

# **City of Willowick**

## **Basic Financial Statements**

**December 31, 2003**





**Auditor of State  
Betty Montgomery**

Members of the City Council  
City of Willowick  
30435 Lakeshore Boulevard  
Willowick, Ohio 44095

We have reviewed the Independent Auditor's Report of the City of Willowick, Lake County, prepared by Ciuni & Panichi, Inc., for the audit period January 1, 2003 to December 31, 2003. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

*Betty Montgomery*

BETTY MONTGOMERY  
Auditor of State

July 16, 2004

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# City of Willowick, Ohio

For The Year Ended December 31, 2003

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# City of Willowick, Ohio

For The Year Ended December 31, 2003

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## Independent Auditor's Report

Members of the City Council  
Willowick, Ohio

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Willowick (the "City"), as of and for the year ended December 31, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 2003, and the respective changes in financial position and cash flows, where applicable and the respective budgetary comparison for the General Fund and the Fire Emergency Fund, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 16, the City has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards, Board Statement No. 34 *Basic Financial Statements, and Management's Discussion and Analysis—for State and Local Governments*, as of December 31, 2003.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2004 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Members of City Council  
Willowick, Ohio

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information the Government Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Cinni & Panichi, Inc.*

Cleveland, Ohio  
June 15, 2004

**City of Willowick**  
*Management's Discussion and Analysis (Unaudited)*  
*For The Fiscal Year Ended December 31, 2003*

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The discussion and analysis of the City of Willowick's financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2003. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers are encouraged to consider the information presented here in conjunction with the additional information contained in the financial statements and the notes thereof.

**Financial Highlights**

Key financial highlights for 2003 are as follows:

- ◆ The assets of the City of Willowick exceeded its liabilities at the close of the most recent fiscal year by \$36,848,029. Of this amount, \$4.98 million may be used to meet the City's ongoing obligations to citizens and creditors.
- ◆ Total assets decreased by \$149,155, which represents a decrease of approximately .34 percent over 2002. The most significant change was a decrease in Cash of \$588,533.
- ◆ Total liabilities decreased by \$1,023,819, which represents a decrease of 12.95 percent over 2002. The main factors contributing to this decrease was a decrease of \$994,764 in current liabilities specifically a decrease in accounts payable of \$477,781.
- ◆ In total, net assets in governmental activities increased by \$1,043,585 during 2003. This represents a 3.46 percent increase from 2002.

**Using this Annual Financial Report**

This discussion and analysis are intended to serve as an introduction to the City of Willowick's basic financial statements. The City of Willowick's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

***Government-wide financial statements – Reporting the City of Willowick as a Whole***

*Statement of Net Assets and the Statement of Activities*

The Statement of Net Assets presents information on all the City of Willowick's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increase or decrease in net assets may serve as a useful indicator of whether the financial position of the City of Willowick is improving or deteriorating. However, in evaluating the overall position of the City, nonfinancial factors such as the City's tax base, change in property and income tax laws, and the condition of the capital assets should also be considered. Both the Statement of Net Assets and the Statement of Activities use the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

**City of Willowick**  
*Management's Discussion and Analysis (Unaudited)*  
*For The Fiscal Year Ended December 31, 2003*

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

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

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

*Fund Financial Statements*

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

*Governmental Funds*

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

The City of Willowick maintains 25 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances, for the General fund, Fire Emergency Special Revenue fund, and the Capital Improvement Capital Projects fund, all of which are considered to be major funds.

*Proprietary Funds*

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

**City of Willowick**  
*Management's Discussion and Analysis (Unaudited)*  
*For The Fiscal Year Ended December 31, 2003*

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

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

*Fiduciary Funds*

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

*Notes to the Financial Statements*

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

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

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

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

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

**City of Willowick**  
*Management's Discussion and Analysis (Unaudited)*  
*For The Fiscal Year Ended December 31, 2003*

Table 1 provides a summary of the City's net assets for 2003 as compared to 2002.

**Table 1**  
**Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
<b>Assets</b>						
Current and Other Assets	\$12,204,642	\$12,684,174	\$ 1,621,441	\$ 1,603,889	\$ 13,826,083	\$ 14,288,063
Capital Assets, Net	25,707,483	25,225,619	4,195,760	4,364,799	29,903,243	29,590,418
<i>Total Assets</i>	<u>37,912,125</u>	<u>37,909,793</u>	<u>5,817,201</u>	<u>5,968,688</u>	<u>43,729,326</u>	<u>43,878,481</u>
<b>Liabilities</b>						
Current Liabilities and Other Liabilities	5,569,104	6,581,300	177,424	159,992	5,746,528	6,741,292
Long-term Liabilities						
Due Within One Year	100,000	100,000	0	0	100,000	100,000
Due In More Than One Year	1,034,769	1,063,824	0	0	1,034,769	1,063,824
<i>Total Liabilities</i>	<u>6,703,873</u>	<u>7,745,124</u>	<u>177,424</u>	<u>159,992</u>	<u>6,881,297</u>	<u>7,905,116</u>
<b>Net Assets</b>						
Invested in Capital Assets,						
Net of Related Debt	25,547,483	24,815,621	4,195,760	4,364,799	29,743,243	29,180,420
Restricted for:						
Capital Projects	2,345,155	1,572,468	0	0	2,345,155	1,572,468
Debt Service	31,032	31,032	0	0	31,032	31,032
Other Purposes	1,033,661	941,407	0	0	1,033,661	941,407
Unrestricted	3,250,921	2,804,139	1,444,017	1,443,897	4,694,938	4,248,036
<i>Total Net Assets</i>	<u>\$32,208,252</u>	<u>\$30,164,667</u>	<u>\$ 5,639,777</u>	<u>\$5,808,696</u>	<u>\$37,848,029</u>	<u>\$ 35,973,363</u>

Total assets remained at about \$43,729,326. Even though the cash and cash equivalents decreased by \$589,533, an increase in capital assets of \$312,825 offset this decrease primarily due to capital asset additions, net of accumulated depreciation and the deletion of fully depreciated capital assets.

**City of Willowick**  
*Management's Discussion and Analysis (Unaudited)*  
*For The Fiscal Year Ended December 31, 2003*

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The total net assets of the City increased by \$874,666. The following factors were responsible for this increase:

- Cash and cash equivalents showed a decrease of \$588,533 over 2002.
- A reduction in bonds payable of \$100,000.
- A decrease in current liabilities of \$994,764.
- An increase of \$312,825 in the capital assets.

Investments for the City have been in Star Ohio and CD's, due to the interest rates over the past year.

The City continues reviewing the fines and fees it charges. The fees charged to non-residents for the camp program, pool passes and the different adult sport's leagues were significantly increased to offset the disparity between the resident actual cost and non-resident fees. Additionally, the City significantly increased the fines for parking violations during 2003.

City Council enacted legislation in 2003 that increased the emergency medical service fee charged to non-residents. Additionally, Council enacted legislation providing for the same charge to be billed to all residents for medical assistance and transport provided.

The City of Willowick is part of the Ohio Municipal League's Group Rating Program for worker's compensation. This Program allows employers to group together to potentially achieve a lower premium rate. In 2003, the City received a premium savings of approximately \$84,000 by participating in this program.

The net assets of our business-type activities decreased by 2.91 percent in 2003. The City generally can only use these net assets to finance the continuing operations of the sewer system.

