i>	
Fire Department/Capital Improvement	17,709
<i>Agency Fund:</i>	
Mike Ross	650

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

The following accounts and 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>
General Fund			
Administration			
Capital Outlay	\$3,024	\$32,724	\$29,700
Employee Termination			
Fringe Benefits	25,044	25,297	253
Courts			
Personal Services	41,073	41,285	212
Other	536	1,290	754
Capital Outlay	0	1,217	1,217
Security of Persons and Property			
Police Department			
Fringe Benefits	311,887	329,061	17,174
Contractual Services	50,701	62,807	12,106
Materials and Supplies	35,255	53,499	18,244
Capital Outlay	4,723	7,365	2,642
Fire Department			
Personal Services	606,990	621,929	14,939
Dispatching			
Personal Services	236,356	239,220	2,864
Other	376	1,403	1,027
Leisure Time Activity			
Recreation Department			
Personal Services	34,561	41,056	6,495
Other	0	846	846
Community Environment			
Building Department			
Personal Services	78,139	89,138	10,999
Contractual Services	11,782	16,158	4,376

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

	<u>Appropriations</u>	Expenditures Plus <u>Encumbrances</u>	<u>Excess</u>
<i>Special Revenue Fund</i>			
Federal Emergency Management Act.	\$0	\$15,232	\$15,232
Veterans Memorial	465	537	72
Motor Vehicle	0	1,792	1,792
<i>Capital Projects Funds</i>			
Fire Department Capital Improvement	111,000	117,272	6,272
Fire Department Capital Equipment	9,995	10,487	492

The recreation and BRF special revenue funds had total original appropriations in excess of estimated resources plus carryover balances of \$60,247 and \$42,943, contrary to Section 5705.39, Revised Code.

The BRF special revenue fund had total final appropriations in excess of estimated resources plus carryover balances of \$42,943, contrary to Section 5705.39, Revised Code.

Although these budgetary violations were not corrected by fiscal year end, management has indicated that appropriations will be closely monitored to prevent future violations.

Note 5 - Deposits and Investments

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

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

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

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

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

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

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

1. United States Treasury Notes, Bills, Bonds, Notes 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).
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty day from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

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

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

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

City of Willoughby Hills, Ohio
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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, \$271,161 of the City's bank balance of \$560,727 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, 2006, the City had the following investments:

	Fair Value	Maturity
Repurchase Agreements		
Federal Home Loan Mortgage Bonds	\$1,447,902	Daily
STAROhio	34,539	39 days average
Total	\$1,482,441	

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 AAA by Standard and Poor's. STAROhio carries a rating of AAA by Standard and Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The City has no policy that addresses credit risk.

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, 2006:

City of Willoughby Hills, Ohio
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For the Year Ended December 31, 2006

<u>Investment</u>	<u>Percentage of Investment</u>
Repurchase Agreements	
Federal Home Loan Mortgage Bonds	97.67%
STAROhio	2.33%

Note 6 - Receivables

Receivables at December 31, 2006, 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, 2006, the amount of delinquent special assessments was \$4,189.

All receivables except property taxes are expected to be received within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

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 2006 for real and public property taxes represents collections of 2005 taxes. Property tax payments received during 2006 for tangible personal property (other than public utility property) are for 2006 taxes.

2006 real property taxes are levied after October 1, 2006, on the assessed value as of January 1, 2006, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2006 real property taxes are collected in and intended to finance 2007.

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.

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. 2006 public utility property taxes which became a lien December 31, 2005, are levied after October 1, 2006, and are collected in 2007 with real property taxes.

