CITY OF WILLOUGHBY HILLS
LAKE COUNTY

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2009 and 2008

Mary Taylor, CPA
Auditor of State

CITY OF WILLOUGHBY HILLS
LAKE COUNTY

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LAKE COUNTY

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Mary Taylor, CPA
Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Willoughby Hills, Lake County, Ohio, (the City), as of and for the years ended December 31, 2009 and 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Willoughby Hills, Lake County, Ohio, as of December 31, 2009 and 2008, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparisons for the General and Fire Levy Funds for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2010, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Lausche Building / 615 Superior Ave., NW / Twelfth Floor / Cleveland, OH 44113-1801
Telephone: (216) 787-3665 (800) 626-2297 Fax: (216) 787-3361
www.auditor.state.oh.us

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. For the comparative data included as of or for the year ended December 31, 2007, we were unable to apply certain procedures prescribed by professional standards, and we disclaimed an opinion on the basic statements for the year ended December 31, 2007. We did not audit the Management's Discussion and Analysis and express no opinion on it.

Mary Taylor

Mary Taylor, CPA
Auditor of State

November 17, 2010

The discussion and analysis of the City of Willoughby Hills' (the City) financial performance provides an overall review of the City's financial activities for the year ended December 31, 2009. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers are encouraged to consider the information presented here in conjunction with the additional information contained in the financial statements and notes to enhance their understanding of the City's financial performance.

Financial Highlights

- During 2009, the City completed its City Hall improvements with a new information technology department, as well as improvements made to the phone systems for dispatch to the police and fire departments.

- The City was granted a $3.5 million dollar grant from the Army Corp of Engineers for the continued improvements to sewer lines within the City limits.

Using This Annual Financial Report

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

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

The City of Willoughby Hills as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and asks the questions, "How did we do financially during 2009?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by the private sector. The basis for this accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

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

The *statement of activities* presents information showing how the government's net assets changed during the recent year. All changes in net assets are reported as soon as the underlying event giving rise to the change

occurs, *regardless of the timing of cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

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

Reporting the City's Most Significant Funds

Fund Financial Statements A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, 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 can be divided into three categories: governmental, proprietary and fiduciary.

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

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

The City maintains twenty-five individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the general fund, fire levy fund and general bond retirement fund which are considered to be major funds. Data from the other governmental funds are combined into single, aggregated presentation.

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

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

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

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

The City as a Whole

As noted earlier, the Statement of Net Assets looks at the City as a whole. The following table provides a summary of the City's net assets for 2009 compared to 2008.

Table 1
Net Assets

	Governmental Activities		Business-Type Activity		Total	
	2009	2008	2009	2008	2009	2008
Assets						
Current and Other Assets	$5,622,686	$6,331,599	$1,423,971	$707,568	$7,046,657	$7,039,167
Capital Assets, Net	11,373,179	10,556,538	15,956,162	15,038,576	27,329,341	25,595,114
Total Assets	16,995,865	16,888,137	17,380,133	15,746,144	34,375,998	32,634,281
Liabilities						
Current Liabilities	2,696,421	2,749,668	140,608	138,036	2,837,029	2,887,704
Long-Term Liabilities						
Due Within One Year	1,739,784	1,468,683	264,000	226,611	2,003,784	1,695,294
Due in More Than One Year	2,800,352	2,845,374	11,842,742	12,185,626	14,643,094	15,031,000
Total Liabilities	7,236,557	7,063,725	12,247,350	12,550,273	19,483,907	19,613,998
Net Assets						
Invested in Capital Assets, Net of Related Debt	7,669,506	7,242,908	3,849,420	2,626,339	11,518,926	9,869,247
Restricted for:						
Capital Projects	643,591	488,804	0	0	643,591	488,804
Debt Service	0	98,306	0	0	0	98,306
Other Purposes	695,735	637,091	0	0	695,735	637,091
Unrestricted	750,476	1,357,303	1,283,363	569,532	2,033,839	1,926,835
Total Net Assets	$9,759,308	$9,824,412	$5,132,783	$3,195,871	$14,892,091	$13,020,283

For the City, total net assets for governmental activities slightly decreased. A major component of the City's assets is capital assets. For 2009, the City's net capital assets increased significantly. This is a reflection of the commitment of the City to undertake major capital projects to protect the health and safety of its residents. The City has made major improvements to City Hall by installing a new information technology department to accommodate a more efficient central dispatch station for the police and fire departments. In this department, the City has provided new computers and a new phone system.

Total net assets for business-type activities showed a significant increase that can be directly attributed to the receipt of grant money from the Army Corp of Engineers. This grant money is being used to continue the City's major improvements in the Euclid sanitary sewer project.

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

Table 2
Change in Net Assets

	Governmental Activities		Business-Type Activity		Total	
	2009	2008	2009	2008	2009	2008
Revenues						
Program Revenues						
Charges for Services	$2,470,710	$1,812,395	$1,345,022	$1,105,265	$3,815,732	$2,917,660
Operating Grants and Contributions	753,158	739,505	0	0	753,158	739,505
Capital Grants and Assessments	402,000	251,881	1,752,236	355,097	2,154,236	606,978
Total Program Revenues	3,625,868	2,803,781	3,097,258	1,460,362	6,723,126	4,264,143
General Revenues						
Property Taxes	1,976,090	1,973,021	0	0	1,976,090	1,973,021
Income Taxes	3,043,926	3,774,716	0	0	3,043,926	3,774,716
Admission Taxes	53,597	48,431	0	0	53,597	48,431
Grants and Entitlements	892,036	902,086	0	0	892,036	902,086
Franchise Taxes	78,994	105,326	0	0	78,994	105,326
Interest	22,546	174,974	3,446	6,590	25,992	181,564
Other	178,875	97,692	150	14,371	179,025	112,063
Total General Revenues	6,246,064	7,076,246	3,596	20,961	6,249,660	7,097,207
Total Revenues	9,871,932	9,880,027	3,100,854	1,481,323	12,972,786	11,361,350

(continued)

Table 2
Change in Net Assets
(continued)

	Governmental Activities		Business-Type Activity		Total	
	2009	2008	2009	2008	2009	2008
Program Expenses						
General Government	$2,864,041	$1,921,545	$0	$0	$2,864,041	$1,921,545
Security of Persons and Property:						
Police	3,237,848	3,158,631	0	0	3,237,848	3,158,631
Fire	2,055,644	2,184,723	0	0	2,055,644	2,184,723
Transportation	1,256,169	1,575,255	0	0	1,256,169	1,575,255
Community Environment	127,987	128,400	0	0	127,987	128,400
Leisure Time Activities	269,961	265,446	0	0	269,961	265,446
Interest and Fiscal Charges	145,549	102,587	0	0	145,549	102,587
Sewer	0	0	1,143,779	1,229,789	1,143,779	1,229,789
Total Program Expenses	9,957,199	9,336,587	1,143,779	1,229,789	11,100,978	10,566,376
Transfers	20,163	(101,502)	(20,163)	101,502	0	0
Change in Net Assets	(65,104)	441,938	1,936,912	353,036	1,871,808	794,974
Net Assets, Beginning of Year	9,824,412	9,382,474	3,195,871	2,842,835	13,020,283	12,225,309
Net Assets, End of Year	$9,759,308	$9,824,412	$5,132,783	$3,195,871	$14,892,091	$13,020,283