In order to further understand what makes up the changes in net assets for the current year, the following table gives readers further details regarding the results of activities for the current year. However, since this is the first year the City has prepared financial statements following GASB 34, revenue and expense comparisons to 2002 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

**City of Willowick**  
*Management's Discussion and Analysis (Unaudited)*  
*For The Fiscal Year Ended December 31, 2003*

Table 2  
Changes in Net Assets

	Governmental Activities	Business-Type Activities	Total
	2003	2003	2003
<b>Program Revenues</b>			
Charges for Services	\$703,062	\$1,615,597	\$2,318,659
<i>Total Program Revenues</i>	703,062	1,615,597	2,318,659
<b>General Revenues</b>			
Property Taxes	4,349,866	33,884	4,383,750
Income Taxes	2,151,280	-	2,151,280
Grants and Entitlements	3,496,966	-	3,496,966
Investment Earnings	79,443	-	79,443
<i>Total Revenues</i>	10,780,617	1,649,481	12,430,098
<b>Program Expenses</b>			
General Government	1,828,529		1,828,529
Security of Persons and Property	4,285,721		4,285,721
Public Health Services	86,837		86,837
Transportation	1,497,071		1,497,071
Leisure Time Activities	898,585		898,585
Community Environment	387,869		387,869
Basic Utility Services	898,583		898,583
Interest and Fiscal Charges	53,837		53,837
Sewer	-	1,618,400	1,618,400
Transfers	(200,000)	200,000	-
<i>Total Program Expenses</i>	9,737,032	1,818,400	11,555,432
<i>Change in Net Assets</i>	\$1,043,585	(\$168,919)	\$874,666

**City of Willowick**  
*Management's Discussion and Analysis (Unaudited)*  
*For The Fiscal Year Ended December 31, 2003*

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*Governmental Activities*

Several revenue sources fund our governmental activities with the City property tax being the largest contributor. The City's income tax revenue source is the third largest contributor with a rate of two percent on gross income which has not changed since 1997. Residents of the City who work in another community and pay the withholding tax for that community receive an 87.5 percent tax credit not to exceed 87.5% of the tax due the City of Willowick before credit. During 2003, the revenues generated from this tax amounted to \$2,151,280. The City continues to enforce the delinquent letter program and the subpoena program on a biennial basis to ensure compliance with the local tax laws. As expected, investment earnings continued to drop as the Federal Reserve maintained its thrust on rate cuts.

Security of Persons and Property and General Government are the major activities of the City generating 61.5 percent of the governmental expenses. Currently, there are 25 full-time sworn officers in the Police Department. The Department continues to place strong emphasis on the training of its employees to keep up with the rapidly changing laws, practices and technology. During 2003, the City received \$42,724 for the Cops In Schools Grant from the Department of Justice. The majority of the cost of operating the Department comes from the General Fund and those costs totaled \$2,698,465 in 2003. In addition to the Departments' operational costs, capital equipment and improvements totaled \$105,733 and were funded from the Police and Fire Capital Improvement Levy.

The Fire Department consists of 1 full-time Chief and 57 part-time firefighters, of which 36 are full-trained paramedics. Again, training plays a crucial role in the day-to-day operation of the Fire Department. The Department handled 1,637 calls for assistance of which approximately 1,350 were for EMS and 287 were for fire and fire-related incidents. This constituted a decrease of 2.73 percent over 2002. The total cost of operating the Fire and EMS Department during 2003 was \$1,276,375 with the costs split equally between the General Fund and the EMS Levy Fund. In addition to the operational costs, capital equipment and improvements totaling \$54,039 were funded from the Police and Fire Capital Improvement Levy and the EMS Levy Funds.

Transportation costs accounted for 15.1 percent of the 2003 governmental expenses. The City has an annual road program entailing major and minor resurfacing of the various streets in Willowick. In 2003, The City resurfaced E. 293<sup>rd</sup> Street at a cost of approximately \$96,000. The reconstruction of E. 288 Street was essentially completed during 2003. The total cost of the project was approximately \$1,600,000, of which \$806,000 or 50 percent of the total project cost was funded with federal funds administered by the Ohio Department of Transportation, \$137,500 or 8.6 percent of the total project cost was funded by a grant from the Ohio Public Works Commission and approximately \$90,000 or 5.6 percent of the total project cost was funded by Lake County.

*Business-Type Activities*

The Business-Type activities of the City, which include the City's sewer operations, decreased the City's net assets by \$168,919.

Net program expense exceeded program revenue in the amount of \$2,803 for the sewer operations for 2003. This is due to decreased contributions required to cover the City's share of operating expenses of the Sewer Fund.

**City of Willowick**  
*Management's Discussion and Analysis (Unaudited)*  
*For The Fiscal Year Ended December 31, 2003*

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**The City's Funds**

*Governmental Funds*

Information about the City's major funds starts on page 3. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$10,738,686 and expenditures of \$10,453,740. The net change in fund balance for the year was most significant in the Capital Improvement Capital Projects Fund showing an increase in fund balance of \$772,687 due to the fact the fund receives property tax money to be used to improve the City. The General Fund reflected a decrease of \$335,406, however, the beginning fund balance of \$1,709,600 is more than ample to meet these times of lower revenues. Overall the revenue base continues to meet City obligations and reflects the current solid financial condition of the City as a whole.

*General Fund Budgeting Highlights*

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

For the General Fund, budget basis revenue was the same as the original budget estimates of \$6,617,140. The City continues the conservative practice of estimating low in the tax, intergovernmental revenue and interest revenue areas. The original appropriations of \$7,763,418 was sufficient to meet the expenditures for the year, which ended up at \$7,053,038 or \$530,185 less than anticipated due to conservative spending.

The City's ending unobligated budgetary fund balance was \$340,932 higher than the final budgeted amount.

*Business-Type Funds*

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

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

**City of Willowick**  
*Management's Discussion and Analysis (Unaudited)*  
*For The Fiscal Year Ended December 31, 2003*

**Capital Assets and Debt Administration**

*Capital Assets*

At the end of fiscal 2003, the City of Willowick had \$29,903,243 invested in land, buildings, equipment and infrastructure.

Table 3 shows fiscal 2003 balances of Capital Assets as compared to 2002:

Table 3  
 Capital Assets at December 31

	Governmental		Business-Type		Totals	
	Activities		Activities			
	2003	2002	2003	2002	2003	2002
Land and Land Improvements	\$ 1,133,560	\$ 1,133,560	\$ -	\$ -	\$ 1,133,560	\$ 1,133,560
Buildings and Improvements	9,693,661	9,612,061	-	-	9,693,661	9,612,061
Machinery and Equipment	4,074,576	3,958,888	491,068	491,068	4,565,644	4,449,956
Infrastructure	22,928,199	21,141,244	8,719,734	8,707,234	31,647,933	29,848,478
Less: Accumulated Depreciation	(12,122,513)	(10,620,132)	(5,015,042)	(4,833,503)	(17,137,555)	(15,453,635)
Total Capital Assets	<u>\$ 25,707,483</u>	<u>\$ 25,225,621</u>	<u>\$ 4,195,760</u>	<u>\$ 4,364,799</u>	<u>\$ 29,903,243</u>	<u>\$ 29,590,420</u>

The City has an aggressive stance on maintaining its assets, including infrastructure, in excellent condition. The City seeks grants for infrastructure projects as well as for improvements to the City's facilities. These grants together with funds received from capital improvement levies [that are restricted for specific purposes] and the issuance of Councilmatic Notes, enabled the City to improve upon its capital assets and at the same time, pay cash or pay off any indebtedness on those assets in the short-term.