2006 tangible personal property taxes are levied after October 1, 2005, on the values as of December 31, 2005. Collections are made in 2006. Tangible personal property assessments are being phased out – the assessment percentage for all property including inventory for 2006 is 18.75 percent. This will be reduced to 12.5 percent for 2007, 6.25 percent for 2008 and zero for 2009. Payments by multi-county

City of Willoughby Hills, Ohio
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taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

The full tax rate for all City operations for the year ended December 31, 2006, 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	\$262,052,348
Tangible Personal	14,493,304
Public Utility	<u>5,455,076</u>
Total	<u><u>\$282,000,728</u></u>

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, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2006 and for which there is an enforceable legal claim. In the general fund; the police pension, fire levy and road levy special revenue funds; and general obligation bond retirement debt service fund; the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2006 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, delinquent property taxes have been recorded as 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 2006, 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, 2006

C. Intergovernmental Receivable

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
Local Government	\$431,060
Gasoline Tax	102,379
Homestead and Rollback	89,850
Estate Tax	81,321
Motor Vehicle License Tax	35,648
Permissive Motor Vehicle Tax	54,570
Municipal Cents Per Gallon Tax	88,532
Willoughby Municipal Court	1,221
Village of Waite Hill	<u>13,783</u>
Total	<u>\$898,364</u>

Note 7 - 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, 2006.

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 8 - 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 118 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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For the Year Ended December 31, 2006

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each county then elect one person to serve on the eight-member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. Financial information can be obtained by contacting Joseph Migliorini, Board Chairman, 175 South Main Street, Akron, Ohio 44308 or at the website www.nopecinfo.org.

Note 9 – Interfund Transactions

A. Interfund Transfers

Transfers made during the year ended December 31, 2006 were as follows:

Transfer To	Transfer From		Total
	General	Other Governmental Funds	
Other Governmental Funds:			
Street Construction Maintenance and Repair	\$250,000	\$0	\$250,000
Police Pension	201	0	201
Road Improvement	24,648	25,600	50,248
Recreation Improvement	0	3,335	3,335
Total	\$274,849	\$28,935	\$303,784

The general fund transfers to the police pension and street construction, maintenance and repair special revenue funds and the road improvement capital projects fund was made to provide additional resources for current operations. The transfers from the motor vehicle special revenue fund to the road improvement capital projects fund was 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, 2006. The general fund loaned \$78,824 to the road levy fund, \$42,943 to the BRF fund, \$115,344 to the general obligation bond retirement fund and \$17,709 to the fire department capital improvement fund to eliminate the fund deficits. These will be repaid next year.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Note 10 - Capital Assets

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

	<u>Balance</u> <u>12/31/2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/2006</u>
Governmental Activities:				
Capital assets not being depreciated				
Land	\$33,000	\$1,400	\$0	\$34,400
Construction in progress	<u>1,452,749</u>	<u>25,219</u>	<u>(1,477,968)</u>	<u>0</u>
Total capital assets not being depreciated	<u>1,485,749</u>	<u>26,619</u>	<u>(1,477,968)</u>	<u>34,400</u>
Capital assets being depreciated				
Land Improvements	915,333	7,865	0	923,198
Buildings and Improvements	7,507,919	3,028	0	7,510,947
Machinery and Equipment	4,603,804	244,849	(96,000)	4,752,653
Infrastructure	<u>0</u>	<u>1,539,988</u>	<u>0</u>	<u>1,539,988</u>
Total capital assets being depreciated	<u>13,027,056</u>	<u>1,795,730</u>	<u>(96,000)</u>	<u>14,726,786</u>
Accumulated depreciation				
Land Improvements	(541,843)	(36,215)	0	(578,058)
Buildings and Improvements	(1,600,318)	(150,981)	0	(1,751,299)
Machinery and Equipment	(2,561,442)	(279,029)	94,563	(2,745,908)
Infrastructure:	<u>0</u>	<u>(30,961)</u>	<u>0</u>	<u>(30,961)</u>
Total accumulated depreciation	<u>(4,703,603)</u>	<u>(497,186) *</u>	<u>94,563</u>	<u>(5,106,226)</u>
Capital assets being depreciated, net	<u>8,323,453</u>	<u>1,298,544</u>	<u>(1,437)</u>	<u>9,620,560</u>
Governmental activities capital assets, net	<u>\$9,809,202</u>	<u>\$1,325,163</u>	<u>(\$1,479,405)</u>	<u>\$9,654,960</u>