Governmental Activities

For governmental activities, there was an increase in program revenues for 2009, while general revenues saw a decrease. The increase in program revenues is a result of the collection of more fines and forfeitures received in the mayor's court than in 2008. The decrease in general revenues is a result of lower investment earnings received as well as fewer municipal income taxes received. Several sources fund our governmental activities with the municipal income tax being the largest component. The City has a current municipal income tax rate of 1.5 percent. This is the lowest rate of any city in Lake County. All of our adjacent Lake County cities have a rate of 2.0 percent. The City tried twice, unsuccessfully, to raise the rate. The City's charter requires any increase in the rate to be approved by the voters. The City's proposed charter amendment to increase the income tax rate failed in November 2002 and February 2003 with 60 percent of the voters voting against the charter change both times. The City grants one hundred percent credit to residents who pay municipal income tax to another city up to 1 percent. Property tax collections are the next largest source of revenue for governmental activities. The City collects 3 mills of inside millage and 4.3 mills of outside millage. The outside millage is generated from a 1.8 mill perpetual levy for fire and EMS services and a 2.6 mill road levy. In November 2009, the voters renewed their 2005 five year replacement road levy at a rate of 2.5 mills. The collection of this levy will begin in 2010. The City is constantly reviewing its fee structure to insure that all fees constitute a fair charge for the cost of providing government services. A review of the above table also shows that program expenses increased from 2008 levels. This increase is a result of the City's contractually agreed upon raises. The largest increase is in general government expenses.

Overall, the largest expenses for the City are in the police and fire departments. The City, in conjunction with the Federal Drug Enforcement Agency, vigorously enforces drug laws. They have made several large drug busts and confiscated large quantities of illegal substances. The City places confiscated funds in two special revenue funds. The use of these confiscated funds is governed by the police department control policy.

The City's fire department consists of six officers, three class A firemen and approximately forty part-time firemen. All of these personnel are cross trained as paramedics. In the late 1990's the City began charging for ambulance rides. Proceeds of the ambulance billings are pledged by ordinance to help defray the costs of the $1,153,000 bond taken-out in 2001 for a major renovation of the fire station.

Another major expense is transportation. The City uses a combination of the State license and gasoline excise taxes to fund a ten person service department. In 2001, the City made a change in budgeting and moved all of the department costs into the street construction, maintenance and repair special revenue fund. Prior to this, there were duplicate expense codes for personnel and materials. By combining all transportation services in one fund, the City can monitor the expenses more easily. As a result of being more conservative in their spending, transportation expenses showed a decrease from 2008.

Business-Type Activity

The City's business-type activity is comprised of one enterprise fund, which is the City's sanitary sewer system. The City has been under EPA findings and orders related to illegal discharge of waste since 2000. In 2002, the City paid a $16,000 fine to the EPA. This prompted the City to initiate major renovation projects. The first one was the Euclid Creek Interceptor Project, which was completed in 2005. The next scheduled project was the Euclid Sewer project. In 2005, the City began construction on this next phase of the Euclid Creek Interceptor Project. The large amount shown in construction in progress is reflective of this project. The project is financed through Ohio Public Works Commission (OPWC) grants and low or no interest OWDA and OPWC loans. In 2009, the City received an Army Corp of Engineers grant to also contribute to the cost of this project. In 2006, the City began construction on the Woodlands Sewers project. This project is also funded through OWDA loans. In 2007, the City began construction on the Sewer Laterals project which was also funded through OWDA loans. As of December 31, 2009, the Euclid Sewer, Woodlands Sewers and Sewer Laterals projects were not completed.

Governmental Funds

A review of the City's governmental funds provides information on near-term flows and balances of expendable resources and serves as a useful measure of a government's net resources. Governmental fund information can be found on page 14 and is accounted for using the modified accrual basis of accounting.

The City's major governmental funds are the general fund, fire levy special revenue fund and general bond retirement debt service fund. The general fund expenditures exceeded revenues due to transfers made to other funds to provide additional resources. While expenditures and other financing uses exceeded revenues and other financing sources for the current year, revenues showed an increase from the previous year due to an increase in fines collected during the year. The fire levy special revenue fund saw a slight increase in fund balance with revenues exceeding expenditures for the year. The general bond retirement debt service fund saw a decrease in fund balance due to debt payments that were made during the year exceeding revenue actually received.

General Fund Budgeting Highlights

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the general fund. During the course of 2009, the City amended its general fund numerous times as the City tried to avoid waiting until the end of the year to adjust appropriations. All recommendations for budget changes are presented to the Finance Committee of Council before going to City Council for legislative action to approve the change. Budgetary changes normally consist of requests for capital expenditures as the City operates with a legal level of control at the fund, department and object level. The control level of the general fund however is by object level within each department within the fund. This allows the City to make small interdepartmental budget modifications within departments. The general fund is monitored closely with regard to revenues and related expenditures. There was a decrease in actual revenue received largely due to the fewer than expected municipal income taxes received during the year. There was also a decrease in actual expenditures made compared to the final budget. This was due to restricting spending as much as possible in the City's efforts to maintain a positive fund balance.

Capital Assets and Debt Administration

Capital Assets

Table 3 shows 2009 balances of capital assets as compared to 2008.

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

	Governmental Activities		Business-Type Activity		Total	
	2009	2008	2009	2008	2009	2008
Land	$34,400	$34,400	$268,613	$268,613	$303,013	$303,013
Construction in Progress	142,695	119,388	9,632,461	8,973,805	9,775,156	9,093,193
Land Improvements	469,538	519,341	0	0	469,538	519,341
Buildings Improvements	5,908,408	5,465,130	0	0	5,908,408	5,465,130
Machinery and Equipment	2,013,950	1,774,125	343,886	89,160	2,357,836	1,863,285
Infrastructure	2,804,188	2,644,154	0	0	2,804,188	2,644,154
Sewer Improvements	0	0	5,711,202	5,706,998	5,711,202	5,706,998
Total Capital Assets	$11,373,179	$10,556,538	$15,956,162	$15,038,576	$27,329,341	$25,595,114

For 2009, the primary additions for governmental activities included the completion of the information technology and central dispatch improvements at City Hall, road improvements and vehicles. City Hall improvements included new computers, electrical work and new phone systems. The City also had multiple road projects completed during the year which included drainage and concrete work done. Capital leases were entered into for four vehicles for the police department and a dump truck for the service department. The primary addition for the business-type activity was the continued construction in progress added for the Euclid sewer improvements. Additional information concerning the City's capital assets can be found in Note 9 to the basic financial statements.

Debt

Table 4 summarizes the City's long-term obligations outstanding.

(Table 4)
Outstanding Long-Term Obligations at Year End

	Governmental Activities		Business-Type Activity		Total	
	2009	2008	2009	2008	2009	2008
General Obligation Bonds	$2,277,768	$2,504,510	$0	$0	$2,277,768	$2,504,510
Special Assessment Bond	69,432	86,790	0	0	69,432	86,790
OWDA Loans	0	0	11,319,188	11,725,687	11,319,188	11,725,687
OPWC Loans	0	0	649,100	686,550	649,100	686,550
Lake County Payable	107,702	128,570	0	0	107,702	128,570
Capital Leases	89,311	17,259	138,454	0	227,765	17,259
Notes Payable	1,250,000	1,050,000	0	0	1,250,000	1,050,000
Compensated Absences	745,923	526,928	0	0	745,923	526,928
Total	$4,540,136	$4,314,057	$12,106,742	$12,412,237	$16,646,878	$16,726,294

The general obligation bonds outstanding consist of the 1993 service garage addition bonds, 1993 sanitary sewer improvement bonds, 2001 fire station improvement bonds, 2004 municipal complex improvement bonds and 2005 aerial ladder fire truck bonds. The special assessment bonds outstanding are for sanitary sewer improvements. The principal and interest for these bonds are retired with assessments levied against property owners of the City based on the benefit to the respective parties. Assessments are collected by the Lake County Auditor and will be received over the next five years. The notes payable outstanding are for the anticipation of bonds being issued for municipal facilities and street improvements. The Lake County payable includes money owed to Lake County for the City's local portion of Pleasant Valley Road and Rogers Road bridge rehabilitation projects. Business-type debt includes OPWC and OWDA loans outstanding for infrastructure improvement projects, which are repaid using sewer revenues. Additional information concerning debt issuances can be found in Note 15 and 16 to the basic financial statements.