Regarding the infrastructure, the City's Engineering Department maintains a comprehensive listing of all the streets, bridges, culverts and sewer lines in the City. As a part of the City's annual road program, the Engineer evaluates the condition of each street and prepares a list of streets to be resurfaced or reconstructed. The list is reviewed by a City committee and their recommendations are referred to Council for approval. Upon Council approval of the projects, they are competitively bid. This program is paid for through funds generated by the Street Improvement Levy Fund.

Capital assets for business-type activities decreased by \$169,039 due to the City's reduction in asset purchases and an increase in accumulated depreciation.

The City is committed to a long-term goal of meeting the needs of its infrastructure and facilities and has a five-year capital plan in place that provides for street and sewer improvements. Most of the City facilities have been newly constructed or received a major renovation within the last five years.

**City of Willowick**  
*Management's Discussion and Analysis (Unaudited)*  
*For The Fiscal Year Ended December 31, 2003*

**Debt**

At December 31, 2003, the City of Willowick had \$1,134,769 in outstanding debt and compensated absences, of which \$310,000 was in General Obligation Bonds. Table 4 summarizes the outstanding obligations of the City.

Table 4  
 Outstanding Debt at Year End

	Governmental		Business-Type		Totals	
	Activities		Activities			
	2003	2002	2003	2002	2003	2002
General Obligation Bonds	\$ 310,000	\$ 410,000	\$ -	\$ -	\$ 310,000	\$ 410,000
Compensated Absences	824,769	783,824	-	-	824,769	783,824
<b>Total</b>	<b>\$ 1,134,769</b>	<b>\$ 1,193,824</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,134,769</b>	<b>\$ 1,193,824</b>

The City's overall legal debt margin as of December 31, 2003 was \$23,267,916. The outstanding general obligation debt at year-end was \$310,000, a decrease of \$100,000 or 32 percent from the prior year. Other obligations include accrued vacation pay and sick leave. More detailed information about the City's long-term liabilities is presented in the notes to the basic financial statements.

Additionally as of December 31, 2003, there was outstanding short-term debt in the amount of \$850,000 which represented a decrease of \$600,000 from 2002.

**Current Related Financial Activities**

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

On behalf of the City of Willowick, we personally thank Ciuni and Panichi, Inc., for their involvement and support in putting together the GASB 34 statements. Ciuni & Panichi, Inc. has committed themselves toward leading the way and providing necessary guidance to enable us to reach a level of excellence.

**City of Willowick**  
*Management's Discussion and Analysis (Unaudited)*  
*For The Fiscal Year Ended December 31, 2003*

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**Contacting the City of Willowick's Finance Department**

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

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# City of Willowick, Ohio

## Statement of Net Assets

**December 31, 2003**

	Governmental Activities	Business - Type Activities	Total
<b>Assets:</b>			
Equity in pooled cash and cash equivalents	\$ 5,787,145	\$ 1,305,300	\$ 7,092,445
Accounts receivable	136,994	-	136,994
Intergovernmental receivable	1,239,791	305,646	1,545,437
Interest receivable	14,825	-	14,825
Prepaid items	17,747	10,495	28,242
Materials and supplies inventory	26,725	-	26,725
Taxes receivable	4,981,415	-	4,981,415
Nondepreciable capital assets	738,242	-	738,242
Depreciable capital assets, net	<u>24,969,241</u>	<u>4,195,760</u>	<u>29,165,001</u>
Total assets	<u>37,912,125</u>	<u>5,817,201</u>	<u>43,729,326</u>
<b>Liabilities:</b>			
Accounts payable	173,768	-	173,768
Accrued wages and benefits	421,080	58,269	479,349
Intergovernmental payable	44,702	119,155	163,857
Accrued interest payable	21,440	-	21,440
Notes payable	850,000	-	850,000
Deferred revenue	4,058,114	-	4,058,114
<b>Long-term liabilities:</b>			
Due within one year	351,548	-	351,548
Due in more than one year	<u>783,221</u>	<u>-</u>	<u>783,221</u>
Total liabilities	<u>6,703,873</u>	<u>177,424</u>	<u>6,881,297</u>
<b>Net assets:</b>			
Invested in capital assets, net of related debt	24,547,483	4,195,760	28,743,243
<b>Restricted for:</b>			
Capital projects	2,345,155	-	2,345,155
Debt service	31,032	-	31,032
Other purposes	1,033,661	-	1,033,661
Unrestricted	<u>3,250,921</u>	<u>1,444,017</u>	<u>4,694,938</u>
Total net assets	<u>\$ 31,208,252</u>	<u>\$ 5,639,777</u>	<u>\$ 36,848,029</u>

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

# City of Willowick, Ohio

## Statement of Activities

### For The Year Ended December 31, 2003

	<u>Program Revenues</u>	
	<u>Expenses</u>	<u>Charges for Services</u>
Government activities:		
General government	\$ 1,828,529	\$ 81,176
Security of persons and property	4,285,721	323,367
Public health and welfare	86,837	-
Transportation	1,497,071	-
Leisure time activities	898,585	155,534
Community development	387,869	142,985
Basic utility service	898,583	-
Interest and fiscal charges	53,837	-
Total governmental activities	<u>9,937,032</u>	<u>703,062</u>
Business-type activities:		
Sewer	<u>1,618,400</u>	<u>1,615,597</u>
Totals	<u>\$ 11,555,432</u>	<u>\$ 2,318,659</u>

General revenues:

Property and other local taxes levied for:

    General purposes

    Debt service

Municipal income taxes levied for:

    General purposes

    Grants and entitlements not restricted to specific programs

    Investment income

    Transfers

    Total general revenues and transfers

Change in net assets

Net assets, beginning of year

Net assets, end of year

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

Net (Expense) Revenue  
and Changes in Net Assets

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Primary Government

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<u>Governmental Activities</u>	<u>Business - Type Activities</u>	<u>Total</u>
\$ (1,747,353)	\$ -	\$ (1,747,353)
(3,962,354)	-	(3,962,354)
(86,837)	-	(86,837)
(1,497,071)	-	(1,497,071)
(743,051)	-	(743,051)
(244,884)	-	(244,884)
(898,583)	-	(898,583)
(53,837)	-	(53,837)
<u>(9,233,970)</u>	<u>-</u>	<u>(9,233,970)</u>
-	(2,803)	(2,803)
<u>(9,233,970)</u>	<u>(2,803)</u>	<u>(9,236,773)</u>
4,271,635	33,884	4,305,519
78,231	-	78,231
2,151,280	-	2,151,280
3,496,966	-	3,496,966
79,443	-	79,443
<u>200,000</u>	<u>(200,000)</u>	<u>-</u>
<u>10,277,555</u>	<u>(166,116)</u>	<u>10,111,439</u>
1,043,585	(168,919)	874,666
<u>30,164,667</u>	<u>5,808,696</u>	<u>35,973,363</u>
\$ <u><u>31,208,252</u></u>	\$ <u><u>5,639,777</u></u>	\$ <u><u>36,848,029</u></u>