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

	Balance 12/31/2005	Additions	Reductions	Balance 12/31/2006
Business-type activity:				
Capital assets not being depreciated				
Land	\$233,000	\$35,613	\$0	\$268,613
Construction in progress	1,292,742	8,497,113	0	9,789,855
Total capital assets not being depreciated	<u>1,525,742</u>	<u>8,532,726</u>	<u>0</u>	<u>10,058,468</u>
Capital assets being depreciated				
Sewer Improvements	6,502,320	68,949	0	6,571,269
Machinery and Equipment	18,917	70,839	0	89,756
Infrastructure:				
Water Lines			0	0
Sewer Lines			0	0
Total capital assets being depreciated	<u>6,521,237</u>	<u>139,788</u>	<u>0</u>	<u>6,661,025</u>
Accumulated depreciation				
Sewer Improvements	(742,320)	(49,907)	0	(792,227)
Machinery and Equipment	(1,261)	(8,345)	0	(9,606)
Total accumulated depreciation	<u>(743,581)</u>	<u>(58,252)</u>	<u>0</u>	<u>(801,833)</u>
Capital assets being depreciated, net	<u>5,777,656</u>	<u>81,536</u>	<u>0</u>	<u>5,859,192</u>
Business-type activity capital assets, net	<u>\$7,303,398</u>	<u>\$8,614,262</u>	<u>\$0</u>	<u>\$15,917,660</u>

* Depreciation expense was charged to governmental activities as follows:

General Government	\$196,013
Security of Persons and Property:	
Police	100,852
Fire	83,071
Lesiure Time Activities	3,887
Transportation	<u>113,363</u>
Total	<u>\$497,186</u>

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Note 11 - 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 Water Development Authority Loans:</i>			
Euclid Creek Interceptor - 2005	2.00%	\$3,682,533	N/A
Euclid Sewer - 2006	N/A	8,892,586	N/A
Woodlands Sewers - 2006	3.25%	398,270	N/A
Oak Street - 2002	3.64%	232,330	2022
 <i>Ohio Public Works Commission Loans:</i>			
Euclid Interceptor - 2005	N/A	500,000	N/A
Euclid Sewer Phase II - 2006	N/A	249,000	N/A
 Governmental Activities			
<i>General Obligation Bonds:</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 Assessment Bonds:</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, 2006

Changes in long-term obligations of the City during 2006 were as follows:

	Outstanding 1/1/2006	Additions	Reductions	Outstanding 12/31/2006	Due Within One Year
Business-Type Activity					
<i>OWDA Loans</i>					
Euclid Creek Interceptor	\$3,771,230	\$68,949	\$157,646	\$3,682,533	\$151,052
Euclid Sewer	1,256,746	7,635,840	0	8,892,586	0
Woodlands Sewers	0	398,270	0	398,270	0
Oak Street	207,219	0	8,993	198,226	9,323
<i>Total OWDA Loans</i>	5,235,195	8,103,059	166,639	13,171,615	160,375
<i>OPWC Loans</i>					
Euclid Interceptor	500,000	0	12,500	487,500	25,000
Euclid Sewer	35,997	213,003	0	249,000	6,225
<i>Total OPWC Loans</i>	535,997	213,003	12,500	736,500	31,225
<i>Total Business-Type Activity</i>	\$5,771,192	\$8,316,062	\$179,139	\$13,908,115	\$191,600
Governmental Type Activities					
<i>General Obligation Bonds</i>					
City Hall Addition	\$40,000	\$0	\$40,000	\$0	\$0
Service Garage Addition	75,000	0	5,000	70,000	10,000
Sanitary Sewer Improvement	21,136	0	2,642	18,494	2,642
Fire Station Improvement	924,400	0	64,600	859,800	68,000
Municipal Complex Improvement	1,150,000	0	25,000	1,125,000	65,000
Fire Truck	770,000	0	35,000	735,000	70,000
<i>Total General Obligation Bonds</i>	2,980,536	0	172,242	2,808,294	215,642
<i>Special Assessments Bonds</i>					
Chardon Sewer System Improvement	7,150	0	7,150	0	0
Sanitary Sewer Improvement	138,864	0	17,358	121,506	17,358
<i>Total Special Assessments Bonds</i>	146,014	0	24,508	121,506	17,358
Capital Leases	56,881	0	56,881	0	0
Compensated Absences	242,094	339,720	187,442	394,372	81,085
<i>Total Governmental Type Activities</i>	\$3,425,525	\$339,720	\$441,073	\$3,324,172	\$314,085

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

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

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.