Current Related Financial Activities

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

Contacting the City of Willoughby Hills' Financial Management

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

City of Willoughby Hills, Ohio
Statement of Net Assets
December 31, 2009

	Governmental Activities	Business-Type Activity	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	$1,227,483	$1,197,544	$2,425,027
Cash and Cash Equivalents with Fiscal Agents	174,754	0	174,754
Materials and Supplies Inventory	83,585	0	83,585
Accounts Receivable	143,461	0	143,461
Internal Balances	(107,300)	107,300	0
Intergovernmental Receivable	756,202	101,902	858,104
Prepaid Items	40,193	17,225	57,418
Special Assessments Receivable	69,432	0	69,432
Municipal Income Taxes Receivable	1,117,483	0	1,117,483
Admission Taxes Receivable	2,892	0	2,892
Permissive Motor Vehicle Taxes Receivable	5,131	0	5,131
Property Taxes Receivable	2,098,830	0	2,098,830
Deferred Charges	10,540	0	10,540
Nondepreciable Capital Assets	177,095	9,901,074	10,078,169
Depreciable Capital Assets, Net	11,196,084	6,055,088	17,251,172
Total Assets	16,995,865	17,380,133	34,375,998
Liabilities			
Accounts Payable	102,275	7,910	110,185
Accrued Wages	240,524	3,166	243,690
Accrued Interest Payable	73,290	8,632	81,922
Matured Compensated Absences	26,735	0	26,735
Intergovernmental Payable	282,943	120,900	403,843
Deferred Revenue	1,970,654	0	1,970,654
Long-Term Liabilities:			
Due Within One Year	1,739,784	264,000	2,003,784
Due In More Than One Year	2,800,352	11,842,742	14,643,094
Total Liabilities	7,236,557	12,247,350	19,483,907
Net Assets			
Invested in Capital Assets, Net of Related Debt	7,669,506	3,849,420	11,518,926
Restricted for:			
Capital Projects	643,591	0	643,591
Street Construction, Maintenance and Repair	134,428	0	134,428
Road Levy	286,594	0	286,594
Drug Enforcement	180,567	0	180,567
Unclaimed Monies	21,982	0	21,982
Other Purposes	72,164	0	72,164
Unrestricted	750,476	1,283,363	2,033,839
Total Net Assets	$9,759,308	$5,132,783	$14,892,091

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Statement of Activities
For the Year Ended December 31, 2009

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Assessments
Governmental Activities:				
General Government	$2,864,041	$1,873,462	$324	$0
Security of Persons and Property:				
Police	3,237,848	17,239	57,680	0
Fire	2,055,644	229,175	94,429	0
Transportation	1,256,169	71,425	588,899	402,000
Community Environment	127,987	78,773	11,201	0
Leisure Time Activities	269,961	200,636	625	0
Interest and Fiscal Charges	145,549	0	0	0
Total Governmental Activities	9,957,199	2,470,710	753,158	402,000
Business-Type Activity:				
Sewer	1,143,779	1,345,022	0	1,752,236
Total	$11,100,978	$3,815,732	$753,158	$2,154,236

General Revenues
Property Taxes Levied for:
  General Purposes
  Debt Service
  Police Pension
  Fire Levy
  Road Levy
Municipal Income Tax Levied for General Purposes
Admission Taxes
Grants and Entitlements not Restricted to Specific Programs
Franchise Taxes
Interest
Other

Total General Revenues

Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets, Beginning of Year

Net Assets, End of Year

See accompanying notes to the basic financial statements

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activity	Total
($990,255)	$0	($990,255)
(3,162,929)	0	(3,162,929)
(1,732,040)	0	(1,732,040)
(193,845)	0	(193,845)
(38,013)	0	(38,013)
(68,700)	0	(68,700)
(145,549)	0	(145,549)
(6,331,331)	0	(6,331,331)
0	1,953,479	1,953,479
(6,331,331)	1,953,479	(4,377,852)
631,068	0	631,068
92,224	0	92,224
84,897	0	84,897
508,382	0	508,382
659,519	0	659,519
3,043,926	0	3,043,926
53,597	0	53,597
892,036	0	892,036
78,994	0	78,994
22,546	3,446	25,992
178,875	150	179,025
6,246,064	3,596	6,249,660
20,163	(20,163)	0
6,266,227	(16,567)	6,249,660
(65,104)	1,936,912	1,871,808
9,824,412	3,195,871	13,020,283
$9,759,308	$5,132,783	$14,892,091

City of Willoughby Hills, Ohio
Balance Sheet
Governmental Funds
December 31, 2009

	General	Fire Levy	General Bond Retirement	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	$153,601	$16,589	$1,925	$1,033,386	$1,205,501
Cash and Cash Equivalents with Fiscal Agents	174,754	0	0	0	174,754
Materials and Supplies Inventory	11,772	5,742	0	66,071	83,585
Accounts Receivable	51,204	77,741	0	14,516	143,461
Interfund Receivable	0	0	0	164,983	164,983
Intergovernmental Receivable	451,472	34,143	8,473	262,114	756,202
Prepaid Items	28,709	0	0	11,484	40,193
Special Assessments Receivable	0	0	0	69,432	69,432
Municipal Income Taxes Receivable	1,117,483	0	0	0	1,117,483
Admission Taxes Receivable	2,892	0	0		2,892
Permissive Motor Vehicle Taxes Receivable	0	0	0	5,131	5,131
Property Tax Receivable	658,204	528,986	134,702	776,938	2,098,830
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	21,982	0	0	0	21,982
Total Assets	$2,672,073	$663,201	$145,100	$2,404,055	$5,884,429
Liabilities					
Accounts Payable	$42,807	$476	$0	$58,992	$102,275
Accrued Wages	170,827	37,196	0	32,501	240,524
Matured Compensated Absences	2,569	0	0	24,166	26,735
Intergovernmental Payable	238,518	17,864	0	26,561	282,943
Interfund Payable	45,000	119,983	0	107,300	272,283
Deferred Revenue	1,906,649	625,103	143,175	1,063,512	3,738,439
Total Liabilities	2,406,370	800,622	143,175	1,313,032	4,663,199
Fund Balances					
Reserved for Encumbrances	152,922	1,295	0	87,604	241,821
Reserved for Advances	0	0	0	164,983	164,983
Reserved for Unclaimed Monies	21,982	0	0	0	21,982
Unreserved					
Undesignated, Reported in:					
General Fund	90,799	0	0	0	90,799
Special Revenue Funds (Deficit)	0	(138,716)	0	459,738	321,022
Debt Service Funds	0	0	1,925	21,190	23,115
Capital Projects Funds	0	0	0	357,508	357,508
Total Fund Balances (Deficit)	265,703	(137,421)	1,925	1,091,023	1,221,230
Total Liabilities and Fund Balances	$2,672,073	$663,201	$145,100	$2,404,055	$5,884,429