# City of Willowick, Ohio

## Balance Sheet - Governmental Funds

**December 31, 2003**

	<u>General</u>	<u>Fire Emergency</u>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents	\$ 1,307,676	\$ 421,577
Income taxes receivable	2,879,496	567,357
Accounts receivable	48,187	88,807
Accrued interest receivable	14,825	-
Intergovernmental receivable	1,018,429	-
Materials and supplies inventory	8,366	-
Prepaid items	<u>13,926</u>	<u>1,843</u>
Total assets	<u>\$ 5,290,905</u>	<u>\$ 1,079,584</u>
<b>Liabilities and fund balances:</b>		
<b>Liabilities:</b>		
Accounts payable	\$ 65,814	\$ 5,134
Accrued wages	220,343	29,792
Intergovernmental payable	33,609	3,347
Deferred revenue	3,596,945	567,357
Accrued interest payable	-	-
Notes payable	<u>-</u>	<u>-</u>
Total liabilities	<u>3,916,711</u>	<u>605,630</u>
<b>Fund balances:</b>		
Reserve for encumbrances	187,281	20,475
Reserve for inventory	8,366	-
Reserve for prepaid items	13,926	1,843
<b>Unreserved for:</b>		
<b>Undesignated, reported in:</b>		
General fund	1,162,795	-
Special revenue funds	1,826	451,636
Debt service fund	-	-
Capital project fund	<u>-</u>	<u>-</u>
Total fund balances	<u>1,374,194</u>	<u>473,954</u>
Total liabilities and fund balances	<u>\$ 5,290,905</u>	<u>\$ 1,079,584</u>

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

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<u>Capital Improvement</u>	<u>Other Governmental</u>	<u>Total</u>
\$ 3,288,769	\$ 769,123	\$ 5,787,145
1,148,763	385,799	4,981,415
-	-	136,994
-	-	14,825
-	221,362	1,239,791
-	18,359	26,725
-	1,978	17,747
<u>\$ 4,437,532</u>	<u>\$ 1,396,621</u>	<u>\$ 12,204,642</u>

\$ 83,286	\$ 19,534	\$ 173,768
-	167,385	417,520
125	7,621	44,702
1,148,763	574,063	5,887,128
10,203	-	10,203
850,000	-	850,000
<u>2,092,377</u>	<u>768,603</u>	<u>7,383,321</u>

374,401	64,517	646,674
-	18,359	26,725
-	1,978	17,747
-	-	1,162,795
-	512,132	965,594
-	31,032	31,032
<u>1,970,754</u>	<u>-</u>	<u>1,970,754</u>
<u>2,345,155</u>	<u>628,018</u>	<u>4,821,321</u>
<u>\$ 4,437,532</u>	<u>\$ 1,396,621</u>	<u>\$ 12,204,642</u>

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# City of Willowick, Ohio

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

**December 31, 2003**

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Total Governmental Funds Balances \$ 4,821,321

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

Capital assets used in Governmental Activities are not financial resources and therefore are not reported in the funds. 25,707,483

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

Property and other taxes	\$ 154,369
Municipal income taxes	595,329
Intergovernmental	<u>1,079,316</u>

Total 1,829,014

Accrued wages and benefits include contractually required pension contributions not expected to be paid with expendable available financial resources and therefore not reported in the funds. (3,560)

In the Statement of Activities, interest is accrued on outstanding bonds, whereas in Governmental Funds, an interest expenditure is reported when due. (11,237)

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

General obligation bonds	(310,000)
Compensated absences	<u>(824,769)</u>

Total (1,134,769)

*Net assets of Governmental Activities* \$ 31,208,252

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

# City of Willowick, Ohio

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

### For The Year Ended December 31, 2003

	<u>General</u>	<u>Fire Emergency</u>
Revenues:		
Property taxes	\$ 1,813,935	\$ 487,634
Municipal income tax	2,218,852	-
Other local taxes	375,177	70,937
Intergovernmental	2,064,491	12,507
Charges for services	27,392	245,836
License and permits	141,913	-
Fines and forfeitures	215,257	-
Special assessments	-	-
Investment income	78,244	-
Reimbursements received	-	-
Miscellaneous income	<u>63,374</u>	<u>-</u>
Total revenues	<u>6,998,635</u>	<u>816,914</u>
Expenditures:		
Current:		
Security of persons and property	3,098,125	677,928
Public health	86,837	-
Leisure time activities	857,180	-
Community development	246,484	-
Basic utility service	752,149	-
Transportation	197,215	-
General government	1,551,051	-
Capital outlay	-	-
Debt service:		
Principal retirement	-	-
Interest and fiscal charges	<u>-</u>	<u>-</u>
Total expenditures	<u>6,789,041</u>	<u>677,928</u>
Excess of revenues over (under) expenditures	<u>209,594</u>	<u>138,986</u>
Other financing sources (uses):		
Transfers – in	-	-
Transfers – out	<u>(545,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>(545,000)</u>	<u>-</u>
Net change in fund balance	(335,406)	138,986
Fund balance at beginning of year	<u>1,709,600</u>	<u>334,968</u>
Fund balance at end of year	\$ <u>1,374,194</u>	\$ <u>473,954</u>

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

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	<u>Capital Improvements</u>	<u>Other Governmental</u>	<u>Total</u>
\$	987,236	\$	3,620,600
	-	-	2,218,852
	144,915	48,236	639,265
	884,198	516,268	3,477,464
	-	-	273,228
	-	-	141,913
	-	1,871	217,128
	-	-	-
	1,199	-	79,443
	-	-	-
	-	<u>7,419</u>	<u>70,793</u>
	<u>2,017,548</u>	<u>905,589</u>	<u>10,738,686</u>
	-	301,731	4,077,784
	-	-	86,837
	-	-	857,180
	-	115,829	362,313
	-	144,084	896,233
	-	523,707	720,922
	-	282	1,551,333
	1,743,675	-	1,743,675
	-	100,000	100,000
	16,186	<u>41,277</u>	<u>57,463</u>
	<u>1,759,861</u>	<u>1,226,910</u>	<u>10,453,740</u>
	<u>257,687</u>	<u>(321,321)</u>	<u>284,946</u>
	515,000	350,000	865,000
	-	<u>(120,000)</u>	<u>(665,000)</u>
	<u>515,000</u>	<u>230,000</u>	<u>200,000</u>
	772,687	(91,321)	484,946
	<u>1,572,468</u>	<u>719,339</u>	<u>4,336,375</u>
\$	<u>2,345,155</u>	\$	<u>4,821,321</u>

## City of Willowick, Ohio

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

#### **For The Year Ended December 31, 2003**

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Net Change in Fund Balances - Total Governmental Funds \$ 484,946

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

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

Capital outlay	\$ 1,984,243	
Depreciation	<u>(1,502,381)</u>	
Total		481,862

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

Property and other taxes	90,001	
Municipal income taxes	(67,572)	
Intergovernmental	<u>19,502</u>	
Total		41,931

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

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

Compensated absences	(70,945)	
Accrued wages and benefits	2,165	
Accrued interest on bonds	<u>3,626</u>	
Total		<u>(65,154)</u>