The City's overall legal debt margin was \$26,845,183 with an unvoted debt margin of \$12,745,147 at December 31, 2006. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2006, are as follows:

Governmental Activities:

Year	General Obligation Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2007	\$215,642	\$123,487	\$17,358	\$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	251,642	82,866	17,358	2,760
2012-2016	1,267,484	238,617	34,716	2,760
2017-2021	385,000	40,278	0	0
Total	<u>\$2,808,294</u>	<u>\$777,462</u>	<u>\$121,506</u>	<u>\$26,311</u>

Business-Type Activities:

Year	OWDA Loans		OPWC Loans
	Principal	Interest	Principal
2007	\$160,375	\$117,576	\$31,225
2008	165,329	112,623	37,450
2009	170,436	107,515	37,450
2010	175,701	102,250	37,450
2011	181,130	96,821	37,450
2012-2016	993,148	396,609	187,250
2017-2021	1,156,420	233,337	187,250
2022-2027	878,220	53,473	174,750
2027	0	0	6,225
Total	<u>\$3,880,759</u>	<u>\$1,220,204</u>	<u>\$736,500</u>

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Note 12 – 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.

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.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Note 13 - 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.

For the year ended December 31, 2006, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 9 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. The City's contribution rate for pension benefits for 2006 was 13.70 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 16.93 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2006, 2005, and 2004 were \$168,426, \$174,834, and \$130,165 respectively; 96.86 percent has been contributed for 2006 and 100 percent for 2005 and 2004. Contributions to the member-directed plan for 2006 were \$6,281 made by the City and \$4,327 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 19.50 percent for police officers and 24 percent for firefighters. Contributions are authorized by State statute. The City's contributions to OP&F for police and firefighters were \$148,032 and \$107,439 for the year ended December 31, 2006, \$138,580 and \$105,942 for the year ended December 31, 2005 and \$128,084 and \$103,810 for the year ended

City of Willoughby Hills, Ohio
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For the Year Ended December 31, 2006

December 31, 2004. The full amount has been contributed for 2005 and 2004. 96.00 percent and 95.43 percent has been contributed for 2006.

Note 14 - 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 is available. Members of the member-directed plan do not qualify for postretirement health care coverage. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2006 local government employer contribution rate was 13.70 percent of covered payroll (16.93 percent for public safety and law enforcement); 4.50 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2005, include a rate of return on investments of 6.50 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.30 percent based on additional annual pay increases. Health care premiums were assumed to increase between .50 and 6.30 percent annually for the next nine years and 4.00 percent annually after nine years.

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

The number of active contributing participants in the traditional and combined plans was 339,214 as of December 31, 2006. The number of active contributing participants for both plans in the December 31, 2005, actuarial valuation was 358,804. Actual employer contributions for 2006 which were used to fund postemployment benefits were \$219,906. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2005, (the latest information available), were \$11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$31.3 billion and \$20.2 billion, respectively.

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

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

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 2006 and 2005. In addition, since July 1, 1992, most retirees and survivors have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2006 that were used to fund postemployment health care benefits were \$97,024 for police and \$52,136 for firefighters. The OP&F's total health care expense for the year ended December 31, 2005, (the latest information available) was \$108,039,449, which was net of member contributions of \$55,271,881. The number of OP&F participants eligible to receive health care benefits as of December 31, 2005, was 13,922 for police and 10,537 for firefighters.