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio

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

December 31, 2009

Total Governmental Funds Balances		$1,221,230
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.		11,373,179
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Intergovernmental	650,251	
Special Assessments	69,432	
Income Taxes	857,952	
Property Taxes	128,176	
Charges for Services	61,974	
Total		1,767,785
In the statement of activities, interest is accrued on outstanding liabilities, whereas in governmental funds, an interest expenditure is reported when due.		(73,290)
Bond issuance costs will be amortized over the life of the bonds on the statement of net assets.		10,540
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Notes Payable	(1,250,000)	
General Obligation Bonds	(2,277,768)	
Special Assessment Bonds	(69,432)	
Lake County Payable	(107,702)	
Capital Leases	(89,311)	
Compensated Absences	(745,923)	
Total		(4,540,136)
Net Assets of Governmental Activities		$9,759,308

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended December 31, 2009

	General	Fire Levy	General Bond Retirement	Other Governmental Funds	Total Governmental Funds
Revenues					
Property Taxes	$628,339	$507,179	$92,289	$739,653	$1,967,460
Municipal Income Taxes	3,250,718	0	0	0	3,250,718
Admission Taxes	53,597	0	0	0	53,597
Permissive Motor Vehicle Taxes	0	0	0	65,744	65,744
Charges for Services	31,767	168,561	0	216,532	416,860
Licenses, Permits and Fees	108,393	0	0	0	108,393
Fines and Forfeitures	1,749,757	0	0	79,518	1,829,275
Intergovernmental	843,749	92,844	21,315	1,033,612	1,991,520
Special Assessments	0	0	0	17,358	17,358
Interest	148	107	82	22,209	22,546
Rentals	90,555	0	0	41,456	132,011
Contributions and Donations	1,114	1,000	0	6,058	8,172
Franchise Taxes	78,994	0	0	0	78,994
Other	178,159	0	0	716	178,875
Total Revenues	7,015,290	769,691	113,686	2,222,856	10,121,523
Expenditures					
Current:					
General Government	2,508,162	0	18,695	88,938	2,615,795
Security of Persons and Property:					
Police	2,776,217	0	0	244,268	3,020,485
Fire	1,119,654	759,803	0	0	1,879,457
Transportation	0	0	20,868	1,447,252	1,468,120
Community Environment	128,412	0	0	572	128,984
Leisure Time Activities	138,335	0	0	127,736	266,071
Capital Outlay	0	0	0	1,033,240	1,033,240
Debt Service:					
Principal Retirement	0	0	1,276,742	48,300	1,325,042
Interest and Fiscal Charges	0	0	116,645	22,471	139,116
Total Expenditures	6,670,780	759,803	1,432,950	3,012,777	11,876,310
Excess of Revenues Over (Under) Expenditures	344,510	9,888	(1,319,264)	(789,921)	(1,754,787)
Other Financing Sources (Uses)					
Proceeds of Notes	0	0	1,050,000	200,000	1,250,000
Sale of Capital Assets	20,051	0	0	0	20,051
Inception of Capital Lease	0	0	0	102,994	102,994
Transfers In	0	0	125,000	563,964	688,964
Transfers Out	(443,527)	0	0	(263,337)	(706,864)
Total Other Financing Sources (Uses)	(423,476)	0	1,175,000	603,621	1,355,145
Net Change in Fund Balances	(78,966)	9,888	(144,264)	(186,300)	(399,642)
Fund Balances (Deficit), Beginning of Year	344,669	(147,309)	146,189	1,277,323	1,620,872
Fund Balances (Deficit), End of Year	$265,703	($137,421)	$1,925	$1,091,023	$1,221,230

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio

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

For the Year Ended December 31, 2009

Net Change in Fund Balances - Total Governmental Funds		($399,642)
Amounts reported for governmental activities in the statement of activities are different because		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.		
Capital Outlay	1,452,995	
Depreciation	(567,629)	
Total		885,366
Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a loss is reported for each disposal.		(68,725)
Revenue in the statement of activities that do not provide current financial resources are not reported as revenue in governmental funds.		
Property Taxes	8,630	
Income Taxes	(206,792)	
Special Assessments	(17,358)	
Charges for Services	(81,573)	
Intergovernmental	47,502	
Total		(249,591)
Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		
Notes Payable	1,050,000	
General Obligation Bonds Payable	226,742	
Special Assessment Bonds Payable	17,358	
Capital Leases Payable	30,942	
Total		1,325,042
Note proceeds are other financing sources in the governmental funds, but the issuance increases long-term liabilities on the statement of net assets.		(1,250,000)
Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt on the statement of net assets.		
Accrued Interest	(4,676)	
Amortization of Bond Issuance Costs	(1,757)	
Total		(6,433)
The inception of a capital lease is reported as an other financing source in governmental funds but increases long-term liabilities on the statement of net assets.		(102,994)
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.		
Lake County Payable	20,868	
Compensated Absences	(218,995)	
Total		(198,127)
Change in Net Assets of Governmental Activities		($65,104)

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio

Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2009

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Property Taxes	$690,982	$690,982	$628,339	($62,643)
Municipal Income Taxes	3,538,839	3,478,399	3,248,776	(229,623)
Admission Taxes	49,216	48,236	52,711	4,475
Charges for Services	30,667	30,076	31,767	1,691
Licenses, Permits and Fees	114,158	110,670	108,463	(2,207)
Fines and Forfeitures	792,619	779,322	714,732	(64,590)
Intergovernmental	926,501	910,743	847,027	(63,716)
Interest	10,692	10,683	487	(10,196)
Rentals	80,907	79,222	90,555	11,333
Contributions and Donations	1,081	1,061	1,114	53
Franchise Taxes	66,100	66,100	78,994	12,894
Other	17,596	16,593	178,159	161,566
Total Revenues	6,319,358	6,222,087	5,981,124	(240,963)
Expenditures				
Current:				
General Government	1,648,253	1,635,253	1,523,409	111,844
Security of Persons and Property:				
Police	3,089,972	3,025,472	2,839,705	185,767
Fire	1,279,702	1,268,102	1,205,612	62,490
Community Environment	129,455	131,455	129,229	2,226
Leisure Time Activities	145,209	149,609	139,686	9,923
Total Expenditures	6,292,591	6,209,891	5,837,641	372,250
Excess of Revenues Over Expenditures	26,767	12,196	143,483	131,287
Other Financing Sources (Uses)				
Sale of Capital Assets	5,842	3,113	22,405	19,292
Transfers In	17,901	17,901	0	(17,901)
Transfers Out	(415,000)	(443,527)	(443,527)	0
Total Other Financing Sources (Uses)	(391,257)	(422,513)	(421,122)	1,391
Net Change in Fund Balance	(364,490)	(410,317)	(277,639)	132,678
Fund Balance, Beginning of Year	284,195	284,195	284,195	0
Prior Year Encumbrances Appropriated	167,116	167,116	167,116	0
Fund Balance, End of Year	$86,821	$40,994	$173,672	$132,678

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio

Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Fire Levy Fund
For the Year Ended December 31, 2009