*Change in Net Assets of Governmental Activities* \$ 1,043,585

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

# City of Willowick, Ohio

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

### For The Year Ended December 31, 2003

	Budget		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
<b>Revenues:</b>				
Property taxes	\$ 2,033,221	\$ 2,033,221	\$ 1,813,935	\$ (219,286)
Municipal income taxes	1,949,779	1,949,779	2,194,370	244,591
Other local taxes	301,944	301,944	339,822	37,878
Intergovernmental	1,840,182	1,840,182	2,071,025	230,843
Charges for services	24,339	24,339	27,392	3,053
Licenses and permits	142,559	142,559	160,442	17,883
Fines and forfeitures	191,331	191,331	215,333	24,002
Investment income	64,264	64,264	72,326	8,062
Other	<u>69,521</u>	<u>69,521</u>	<u>78,242</u>	<u>8,721</u>
Total revenues	<u>6,617,140</u>	<u>6,617,140</u>	<u>6,972,887</u>	<u>355,747</u>
<b>Expenditures:</b>				
Current operations and maintenance:				
Security of persons and property	3,511,241	3,277,043	3,129,069	147,974
Public health	95,000	90,289	86,837	3,452
Leisure time activities	888,677	893,325	857,591	35,734
Community development	420,861	482,532	358,348	124,184
Basic utility services	755,900	780,731	750,881	29,850
Transportation	231,418	205,288	197,439	7,849
General government	<u>1,670,321</u>	<u>1,664,016</u>	<u>1,672,873</u>	<u>(8,857)</u>
Total expenditures	<u>7,573,418</u>	<u>7,393,223</u>	<u>7,053,038</u>	<u>340,185</u>
Excess of revenues over (under) expenditures	<u>(956,278)</u>	<u>(776,083)</u>	<u>(80,151)</u>	<u>695,932</u>
<b>Other financing sources (uses):</b>				
Transfers – out	<u>(190,000)</u>	<u>(190,000)</u>	<u>(545,000)</u>	<u>(355,000)</u>
Total other financing sources (uses)	<u>(190,000)</u>	<u>(190,000)</u>	<u>(545,000)</u>	<u>(355,000)</u>
Net change in fund balance	(1,146,278)	(966,083)	(625,151)	340,932
Fund balance at beginning of year	1,683,019	1,683,019	1,683,019	-
Outstanding encumbrances	<u>249,808</u>	<u>249,808</u>	<u>249,808</u>	<u>-</u>
Fund balance at end of year	\$ <u>786,549</u>	\$ <u>966,744</u>	\$ <u>1,307,676</u>	\$ <u>340,932</u>

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

## City of Willowick, Ohio

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

#### For The Year Ended December 31, 2003

	Budget		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
Revenues:				
Property taxes	\$ 546,566	\$ 546,566	\$ 487,634	\$ (58,932)
Other local taxes	6,591	43,465	70,937	27,472
Intergovernmental	1,162	7,663	12,507	4,844
Charges for services	<u>14,591</u>	<u>96,216</u>	<u>157,029</u>	<u>60,813</u>
Total revenues	<u>568,910</u>	<u>693,910</u>	<u>728,107</u>	<u>34,197</u>
Expenditures:				
Current:				
Security of persons and property	<u>749,909</u>	<u>712,655</u>	<u>698,054</u>	<u>14,601</u>
Net change in fund balance	(180,999)	(18,745)	30,053	48,798
Fund balance at beginning of year	365,915	365,915	365,915	-
Outstanding encumbrances	<u>25,609</u>	<u>25,609</u>	<u>25,609</u>	<u>-</u>
Fund balance at end of year	\$ <u>210,525</u>	\$ <u>372,779</u>	\$ <u>421,577</u>	\$ <u>48,798</u>

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

# City of Willowick, Ohio

## Statement of Fund Net Assets - Proprietary Funds

**December 31, 2003**

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	<u>Business-Type Activities</u>
	<u>Sewer</u>
Assets:	
Current assets:	
Equity in pooled cash and cash equivalents	\$ 1,305,300
Intergovernmental receivable	305,646
Prepaid items	<u>10,495</u>
Total current assets	1,621,441
Non-current assets:	
Depreciable capital assets, net	<u>4,195,760</u>
Total assets	<u>5,817,201</u>
Current liabilities:	
Accrued wages and benefits	58,269
Intergovernmental payable	<u>119,155</u>
Total liabilities	<u>177,424</u>
Net assets:	
Invested in capital assets, net of related debt	4,195,760
Unrestricted	<u>1,444,017</u>
Total net assets	\$ <u><u>5,639,777</u></u>

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

# City of Willowick, Ohio

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

### For The Year Ended December 31, 2003

	<u>Business-Type Activities</u>
	<u>Sewer</u>
Operating revenues:	
Charges for services	\$ 1,612,568
Other	<u>3,029</u>
Total operating revenues	<u>1,615,597</u>
Operating expenses:	
Personal services	331,201
Contractual services	1,105,660
Depreciation	<u>181,539</u>
Total operating expenses	<u>1,618,400</u>
Operating loss	(2,803)
Non-operating revenues (expenses):	
Property taxes	<u>33,884</u>
Income before transfers	31,081
Transfers – out	<u>(200,000)</u>
Change in net assets	(168,919)
Total net assets beginning of year, restated	<u>5,808,696</u>
Total net assets end of year	\$ <u><u>5,639,777</u></u>

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

# City of Willowick, Ohio

## Statement of Cash Flows – Proprietary Funds

### For The Year Ended December 31, 2003

	<u>Sewer</u>
Increase (decrease) in cash and cash equivalents:	
Cash flow from operating activities:	
Cash received from customers	\$ 1,617,086
Cash payments for contractual services	(1,067,750)
Cash payments for employee services and benefits	(352,807)
Cash received for other operating activities	<u>3,029</u>
Net cash provided by operating activities	<u>199,558</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	<u>(12,500)</u>
Cash flows from non-capital financing activities:	
Property taxes	33,884
Transfers – out	<u>(200,000)</u>
Net cash used in non-capital financing activities	<u>(166,116)</u>
Net increase in cash and cash equivalents	20,942
Cash and cash equivalents beginning of year	<u>1,284,358</u>
Cash and cash equivalents end of year	\$ <u><u>1,305,300</u></u>
Reconciliation of operating loss to net cash from operating activities:	
Operating loss	\$ (2,803)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation	181,539
Changes in assets and liabilities:	
Decrease in accounts receivable	4,518
Increase in prepaid items	(1,128)
Decrease in accounts payable	(78,396)
Increase in accrued wages and benefits	1,397
Decrease in compensated absences payable	(21,754)
Increase in accrued pension	454
Increase in due to other governments	<u>115,731</u>
Net cash provided by operating activities	\$ <u><u>199,558</u></u>

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

# City of Willowick, Ohio

## Statement of Fiduciary Net Assets – Fiduciary Funds

**December 31, 2003**

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	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ <u>66,807</u>
Total assets	\$ <u><u>66,807</u></u>
Liabilities:	
Deposits held	\$ <u>66,807</u>
Total liabilities	\$ <u><u>66,807</u></u>

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

# City of Willowick, Ohio

## Notes To Basic Financial Statements

### **For The Year Ended December 31, 2003**

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#### **Note 1: The Reporting Entity**

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

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

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

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

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

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

#### Jointly Governed Organization

*Lake County General Health District* – The Lake County General Health District, a jointly governed organization, provides health services to the citizens within the County. The Board of Health, which consists of a representative from each of the participating governments, oversees the operation of the District. The members are elected to staggered five year terms. Two members are elected by the City of Mentor. The remaining 13 members are elected by the various mayors of villages, chairmen of the township trustees, and the County Commissioners. Five townships, nine villages, and nine cities, including the City of Willowick, participate in the District. The City contributed \$86,837 during 2003 for the operation of the District.

# City of Willowick, Ohio

Notes to the Basic Financial Statements (continued)

## **For The Year Ended December 31, 2003**

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### **Note 2: Summary of Significant Accounting Policies**

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

#### **A. Basis of Presentation**

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

##### *Government-Wide Financial Statements*

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

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

##### *Fund Financial Statements*

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

# City of Willowick, Ohio

Notes to the Basic Financial Statements (continued)

## **For The Year Ended December 31, 2003**

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### **Note 2: Summary of Significant Accounting Policies (continued)**

#### **B. Fund Accounting**

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

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

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

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

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

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

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

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

# City of Willowick, Ohio

Notes to the Basic Financial Statements (continued)

## **For The Year Ended December 31, 2003**

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### **Note 2: Summary of Significant Accounting Policies (continued)**

#### **C. Measurement Focus and Basis of Accounting**

##### *Government-Wide Financial Statements*

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

##### *Fund Financial Statements*

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

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

#### **D. Basis of Accounting**

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

##### *Revenues – Exchange and Non-Exchange Transactions*

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

# City of Willowick, Ohio

Notes to the Basic Financial Statements (continued)

## **For The Year Ended December 31, 2003**

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### **Note 2: Summary of Significant Accounting Policies (continued)**

#### **D. Basis of Accounting (continued)**

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

Revenue from property taxes is recognized in the year for which the taxes are levied (see Note 5).