Note 15 - Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2006, the City 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	3,000,000 aggregate
Vehicle	
Comprehensive	6,000,000 per occurrence
Collision	6,000,000 per occurrence
Law Enforcement Liability	3,000,000 aggregate
Public Officials Liability	2,000,000 aggregate
Employment Practices Liability	2,000,000 aggregate

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

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

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Note 16 – Contractual Commitment

As of December 31, 2006, the City had the following significant contractual commitments:

Contractor	Project	Contract Amount	Amount Paid	Remaining on Contract
Degoia Excavating Company	Euclid Sewer Phase II	\$5,874,585	\$5,375,585	\$499,000
Longo Sewer Construction Company	Woodlands Sewers	230,516	0	230,516
A.J. Gould Electric	Woodlands Sewers	57,500	0	57,500

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

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Mary Taylor, CPA

Auditor of State

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

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

To the City Council:

We were engaged to audit the financial statements of the City of Willoughby Hills, Lake County, Ohio, (the City) as of and for the years ended December 31, 2007 and 2006 and have issued our report thereon dated June 4, 2010. 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, and the inability to provide complete cash reconciliations, 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 as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the City's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the City's internal control over financial reporting.

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

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

We consider findings 2007-003 through 2007-005 described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. Of the significant deficiencies described above, we believe finding numbers 2007-003 and 2007-004 are also material weaknesses

We also noted certain internal control matters that we reported to the City's management in a separate letter dated June 4, 2010.

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 2007-001 and 2007-002.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated June 4, 2010.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the City's response 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

June 4, 2010

**CITY OF WILLOUGHBY HILLS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2007 AND 2006**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2007-001

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-nine percent (22 of 36) in FY 2007 and fifty-three percent (13 of 24) in FY 2006 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, 2007 AND 2006
(Continued)**

FINDING NUMBER 2007-001 (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. Current City procedures require 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.

FINDING NUMBER 2007-002

Material Noncompliance Citation

Expenditures plus Encumbrances Exceeded Appropriations *

Ohio Revised Code Section 5705.41(B) 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 December 31, 2007.

	<u>Appropriations</u>	<u>Expenditures Plus Encumbrances</u>	<u>Variance</u>
General Fund			
Courts			
Personal Services	\$ 40,840	\$ 48,061	\$ (7,221)
Security of Persons and Property			
Police Department			
Fringe Benefits	427,690	559,484	(131,794)
Contractual Services	64,750	76,150	(11,400)
Fire Department			
Personal Services	642,470	663,703	(21,233)
Fringe Benefits	270,796	406,698	(135,902)
Other	130,912	142,196	(11,284)

**CITY OF WILLOUGHBY HILLS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2007 AND 2006
(Continued)**

FINDING NUMBER 2007-002 (Continued)

Expenditures plus Encumbrances Exceeded Appropriations (Continued)

	<u>Appropriations</u>	<u>Expenditures Plus Encumbrances</u>	<u>Variance</u>
General Fund			
Dispatching			
Fringe Benefits	\$ 112,548	\$ 135,069	(22,521)
Leisure Time Activity			
Recreation Department			
Fringe Benefits	6,555	9,096	(2,541)
Special Revenue Funds			
Fire Levy Fund	742,681	758,998	(16,317)

The City had the following violations at December 31, 2006.

	<u>Appropriations</u>	<u>Expenditures Plus Encumbrances</u>	<u>Variance</u>
General Fund			
Administration			
Capital Outlay	\$ 3,024	\$ 32,724	\$ (29,700)
Courts			
Capital Outlay	-	1,217	(1,217)
Security of Persons and Property			
Police Department			
Fringe Benefits	311,887	329,061	(17,174)
Contractual Services	50,701	62,807	(12,106)
Materials and Supplies	35,255	53,499	(18,244)
Capital Outlay	4,723	7,365	(2,642)
Fire Department			
Personal Services	606,990	621,929	(14,939)
Dispatching			
Personal Services	236,356	239,220	(2,864)
Other	376	1,403	(1,027)
Recreation Department			
Personal Services	34,561	41,056	(6,495)
Building Department			
Personal Services	78,139	89,138	(10,999)
Contractual Services	11,782	16,158	(4,376)
Special Revenue Funds			
Federal Emergency Management Act	-	15,232	(15,232)
Motor Vehicle	-	1,792	(1,792)
Capital Projects Funds			
Fire Department Capital Improvement	111,000	117,272	(6,272)

**CITY OF WILLOUGHBY HILLS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2007 AND 2006
(Continued)**

FINDING NUMBER 2007-002 (Continued)

Expenditures plus Encumbrances Exceeded Appropriations * (Continued)

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.