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
Revenues				
Property Taxes	$489,800	$489,800	$507,179	$17,379
Charges for Services	160,300	160,300	168,719	8,419
Intergovernmental	104,200	104,200	92,844	(11,356)
Interest	800	800	107	(693)
Contributions and Donations	2,000	2,000	1,000	(1,000)
Total Revenues	757,100	757,100	769,849	12,749
Expenditures				
Current:				
Security of Persons and Property:				
Fire	767,495	767,495	765,653	1,842
Net Change in Fund Balance	(10,395)	(10,395)	4,196	14,591
Fund Balance, Beginning of Year	3,327	3,327	3,327	0
Prior Year Encumbrances Appropriated	7,295	7,295	7,295	0
Fund Balance, End of Year	$227	$227	$14,818	$14,591

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Statement of Fund Net Assets
Enterprise Fund
December 31, 2009

	Sewer
Assets	
Current Assets	
Equity in Pooled Cash and Cash Equivalents	$1,197,544
Intergovernmental Receivable	101,902
Interfund Receivable	107,300
Prepaid Items	17,225
Total Current Assets	1,423,971
Noncurrent Assets	
Nondepreciable Capital Assets	9,901,074
Depreciable Capital Assets, Net	6,055,088
Total Noncurrent Assets	15,956,162
Total Assets	17,380,133
Liabilities	
Current Liabilities	
Accounts Payable	7,910
Accrued Wages	3,166
Accrued Interest Payable	8,632
Intergovernmental Payable	120,900
OWDA Loans Payable	175,702
OPWC Loans Payable	56,175
Capital Leases Payable	32,123
Total Current Liabilities	404,608
Long-Term Liabilities (Net of Current Portion):	
OWDA Loans Payable	11,143,486
OPWC Loans Payable	592,925
Capital Leases Payable	106,331
Total Long-Term Liabilities	11,842,742
Total Liabilities	12,247,350
Net Assets	
Invested in Capital Assets, Net of Related Debt	3,849,420
Unrestricted	1,283,363
Total Net Assets	$5,132,783

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Statement of Revenues,
Expenses and Changes in Fund Net Assets
Enterprise Fund
For the Year Ended December 31, 2009

	Sewer
Operating Revenue	
Charges for Services	$878,581
Other	150
Total Operating Revenues	878,731
Operating Expenses	
Personal Services	106,466
Fringe Benefits	44,130
Contractual Services	406,413
Depreciation	118,934
Other	95,774
Total Operating Expenses	771,717
Operating Income	107,014
Non-Operating Revenue (Expense)	
Interest Income	3,446
Capital Grants	1,752,236
Special Assessments	466,441
Interest and Fiscal Charges	(372,062)
Non-Operating Expense	(38,063)
Total Non-Operating Revenue (Expense)	1,811,998
Income before Transfers	1,919,012
Transfers In	20,900
Transfers Out	(3,000)
Change in Net Assets	1,936,912
Net Assets, Beginning of Year	3,195,871
Net Assets, End of Year	$5,132,783

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Statement of Cash Flows
Enterprise Fund
For the Year Ended December 31, 2009

	Sewer
Increase in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Customers	$877,361
Cash Received from Other Operating Sources	150
Cash Payments for Employee Services and Benefits	(149,107)
Cash Payments for Contractual Services	(420,324)
Cash Payments for Other Operating Expenses	(97,569)
Net Cash Provided by Operating Activities	210,511
Cash Flows from Non-operating Activities	
Non-operating Expense	(38,063)
Cash Flows from Noncapital Financing Activities	
Transfers In	20,900
Advances Out	(107,300)
Transfers Out	(3,000)
Net Cash Used for Noncapital Financing Activities	(89,400)
Cash Flows from Capital and Related Financing Activities	
Proceeds from OWDA Loans	79,915
Principal Paid on OWDA Loans	(486,414)
Interest Paid on OWDA Loans	(372,498)
Principal Paid on OPWC Loans	(37,450)
Principal Paid on Capital Lease	(39,046)
Acquisition of Capital Assets	(859,020)
Capital Grants	1,656,564
Special Assessments	466,441
Net Cash Provided by Capital and Related Financing Activities	408,492
Cash Flows from Investing Activities	
Interest	3,446
Net Increase in Cash and Cash Equivalents	494,986
Cash and Cash Equivalents, Beginning of Year	702,558
Cash and Cash Equivalents, End of Year	$1,197,544

(continued)

City of Willoughby Hills, Ohio
Statement of Cash Flows
Enterprise Fund (continued)
For the Year Ended December 31, 2009

	Sewer
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	$107,014
Adjustments:	
Depreciation	118,934
(Increase)/Decrease in Assets:	
Intergovernmental Receivable	(1,220)
Prepaids	(17,225)
Increase in Liabilities:	
Accounts Payable	652
Accrued Wages	770
Intergovernmental Payable	1,586
Total Adjustments	103,497
Net Cash Provided by Operating Activities	$210,511

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio

Statement of Fiduciary Assets and Liablities

Agency Fund

December 31, 2009

Assets	
Equity in Pooled Cash and Cash Equivalents	$132,671
Liabilities	
Deposits Held and Due to Others	$132,671

See accompanying notes to the basic financial statements

Note 1 - Reporting Entity

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

Reporting Entity

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

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

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

Note 2 - Summary of Significant Accounting Policies

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

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 statements distinguish between those activities of the City that are governmental and those that are considered business-type.

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

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

Fund Accounting

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

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

> ***General Fund*** The general fund accounts for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the City for any purpose provided it is expended or transferred according to the charter of the City of Willoughby Hills and/or the general laws of Ohio.
>
> ***Fire Levy Fund*** The fire levy special revenue fund is used to account for property tax revenues to be used to maintain fire equipment and for salaries of the firemen.
>
> ***General Bond Retirement Fund*** The general bond retirement debt service fund is used to account for property tax revenues to be used to pay principal and interest on general obligation bonds issued.

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

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

> ***Enterprise Fund*** - Enterprise fund may be used to account for any activity for which a fee is charged to external users for goods or services. The following is the City's major enterprise fund:
>
> > ***Sewer Fund*** The sewer fund accounts for the provisions of sanitary sewer services to the residents and commercial users located within the City.

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

Measurement Focus

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

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

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

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements and the statements presented for the proprietary fund are prepared using the accrual basis of accounting. Governmental funds use the

modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

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

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

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

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

Property taxes for which there is an enforceable legal claim as of December 31, 2009, but which were levied to finance year 2010 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a

need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount Council may appropriate. The appropriations resolution is Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Council. The legal level of control has been established by Council at the fund, department and object level within each department in all funds. Any budgetary modifications at this level may only be made by resolution of City Council.

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

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

Cash and Cash Equivalents

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

During 2009, 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, 2009.

Interest earnings are allocated to City funds according to State statutes, City Charter, grant requirements, or debt related restrictions. Interest revenue credited to the general fund during 2009 was $148, which includes $42 assigned from other City funds.

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

The City utilizes a financial institution to service bonded debt as principal and interest payments come due. The balance in this account is presented as "Cash and Cash Equivalents with Fiscal Agent".

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2009, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount at the time of purchase and reflecting the expenditure/expense in the year in which the services are consumed.

Inventory

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

Restricted Assets

Assets are reported as restricted when limitations on their use change in nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments or imposed by law through constitutional provisions or enabling legislation. Restricted assets in the general fund represent money set aside for unclaimed monies.

Capital Assets

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

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

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

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

The City's infrastructure consists of roads, sidewalks, sanitary sewers, storm sewers and traffic signals and does not include infrastructure acquired prior to December 31, 1980.