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

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

#### *Deferred Revenue*

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

Property taxes for which there is an enforceable legal claim as of December 31, 2003, but which were levied to finance year 2004 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

#### *Expenses/Expenditures*

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

# City of Willowick, Ohio

Notes to the Basic Financial Statements (continued)

## **For The Year Ended December 31, 2003**

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### **Note 2: Summary of Significant Accounting Policies (continued)**

#### **E. Budgetary Process**

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

#### *Tax Budget*

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

#### *Estimated Resources*

The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include encumbered cash balances at December 31 of the preceding year. The certificate may be further amended during the year if the Finance Director determines, and the Budget Commission agrees, that an estimate needs to be either increased or decreased. The amounts reported on the budgetary statement reflect the amounts in the fiscal amended official certificate of estimated resources issued during 2003.

#### *Appropriations*

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

# City of Willowick, Ohio

Notes to the Basic Financial Statements (continued)

## **For The Year Ended December 31, 2003**

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### **Note 2: Summary of Significant Accounting Policies (continued)**

#### **E. Budgetary Process (continued)**

##### *Lapsing of Appropriations*

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

##### *Encumbrances*

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

#### **F. Cash and Cash Equivalents**

Cash received by the City is deposited into several bank accounts. Monies for all funds, including the enterprise fund, are maintained in these accounts or temporarily used to purchase short-term investments. Individual fund integrity is maintained through the City's records. Each fund's interest in the pooled bank accounts is presented as "cash and cash equivalents" on the combined balance sheet. During fiscal year 2003, investments were limited to STAR Ohio. STAR Ohio is an investment pool managed by the State Treasurer's office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 2003. All investment earnings accrue to the general fund except those specifically related to certain capital projects and the proprietary fund.

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

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

#### **G. Inventory**

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

# City of Willowick, Ohio

Notes to the Basic Financial Statements (continued)

## **For The Year Ended December 31, 2003**

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### **Note 2: Summary of Significant Accounting Policies (continued)**

#### **H. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond December 31, 2003, are recorded as prepaid items by using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

#### **I. Capital Assets**

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

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

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

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

#### **J. Interfund Balances**

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

# City of Willowick, Ohio

Notes to the Basic Financial Statements (continued)

## **For The Year Ended December 31, 2003**

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### **Note 2: Summary of Significant Accounting Policies (continued)**

#### **K. Compensated Absences**

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

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

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

#### **L. Accrued Liabilities and Long-Term Obligations**

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

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

#### **M. Fund Balance Reserves**

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

#### **N. Net Assets**

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

# City of Willowick, Ohio

Notes to the Basic Financial Statements (continued)

## **For The Year Ended December 31, 2003**

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### **Note 2: Summary of Significant Accounting Policies (continued)**

#### **N. Net Assets (continued)**

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

#### **O. Operating Revenues and Expenses**

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

#### **P. Interfund Activity**

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

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

#### **Q. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2003.

#### **R. Estimates**

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

# City of Willowick, Ohio

Notes to the Basic Financial Statements (continued)

## For The Year Ended December 31, 2003

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### **Note 3: Budgetary Basis of Accounting**

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

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

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

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

	<u>Net Change in Fund Balance</u>	
	<u>General</u>	<u>Fire Emergency</u>
GAAP basis	\$ (335,406)	\$ 138,986
Increase (decrease) due to:		
Revenue accruals	(25,748)	(88,807)
Expenditure accruals	(513,805)	(45,735)
Encumbrances outstanding	<u>249,808</u>	<u>25,609</u>
Budget basis	\$ <u>(625,151)</u>	\$ <u>30,053</u>

# City of Willowick, Ohio

Notes to the Basic Financial Statements (continued)

## **For The Year Ended December 31, 2003**

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### **Note 4: Deposits and Investments**

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

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including pass book accounts. Interim monies may be invested in the following obligations provided they mature or are redeemable within two years from the date of principal and interest;

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

# City of Willowick, Ohio

Notes to the Basic Financial Statements (continued)

## **For The Year Ended December 31, 2003**

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### **Note 4: Deposits and Investments (continued)**

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

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

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

#### **A. Deposits**

At year-end, the carrying amount of the City's deposits was \$1,963,173 and the bank balance was \$2,163,090. Of the bank balance:

1. \$300,000 was covered by federal depository insurance.
2. \$1,863,090 was covered by collateral held by financial institutions not in the City's name or by single financial institution collateralized pools held in the financial institution's name as specified by Section 135.181 of the Ohio Revised Code.

#### **B. Investments**

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

<u>Description</u>	<u>Fair Value</u>
Investment in State treasurer's investment pool (STAR Ohio)*	\$ <u>5,196,079</u>

\* Noncategorized

STAROhio is an investment pool managed by the State Treasurer's office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on December 31, 2003.

# City of Willowick, Ohio

Notes to the Basic Financial Statements (continued)

## For The Year Ended December 31, 2003

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### Note 5: Receivables

#### A. Property Taxes

Property taxes include amounts levied against all real, public utility and tangible personal property located in the City. Taxes collected on real property (other than public utility) in one calendar year are levied in the preceding calendar year on assessed values as of January 1 of the preceding year, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be revalued every six years. The last update was completed in 2000. Real property taxes are payable annually or semi-annually. The first payment is due January 20, with the remainder payable by June 20.

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

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

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

The full tax rate for all City operations for the year ended December 31, 2003 was \$19.50 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2003 property tax receipts were based are as follows:

Real property	\$ 216,246,830
Public utility property	3,162,920
Tangible personal property	<u>5,141,837</u>
Total valuation	\$ <u>224,551,587</u>

# City of Willowick, Ohio

Notes to the Basic Financial Statements (continued)

## **For The Year Ended December 31, 2003**

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### **Note 5: Receivables (continued)**

#### **B. Income Taxes**

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

#### **C. Intergovernmental Receivables**

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
Governmental activities:	
Local government	\$ 918,525
Local government – revenue assistance	99,904
Gasoline\motor vehicle license tax	144,463
Permissive tax	6,899
Lake county	<u>70,000</u>
Total	<u>\$ 1,239,791</u>

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

# City of Willowick, Ohio

Notes to the Basic Financial Statements (continued)

## For The Year Ended December 31, 2003

### Note 6: Capital Assets

Capital asset activity for the year ended December 31, 2003, was as follows:

	Balance 12/31/02	Restated	Balance 12/31/02 Restated	Additions	Disposals	Balance 12/31/03
<b>Governmental Activities:</b>						
Capital assets not being depreciated:						
Land	\$ 738,242	\$ -	\$ 738,242	\$ -	\$ -	\$ 738,242
Capital assets being depreciated:						
Land improvements	407,300	(11,982)	395,318	-	-	395,318
Building and improvements	9,629,677	(17,617)	9,612,060	81,600	-	9,693,660
Machinery and equipment	4,732,923	(774,035)	3,958,888	115,688	-	4,074,576
Infrastructure:						
Roadways	-	17,316,444	17,316,444	1,353,750	-	18,670,194
Sidewalks	-	1,309,429	1,309,429	128,155	-	1,437,584
Drive aprons	-	1,036,487	1,036,487	160,650	-	1,197,137
Curbs	-	1,478,884	1,478,885	144,400	-	1,623,285
Total capital assets being depreciated	14,769,900	20,337,610	35,107,511	1,984,243	-	37,091,754
Less accumulated depreciation:						
Land improvements	-	82,854	82,854	26,352	-	109,206
Building and improvements	-	2,204,834	2,204,834	238,948	-	2,443,782
Machinery and equipment	-	1,960,007	1,960,007	319,954	-	2,279,961
Infrastructure:						
Roadways	-	5,144,468	5,144,468	746,808	-	5,891,276
Sidewalks	-	422,331	422,331	57,503	-	479,834
Drive aprons	-	322,999	322,999	47,885	-	370,884
Curbs	-	482,639	482,639	64,931	-	547,570
Total accumulated depreciation	-	10,620,132	10,620,132	1,502,381	-	12,122,513
Net capital assets being depreciated	14,769,900	9,717,478	24,487,379	481,862	-	24,969,241
Governmental activities capital assets, net	\$ 15,508,142	\$ 9,717,478	\$ 25,225,621	\$ 481,862	\$ -	\$ 25,707,483

# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## For The Year Ended December 31, 2003

### Note 6: Capital Assets (continued)

	Balance 12/31/02	Restated	Balance 12/31/02 Restated	Additions	Disposals	Balance 12/31/03
<b>Business-type activities:</b>						
Capital assets being depreciated:						
Machinery and equipment	\$ 555,910	\$ (64,842)	\$ 491,068	\$ -	\$ -	\$ 491,068
Infrastructure:						
Sanitary sewers	3,010,878	-	3,010,878	-	-	3,010,878
Storm sewers	<u>-</u>	<u>5,696,356</u>	<u>5,696,356</u>	<u>12,500</u>	<u>-</u>	<u>5,708,856</u>
 Total capital assets being depreciated	 <u>3,566,788</u>	 <u>5,631,514</u>	 <u>9,198,302</u>	 <u>12,500</u>	 <u>-</u>	 <u>9,210,802</u>
Less accumulated depreciation:						
Machinery and equipment	505,427	(262,474)	242,953	22,032	-	264,985
Infrastructure:						
Sanitary sewers	2,737,453	117,182	2,854,635	43,080	-	2,897,715
Storm sewers	<u>-</u>	<u>1,735,915</u>	<u>1,735,915</u>	<u>116,427</u>	<u>-</u>	<u>1,852,342</u>
 Total accumulated depreciation	 <u>3,242,880</u>	 <u>1,590,623</u>	 <u>4,833,503</u>	 <u>181,539</u>	 <u>-</u>	 <u>5,015,042</u>
 Business-type activities capital assets, net	 <u>\$ 323,908</u>	 <u>\$ 4,040,891</u>	 <u>\$ 4,364,799</u>	 <u>\$ (169,039)</u>	 <u>\$ -</u>	 <u>\$ 4,195,760</u>

Depreciation expense was charged to governmental activities as follows:

Security of persons and property	\$ 204,486
Leisure time activities	124,219
Community development	19,741
Basic utility	2,349
Transportation	938,254
General government	<u>213,332</u>
Total	<u>\$ 1,502,381</u>

# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## For The Year Ended December 31, 2003

### Note 7: Long-Term Obligations

#### A. Original Issues

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

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

Change in long-term obligations of the City during 2003 were as follows:

	<u>Balances 12/31/02</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balances 12/31/03</u>	<u>Due Within One Year</u>
General long-term obligation bonds:					
7.25% Street improvement Series 1986-1 (waterlines)	\$ 90,000	\$ -	\$ (20,000)	\$ 70,000	\$ 20,000
7.25% Street improvement Series 1986-1 (Bayridge)	<u>320,000</u>	<u>-</u>	<u>(80,000)</u>	<u>240,000</u>	<u>80,000</u>
Total general obligation Bonds	<u>410,000</u>	<u>-</u>	<u>(100,000)</u>	<u>310,000</u>	<u>100,000</u>
Other obligations:					
Compensated absences	<u>753,824</u>	<u>70,945</u>	<u>-</u>	<u>824,769</u>	<u>251,548</u>
Total governmental long-term liabilities	\$ <u>1,163,824</u>	\$ <u>70,945</u>	\$ <u>(100,000)</u>	\$ <u>1,134,769</u>	\$ <u>351,548</u>

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

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2003 are as follows:

<u>Year</u>	<u>General Obligation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 100,000	\$ 22,475	\$ 122,475
2005	105,000	15,225	120,225
2006	<u>105,000</u>	<u>7,613</u>	<u>112,613</u>
	\$ <u>310,000</u>	\$ <u>45,313</u>	\$ <u>355,313</u>

# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## **For The Year Ended December 31, 2003**

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### **Note 8: Note Debt**

The City's note activity for the year ended December 31, 2003 is as follows:

	<u>Balances</u> <u>12/31/02</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balances</u> <u>12/31/03</u>
2.17% Sanitary sewer improvement	\$ 1,000,000	\$ -	\$ (1,000,000)	\$ -
2.10% Community center	300,000	-	(300,000)	-
2.17% Dudley pool improvement	150,000	-	(150,000)	-
1.25% Sanitary sewer improvement	-	500,000	-	500,000
2.10% Community center	-	200,000	-	200,000
1.25% Dudley pool improvement	-	<u>150,000</u>	<u>-</u>	<u>150,000</u>
Total notes	<u>\$ 1,450,000</u>	<u>\$ 850,000</u>	<u>\$ (1,450,000)</u>	<u>\$ 850,000</u>

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

### **Note 9: Operating Leases**

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

The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2003:

<u>Year</u>	<u>Amounts</u>
2004	\$ 20,147
2005	20,147
2006	20,147
2007	<u>18,468</u>
Total minimum payments required	<u>\$ 78,909</u>

### **Note 10: Employee Benefits – Compensated Absences**

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

# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## **For The Year Ended December 31, 2003**

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### **Note 10: Employee Benefits – Compensated Absences (continued)**

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

### **Note 11: Pension Plans**

#### **A. Ohio Public Employees Retirement System**

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

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

OPERS provides retirement, disability survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits.

Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. OPERS issue a stand-alone financial report that may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-PERS (7377).

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2003, member and employer contribution rates were consistent across all three plans (TP, MD and CO). Separate divisions for law enforcement and public safety exist only within the traditional plan. City employees are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. The 2003 employer contribution rate for the City was 13.55 percent of covered payroll. The City’s contributions to the OPERS for the years ended December 31, 2003, 2002 and 2001 were \$379,588, \$383,569, and \$348,445, respectively. The full amount has been contributed for 2002 and 2001. 93 percent has been contributed for in 2003, with the remainder being presented as “accrued wages and benefits” in the governmental activities column of the statement of net assets.

# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## **For The Year Ended December 31, 2003**

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### **Note 11: Pension Plans (continued)**

#### ***B. Ohio Police and Fire Pension Fund***

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

Police are required to contribute 10 percent of their annual covered salary to fund pension obligations and the City is required to contribute 19.5 percent for police. Contributions are authorized by State statute. The City's contributions to the OP&F for police for the years ended December 31, 2003, 2002, and 2001 were \$290,994, \$276,508, and \$253,067, respectively. The full amount has been contributed for 2002 and 2001. 73 percent, has been contributed for 2003 with the remainder being presented as "accrued wages and benefits" in the governmental activities column of the statement of net assets.