During Fiscal Year 2008, the City made the following changes to its procedures.

- Budgetary reports are now submitted to the Mayor and City Council for comment and review on a monthly basis.
- Appropriations are monitored by the Finance Department and Ordinances to amend appropriations are submitted to Council for approval on an as-needed basis.

FINDING NUMBER 2007-003

Material Weakness

Accounting Software

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

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

We noted the City, which uses accounting software produced by CMI, has not performed software updates which made it difficult to provide us with the appropriate reports. The City had difficulties accessing reports for 2006 and 2007 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 yearend 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.

**CITY OF WILLOUGHBY HILLS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2007 AND 2006
(Continued)**

FINDING NUMBER 2007-003 (Continued)

Accounting Software (Continued)

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 negative receipt, negative expenditure, and negative appropriation entries which could not be documented or explained.

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 estimate resources or appropriated.

Due to the above we were not able to determine the completeness, existence/occurrence, presentation and disclosure, rights and obligations, and valuation or allocation of individual account balances or fund balances as of December 31, 2007 and 2006.

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 acknowledges this weakness. The City contracted with its software vendor to update its financial software system to the software's most current version and has maintained the system at that level of operation since. The reports generated by the system are reviewed and balanced on a monthly basis; any discrepancies in the reports are investigated, reconciled and corrected in a timely manner. Financial reports are now provided to the Mayor and City Council on a monthly basis.

Since January 2008, the staff of the Finance Department has been working to ensure that all financial transactions are supported by the proper documentation. The existence of Funds 251 and 291 was audited by the Finance staff and the results were given and reviewed with City Council. As a result, Council approved the closing of these unauthorized funds.

**CITY OF WILLOUGHBY HILLS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2007 AND 2006
(Continued)**

FINDING NUMBER 2007-004

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 2006. The main general checking account was the only account the City reconciled and this was only performed for September and December of 2007.
- 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, 2007 and December 31, 2006.
- The City did not maintain support for adjustments made on the monthly bank reconciliation.

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 weakness and acknowledges the importance of completing reconciliations of the City's bank accounts and investments to the City's books in a timely manner.

Beginning in January 2008, bank reconciliations of all City accounts and investments have been 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 2007-005

Significant Deficiency

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 38% (25 of 66) of receipts tested were not posted within seven days of the receipts.

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

Official's Response:

The City acknowledges this weakness. Beginning in January 2008, the Finance Department staff has been posting electronic funds transfer (EFT) transactions on a weekly basis after receiving notification of and verifying the validity of the EFT.

Over the counter cash receipts received by the Finance Department are deposited in the bank and posted to the City's financial system on a daily basis whenever possible. All departments are required to turn in their receipts to the Finance Department on a daily basis whenever possible.

**CITY OF WILLOUGHBY HILLS
LAKE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2007 and 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2005-001	Proper Encumbering – ORC 5705.41(D) – The City did not properly encumber all expenditures prior to receiving the goods or services.	No	Repeated as Finding Number 2007-001.
2005-002	Expenditures plus Encumbrances in excess of Appropriations – ORC 5705.41 (B) (D) – The City had many instances where expenditures plus encumbrances exceeded appropriations.	No	Repeated as Finding Number 2007-002.
2005-003	Interfund Transfers – ORC 5705.14 – The City did not obtain Council approval for interfund transfers.	Yes	
2005-004	Accounting Software – The City did not properly maintain or utilize their ledgers.	No	Repeated as Finding Number 2007-003.
2005-005	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 2007-004.
2005-006	Timely Posting of Receipts	No	Repeated as Finding Number 2007-005.



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
JULY 8, 2010