Interfund Balances

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

On fund financial statements, long-term interfund loans are offset by a fund balance reserve account, which indicate that they do not constitute "available expendable financial resources" even though it is a component of net current assets. Repayment is expected to be made within a reasonable time.

Compensated Absences

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

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

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

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments came due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the funds from which the employees who have resigned or retired will be paid.

Accrued Liabilities and Long-Term Obligations

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

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

Fund Balance Reserves

The City reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent expendable resources and therefore are not available for appropriation or expenditure. Fund equity reserves have been established for encumbrances, long-term interfund advances, and unclaimed monies. The reserve for unclaimed monies represents cash that, under Ohio law, must remain unclaimed for five years before it becomes available for appropriation.

Net Assets

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

Net assets restricted for other purposes include resources for court improvements, recreation, police pensions and fire department activities.

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

Operating Revenues and Expenses

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

Interfund Activity

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

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

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

Bond Issuance Costs

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

As permitted by State statute, the City paid bond issuance costs from the bond proceeds and therefore does not consider that portion of the debt to be capital-related debt. That portion of the debt was offset against the unamortized bond issuance costs which were included in the determination of unrestricted net assets. Reporting both within the same element of net assets prevents one classification from being overstated while another is understated by the same amount.

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.

Note 3 – Changes in Accounting Principles

For fiscal year 2009, the City has implemented Governmental Accounting Standard Board (GASB) Statement No. 52, "Land and Other Real Estate Held as Investments by Endowments", Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments", Statement No. 55, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments," Statement No. 56, "Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards", Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans", and Statement No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies".

GASB Statement No. 52 establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments are also required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value. The implementation of this statement did not result in any change in the City's financial statements.

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. It requires governments to measure derivative instruments, with the exception of synthetic guaranteed investment contracts that are fully benefit-responsive, at fair value in their economic resources measurement focus financial statements. The implementation of this statement did not result in any change in the City's financial statements.

GASB Statement No. 55 incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the GASB authoritative literature. The GAAP hierarchy consists of the sources of accounting principles used in the preparation of financial statements of state and local governmental entities that are presented in conformity with GAAP, and the framework for selecting those principles. The implementation of this statement did not result in any change in the City's financial statements.

GASB Statement No. 56 incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants' and auditing literature into the GASB's accounting and financial reporting literature for state and local governments. The statement's guidance addresses related party transactions, going concern considerations, and subsequent events from the AICPA literature. The implementation of this statement did not result in any change in the City's financial statements.

GASB Statement No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans (that is, agent employers). The requirements in this Statement will allow more agent employers to use the alternative measurement method to produce actuarially based information for purposes of financial reporting and clarify that OPEB measures reported by agent multiple-employer OPEB plans and their participating employers should be determined at the same minimum frequency and as of a common date to improve the consistency of reporting with regard to funded status and funding progress information. The implementation of this statement did not result in any change in the City's financial statements.

GASB Statement No. 58 provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. The requirements in this Statement will provide more consistent recognition, measurement, display, and disclosure guidance for governments that file for Chapter 9 bankruptcy. The implementation of this statement did not result in any change in the City's financial statements.

Note 4 - Budgetary Basis of Accounting

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

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

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

3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).

4. Unreported cash represents amounts received but not included as revenue on the budgetary statements, but is reported on the operating statements prepared using GAAP.

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general and fire levy major special revenue funds:

Net Change in Fund Balance

	General	Fire Levy
GAAP Basis	($78,966)	$9,888
Net Adjustment for Revenue Accruals	(1,033,847)	158
Unrecorded Cash	2,035	0
Net Adjustment for Expenditure Accruals	1,007,769	(4,079)
Encumbrances	(174,630)	(1,771)
Budget Basis	($277,639)	$4,196

Note 5 – Accountability

At December 31, 2009, the fire levy and police pension special revenue funds, and the tax incremental financing capital projects fund had fund deficits, in the amount of $137,421, $16,956, and $104,205 respectively, due to adjustments for accrued liabilities. The general fund is liable for any deficit in these funds and provides transfers when cash is required, not when accruals occur.

Note 6 - Deposits and Investments

The City is a charter City and has adopted an investment policy through City Ordinance. The City has elected to follow the provisions of State statutes. State statutes classify monies held by the City into three categories.

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

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;

2. Bonds, notes, debentures, or any other obligation or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

3. Written repurchase agreements in the securities listed above;

4. Bonds and other obligations of the State of Ohio;

5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;

6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);

7. The State Treasurer's investment pool (STAR Ohio); and

8. Commercial paper and bankers acceptances if training requirements have been met.

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

1. Bonds of the State of Ohio;

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

3. Obligations of the City.

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

Deposits

Custodial Credit Risk - Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, $1,123,218 of the City's bank balance of $2,732,452 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

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

Investments

At December 31, 2009, the City had $1,161,418 invested in STAR Ohio with an average maturity of 61.2 days.

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

Credit Risk - Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The City has no policy that addresses credit risk.

Note 7 - Receivables

Receivables at December 31, 2009, consisted primarily of municipal income taxes, property taxes, admission taxes, permissive motor vehicle taxes, intergovernmental receivables arising from entitlements and shared revenues, special assessments, and accounts (billings for user charged services including unbilled utility services).

No allowance for doubtful accounts has been recorded because of uncollectible amounts are expected to be insignificant. All receivables except property taxes and special assessments are expected to be received within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

Special assessments expected to be collected in more than one year amount to $52,074 in the special assessment bond retirement fund. At December 31, 2009, the amount of delinquent special assessments was $15,886.

Property Taxes

Property taxes include amounts levied against all real, public utility and tangible personal property located in the City. Property tax revenue received during 2009 for real and public property taxes represents collections of 2008 taxes. Property tax payments received during 2009 for tangible personal property (other than public utility property) are for 2009 taxes.

2009 real property taxes are levied after October 1, 2009 on the assessed value as of January 1, 2009 the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2009 real property taxes are collected in and intended to finance 2010.

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

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2009 public utility property taxes which became a lien December 31, 2008, are levied after October 1, 2009, and are collected in 2010 with real property taxes.

Tangible personal property tax revenue received during 2009 (other than public utility property tax) represents the collection of 2009 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, furniture and fixtures is no longer levied and collected. Tangible personal property taxes received from telephone companies in 2009 were levied after October 1, 2008, on the value as of December 31, 2008. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

The full tax rate for all City operations for the year ended December 31, 2009 was $7.30 per $1,000 of assessed value. The assessed values of real property, public utility tangible property, and tangible personal property upon which 2009 property tax receipts were based are as follows:

Category	Assessed Value
Real Estate	
Residential/Agricultural	$205,607,040
Other Real Estate	81,176,760
Tangible Personal Property	
Public Utility	3,723,220
General	481,720
Total Assessed Values	$290,988,740

Income Taxes

The City levies a municipal income tax of one and one half percent on substantially all income earned within the City; in addition, residents are required to pay tax on income earned outside the City. The City allows a credit of one hundred percent for income tax paid to another municipality up to 1 percent. Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually.

Income tax proceeds are to be used for the purposes of general municipal operations, maintenance, new equipment, extension and enlargement of municipal services and facilities and capital improvements of the City of Willoughby Hills. In 2009, the proceeds were allocated to the general fund.