#### ***C. Social Security System***

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

### **Note 12: Postemployment Benefits**

#### ***A. Ohio Public Employees Retirement System***

The Ohio Public Employees Retirement System of Ohio (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care based on authority granted by State statute. The 2003 employer contribution rate was 13.55 percent of covered payroll, of which 5.0 percent was used to fund health care for 2003.

Benefits are advance-funded using the entry age normal cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2002, include a rate of return on investments of 8.0 percent, an annual increase in active employee total payroll of 4.0 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .5 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.0 percent annually.

## City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

### **For The Year Ended December 31, 2003**

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#### **Note 12: Postemployment Benefits (continued)**

##### **A. Ohio Public Employees Retirement System (continued)**

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.

The number of active contributing participants was 364,881. The City's actual contributions for 2003 which were used to fund postemployment benefits were \$140,440. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2002, (the latest information available) were \$10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$18.7 billion and \$8.7 billion, respectively.

##### **B. Ohio Police and Fire Pension Fund**

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

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the Ohio Police and Fire Pension Fund shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution is 19.5 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2003 and 2002. 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 2003 that were used to fund postemployment benefits were \$115,537 for police. The OP&F's total health care expenses for the year ended December 31, 2002, (the latest information available) were \$141,028,006, which was net of member contributions of \$12,623,875. The number of OP&F participants eligible to receive health care benefits as of December 31, 2002, was 13,527 for police.

# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## For The Year Ended December 31, 2003

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### Note 13: 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 2003, the City contracted with Wichert Insurance Services, Inc. and then with Pease-Kerr-Canfield Insurance for various types of insurance as follows:

Type of Coverage:

Property	\$15,099,551
Boilers and machinery	20,000,000
Inland marine	317,924
Crime	100,000
Automobile liability	1,000,000
General liability	1,000,000
EMT liability	1,000,000
Law enforcement liability	1,000,000
Public officials liability	1,000,000
Umbrella liability	5,000,000

There were no reductions in insurance coverage from the previous year, nor have settlements exceeded insurance coverage in any of the prior three fiscal years.

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

### Note 14: Operating Transfers

Interfund transfers for the year ended December 31, 2003, consisted of the following:

Transfer to	Transfer From			Total
	General Fund	Non-Major Governmental Funds	Sewer Fund	
Nonmajor governmental funds	\$ 350,000	\$ -	\$ -	\$ 350,000
Capital improvements fund	<u>195,000</u>	<u>120,000</u>	<u>200,000</u>	<u>515,000</u>
	<u>\$ 545,000</u>	<u>\$ 120,000</u>	<u>\$ 200,000</u>	<u>\$ 865,000</u>

## City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

### **For The Year Ended December 31, 2003**

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#### **Note 15: Contingencies/Pending Litigation**

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

#### **Note 16: Change in Accounting Principle and Restatement of Prior Year Fund Balances**

##### **A. Changes in Accounting Principles**

For 2003, the City has implemented GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments", GASB Statement No. 36, "Recipient Reporting for Certain Shared Nonexchange Revenues"; GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements."

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

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

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

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

The implementation of these changes had the following effects on fund balance of the major and nonmajor funds of the City as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented. The City increased its capital asset threshold from \$500 to \$3,000.

# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## **For The Year Ended December 31, 2003**

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### **Note 16: Change in Accounting Principle and Restatement of Prior Year Fund Balances (continued)**

#### **B. Restatement of Fund Balance**

	<u>Total Governmental Activities</u>
Fund balance, December 31, 2002	\$ 4,336,375
GASB 34 adjustments:	
Capital assets	25,225,621
Long-term liabilities	(1,163,824)
Accrued wages and benefits	(5,725)
Long-term (deferred) assets	1,787,083
Accrued interest payable	<u>(14,863)</u>
Governmental activities net assets, December 31, 2002	\$ <u>30,164,667</u>
	<u>Business-Type Activities Sewer Fund</u>
Fund balance, December 31, 2002	\$ 1,767,805
Reclassification adjustments:	
Restatement of capital assets	<u>4,040,891</u>
Business-type activities net assets, December 31, 2002	\$ <u>5,808,696</u>

#### **Note 17: Subsequent Events**

The City of Willowick is implementing a major sewer rehabilitations project during the period 1999 through 2004. Engineer estimates show that the total cost of the project may be as high as \$10 million. The City rolled over \$800,000 in bond anticipation notes in March 2004 that were originally issued in order to cover the initial costs of the project. Upon completion, the total cost of the project will be financed through bonds.

During January 2004, the City renewed \$150,000 of bond anticipation notes for renovating the recreation center. Also, during March 2004, the City renewed \$800,000 of bond anticipation notes for improving the municipal sewer system and issued \$100,000 of bond anticipation notes for improving Dudley Pool.

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

Members of the City Council  
Willowick, Ohio

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Willowick (the "City"), as of and for the year ended December 31, 2003, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 15, 2004, wherein we noted the City adopted Government Accounting Standards Board Statement No. 34. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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

Members of the City Council  
Willowick, Ohio

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

*Cini & Parole, Inc.*

Cleveland, Ohio  
June 15, 2004



CPAs and Business Advisors

Report On Compliance with Requirements  
Applicable To Each Major Federal Program and Internal Control Over  
Compliance In Accordance With OMB Circular A-133

Members of the City Council  
Willowick, Ohio

Compliance

We have audited the compliance of the City of Willowick (the "City"), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2003. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended December 31, 2003.

Internal Control Over Compliance

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



Members of the City Council  
Willowick, Ohio

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of and for the year ended December 31, 2003, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 15, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

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



Cleveland, Ohio  
June 15, 2004

# City of Willowick

## Schedule of Expenditures of Federal Awards

### For The Year Ended December 31, 2003

<u>Federal Grantor/Pass-Through Entity</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Receipts</u>	<u>Disbursements</u>
U.S. Department of Justice: Office of Community Oriented Policing Services (COPS)	16.711	N/A	\$ 28,630	\$ 37,159
U.S. Federal Highway Administration: Pass through Programs from Ohio Department of Transportation Highway Planning and Construction	20.205	DOTP02N197	646,044	709,450
Federal Emergency Management Agency: Pass through Programs from Ohio Emergency Management Agency: Public Assistance Grant	97.036	085-85638	<u>4,940</u>	<u>5,459</u>
Subtotal pass through programs			<u>650,981</u>	<u>714,904</u>
Total expenditures of federal awards			\$ <u>679,614</u>	\$ <u>752,068</u>

The accompanying notes are an integral part of this schedule

# City of Willowick

Notes to Schedule of Expenditures of Federal Awards

## **For The Year Ended December 31, 2003**

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### **Note 1: General**

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

### **Note 2: Basis of Accounting**

The accompanying Schedule of Expenditures of Federal Awards is presented using the cash basis of accounting. The City's expenditures for the year ended December 31, 2003 as reported on the Schedule reflect federal expenditures only and do not include matching expenditures.

# City of Willowick

Schedule of Findings  
OMB Circular A-133 Section .505

**December 31, 2003**

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## 1. Summary of Auditor's Results

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

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

None.

## 3. Findings for Federal Awards

None.

## **City of Willowick, Ohio**

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

**December 31, 2003**

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There was no prior year audit.

**City of Willowick**

**30435 Lakeshore Boulevard  
Willowick, Ohio 44095  
(440) 585-3700**

**Response to Findings Associated with  
Audit Conducted in Accordance with *Government Auditing Standards*  
for the Year Ended December 31, 2003**

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

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**Auditor of State  
Betty Montgomery**

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

**CITY OF WILLOWICK**

**LAKE COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
AUGUST 5, 2004**