Intergovernmental Receivable

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
Local Government	$408,289
Gas Excise Tax	121,710
Homestead and Rollback	119,557
Motor Vehicle License Tax	71,458
Estate Tax	18,369
Tangible Personal Property Loss Reimbursement	16,378
City of Willoughby	441
Total Governmental Activities	$756,202
Business-Type Activity	
Army Corp of Engineers Grant	$95,672
Lake County	6,230
Total Business-Type Activity	$101,902

Note 8 – Interfund Transactions

Interfund Transfers

Transfers made during the year ended December 31, 2009 were as follows:

	Transfer From			
Transfer To	General	Nonmajor Funds	Sewer Fund	Total
Major Funds				
General Bond Retirement	$0	$125,000	$0	$125,000
Sewer	0	20,900	0	20,900
Total Major Funds	0	145,900	0	145,900
Nonmajor Funds				
Street Construction, Maintenance and Repair	400,000	0	0	400,000
Recreation	32,000	0	0	32,000
Drug Enforcement	11,527	64,444	0	75,971
Law Enforcement	0	38,726	0	38,726
Garfield Park	0	4,492	0	4,492
Special Assessments Bond Retirement	0	0	3,000	3,000
Capital Improvements	0	6,412	0	6,412
Recreation Capital	0	3,363	0	3,363
Total Nonmajor Funds	443,527	117,437	3,000	563,964
Total Governmental Activities	$443,527	$263,337	$3,000	$709,864

The general fund made transfers to the street construction, maintenance and repair, recreation, and drug enforcement special revenue funds, to provide additional resources for current operations. Nonmajor governmental funds made transfers to the general bond retirement debt service fund, nonmajor governmental funds and the sewer enterprise fund to provide additional resources for current operations and as debt payments came due. The sewer enterprise fund made a transfer to the special assessment bond retirement debt service fund to provide additional resources for special assessment debt payments.

Interfund Balances

Interfund balances at December 31, 2009 consisted of $45,000 from the capital improvement capital projects fund to the general fund and $119,983 to the fire levy special revenue fund. At the end of fiscal year 2009, the tax incremental financing capital projects fund had an interfund payable of $107,300 to the sewer enterprise fund expected be repaid within one year.

Note 9 - Capital Assets

Capital asset activity for the year ended December 31, 2009, was as follows:

	Balance 12/31/2008	Additions	Reductions	Balance 12/31/2009
Governmental Activities:				
Capital assets not being depreciated				
Land	$34,400	$0	$0	$34,400
Construction in progress	119,388	779,491	(756,184)	142,695
Total capital assets not being depreciated	153,788	779,491	(756,184)	177,095
Capital assets being depreciated				
Land Improvements	1,196,277	0	0	1,196,277
Buildings and Improvements	7,514,937	606,665	0	8,121,602
Machinery and Equipment	5,163,499	602,804	(125,067)	5,641,236
Infrastructure	2,762,609	220,219	0	2,982,828
Total capital assets being depreciated	16,637,322	1,429,688	(125,067)	17,941,943
Less: Accumulated depreciation				
Land Improvements	(676,936)	(49,803)	0	(726,739)
Buildings and Improvements	(2,049,807)	(163,387)	0	(2,213,194)
Machinery and Equipment	(3,389,374)	(294,254)	56,342	(3,627,286)
Infrastructure:	(118,455)	(60,185)	0	(178,640)
Total accumulated depreciation	(6,234,572)	(567,629) *	56,342	(6,745,859)
Capital assets being depreciated, net	10,402,750	862,059	(68,725)	11,196,084
Governmental activities capital assets, net	$10,556,538	$1,641,550	($824,909)	$11,373,179

	Balance 12/31/2008	Additions	Reductions	Balance 12/31/2009
Business-type activity:				
Capital assets not being depreciated				
Land	$268,613	$0	$0	$268,613
Construction in progress	8,973,805	658,656	0	9,632,461
Total capital assets not being depreciated	9,242,418	658,656	0	9,901,074
Capital assets being depreciated				
Machinery and Equipment	119,254	290,441	0	409,695
Infrastructure	6,660,759	87,423	0	6,748,182
Total capital assets being depreciated	6,780,013	377,864	0	7,157,877
Less: Accumulated depreciation				
Machinery and Equipment	(30,094)	(35,715)	0	(65,809)
Infrastructure	(953,761)	(83,219)	0	(1,036,980)
Total accumulated depreciation	(983,855)	(118,934)	0	(1,102,789)
Capital assets being depreciated, net	5,796,158	258,930	0	6,055,088
Business-type activity capital assets, net	$15,038,576	$917,586	$0	$15,956,162

*Depreciation expense was charged to governmental activities as follows:

General Government	$207,614
Security of Persons and Property:	
Police	84,051
Fire	108,357
Leisure Time Activities	5,286
Transportation	162,321
Total	$567,629

Note 10 - 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 2009, the City participated in the Arrowhead Public Risk Municipal Package Plan which contracted with Custis Insurance Service for the following types of insurance:

Type	Coverage
Property	$13,449,296
General Liability	1,000,000 / 3,000,000 aggregate
Vehicle Liability	1,000,000 per occurrence
Law Enforcement Liability	1,000,000 aggregate
Public Officials Liability	1,000,000 aggregate
Employment Practices Liability	1,000,000 aggregate
Umbrella	10,000,000 aggregate

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

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

Note 11 – Defined Benefit Pension Plan

Ohio Public Employees Retirement System

Plan Description - The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed Plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to the Traditional Pension 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 Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions. For the year ended December 31, 2009, the members in state and local classifications contributed 10.0 percent of covered payroll and public safety and law enforcement members contributed 10.1 percent.

The City's 2009 contribution rate was 14.0 percent, except for those plan members in law enforcement or public safety, for whom the City's contribution was 17.63 percent of covered payroll. For the period January 1 through March 31, a portion of the City's contribution equal to 7.0 percent of covered payroll was allocated to fund the post-employment health care plan; for the period April 1 through December 31, 2009 this amount was decreased to 5.5 percent. Employer contribution rates are actuarially determined. State statute sets a maximum contribution rate for the City of 14.0 percent, except for public safety and law enforcement, where the maximum employer contribution rate is 18.1 percent.

The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2009, 2008, and 2007 were $126,455, $115,158, and $125,452, respectively; 91 percent has been contributed for 2009 and 100 percent for 2008 and 2007. Contributions to the member-directed plan for 2009 were $11,366 made by the City and $8,118 made by the plan members.

Ohio Police and Fire Pension Fund

Plan Description - The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability 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.

Funding Policy - Plan members are required to contribute 10.0 percent of their annual covered salary, while employers are required to contribute 19.5 percent for police officers and 24.0 percent for firefighters. The City's contributions to OP&F for police and firefighters were $169,000 and $131,556 for the year ended December 31, 2009, $167,333 and $129,319 for the year ended December 31, 2008, and $208,094 and $187,441 for the year ended December 31, 2007. 65 percent has been contributed for police and 68 percent for firefighters has been contributed for 2009. The full amount has been contributed for 2008 and 2007.

As of December 31, 2009, the City's part-time firefighters are covered by Social Security rather than OP&F. The employees' liability is 6.2 percent of wages paid.

Note 12 - Postemployment Benefits

Ohio Public Employees Retirement System

Plan Description – Ohio Public Employees Retirement System (OPERS) maintains a cost-sharing multiple-employer defined benefit post-employment health care plan for qualifying members of both the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. The plan includes a medical plan, a prescription drug program and Medicare Part B premium reimbursement.

In order to qualify for post-employment health care coverage, age and service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The Ohio Revised Code permits, but does not require, OPERS to provide health care benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

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

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

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2009, state and local government employers contributed at a rate of 14.0 percent of covered payroll, and public safety and law enforcement employers contributed at 17.63 percent. Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding post-employment health care benefits. The amount of employer contributions which were allocated to fund post-employment health care was 7.0 percent from January 1 through March 31, 2009, and 5.5 percent from April 1 through December 31, 2009.

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

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2009, 2008, and 2007 were $115,137, $126,482, and $88,507 respectively; 91 percent has been contributed for 2009 and 100 percent for 2008 and 2007.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased as of January 1 of each year from 2006 to 2008. Rates for law and public safety employers increased over a six year period beginning on January 1, 2006, with a final rate increase on January 1, 2011. These rate increases allowed additional funds to be allocated to the health care plan.

Ohio Police and Fire Pension Fund

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

OP&F provides access to post-retirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45.

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

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

Funding Policy – The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F defined benefit pension plan. Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.5 percent and 24.0 percent of covered payroll for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.5 percent of covered payroll for police employer units and 24.0 percent of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

OP&F maintains funds for health care in two separate accounts. One for health care benefits under an IRS Code Section 115 trust and one for Medicare Part B reimbursements administered as an Internal Revenue Code 401(h) account, both of which are within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2009, the employer contribution allocated to the health care plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Section 115 and 401(h).

The OP&F Board of Trustees is also authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions to OP&F which were allocated to fund post-employment health care benefits for police and firefighters were $89,471 and $51,479 for the year ended December 31, 2009, $88,588 and $50,603 for the year ended December 31, 2008, and $110,167 and $73,346 for the year ended December 31, 2007. The full amount has been contributed for 2008 and 2007. 65 percent has been contributed for police and 68 percent has been contributed for firefighters for 2009.

Note 13 – Other Employee Benefits

Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Employees earn vacation at different rates which are affected by length of service. At the time of separation the employee is entitled to payment for any earned but unused vacation. Sick leave is accrued at the rate of 4.6 hours for each 80 hours of completed service, including paid holidays and paid vacation, with a maximum accumulation of 960 hours. Upon retirement, employees are paid for all the sick days they have accumulated.

Health Care Benefits

Medical/surgical and prescription insurance is offered to employees through Medical Mutual Insurance Company of Ohio. Vision is offered through Vision Service Plan (VSP), and dental insurance is offered through Sun Life Basic Dental. Besides offering the Sun Life Basic dental option, the City added an Enhanced option. If employees elect to have dental coverage, they are covered under the Sun Life Basic Dental. If they elect to have additional coverage, they pay the Enhanced dental plus the difference

between the Basic dental and the Enhanced dental options. For in-network services, there is no deductible and a co-payment of $15. Out of network services have a co-payment of 30 percent after the deductible and a $1,000 to $2,000 deductible for single coverage and a $3,000 to $6,000 deductible for family coverage.

The cost per month for health care is as follows:

	Employee Only	Employee Plus Spouse	Employee Plus Child	Family
Medical Mutual	$384.30	$766.32	$766.32	$1,068.13
VSP - Vision Plan	7.50	12.64	12.90	20.80
Sun Life Basic - Dental	12.96	27.29	33.06	53.52
Sun Life Enhanced - Dental	31.00	62.00	65.11	108.93

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

	Employee Only	Employee Plus Spouse	Employee Plus Child	Family
Health Only	$38.43	$76.63	$76.63	$106.81
Health and Vision	39.18	77.89	77.92	108.89
Health and Dental Basic	39.73	79.36	79.94	112.16
Health, Vision and Dental Basic	40.48	80.62	81.23	114.24

Life Insurance

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

Note 14 - Contingencies

Grants

The City receives financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2009.

Litigation

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

Note 15 - Short-Term Obligations

A summary of note transactions for the year ended December 31, 2009 follows:

Governmental Type Activities	Balance 12/31/08	Additions	Deletions	Balance 12/31/09
2008, 2.99% Street Improvement	$40,000	$0	$40,000	$0

According to Ohio law, notes may be issued in anticipation of bond proceeds or for up to 50 percent of anticipated revenue collections.

On March 28, 2008, the City issued bond anticipation notes, in the amount of $640,000 for constructing public infrastructure improvements related to U.S. Route 6. The notes had an interest rate of 2.99 percent and matured on April 2, 2009.

Note 16 - Long-term Obligations

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

Debt Issue	Interest Rate	Original Issue Amount	Year of Maturity
Governmental Activities			
Bond Anticipation Notes:			
Municipal Facilities Improvement - 2008	2.99%	450,000	2009
Municipal Facilities Improvement A - 2009	2.95%	450,000	2010
Municipal Facilities Improvement B - 2009	2.95%	200,000	2010
Street Improvement - 2008	2.99%	600,000	2009
Street Improvement - 2009	2.95%	600,000	2010
General Obligation Bonds:			
Service Garage Addition - 1993	2.65-5.30%	135,000	2013
Sanitary Sewer Improvement - 1993	2.65-5.30%	56,785	2013
Fire Station Improvement - 2001	5.05%	1,153,000	2016
Municipal Complex Improvement - 2004	4.11%	1,200,000	2021
Fire Truck - 2005	4.16%	768,000	2016
Special Assessment Bonds:			
Sanitary Sewer Improvement - 1986	7.13%	373,215	2013

Debt Issue	Interest Rate	Original Issue Amount	Year of Maturity
Business Type Activity			
Ohio Water Development Authority Loans:			
Oak Street Sewers - 2002	3.64%	$232,330	2022
Euclid Creek Interceptor - 2003	3.03%	3,682,533	2025
Euclid Creek Sewers - 2005	3.25%	7,457,667	2027
Euclid Creek Sewer Design - 2006	3.20%	261,429	2014
Woodlands Sanitary Sewers - 2006	3.25%	480,644	2027
Sewer Laterals - 2007	4.17%	140,985	2027
Ohio Public Works Commission Loans:			
Euclid Interceptor - 2005	0%	500,000	2026
Euclid Sewer Phase II - 2006	0%	249,000	2027

Changes in long-term obligations of the City during 2009 were as follows:

	Outstanding 12/31/2008	Additions	Reductions	Outstanding 12/31/2009	Due Within One Year
Governmental Type Activities					
General Obligation Bond Anticipation Notes					
2008 Municipal Facilities Improvement	$450,000	$0	$450,000	$0	$0
2009 A Municipal Facilities Improvement	0	450,000	0	450,000	450,000
2009 B Municipal Facilities Improvement	0	200,000	0	200,000	200,000
Total Municipal Facilities Improvement Notes	450,000	650,000	450,000	650,000	650,000
2008 Street Improvement	600,000	0	600,000	0	0
2009 Street Improvement	0	600,000	0	600,000	600,000
Total Street Improvement Notes	600,000	600,000	600,000	600,000	600,000
Total General Obligation Bond Anticipation Notes	1,050,000	1,250,000	1,050,000	1,250,000	1,250,000
General Obligation Bonds					
Service Garage Addition	50,000	0	10,000	40,000	10,000
Sanitary Sewer Improvement	13,210	0	2,642	10,568	2,642
Fire Station Improvement	720,300	0	75,100	645,200	79,000
Municipal Complex Improvement	1,060,000	0	65,000	995,000	65,000
Fire Truck	661,000	0	74,000	587,000	76,000
Total General Obligation Bonds	$2,504,510	$0	$226,742	$2,277,768	$232,642

(continued)

	Outstanding 12/31/2008	Additions	Reductions	Outstanding 12/31/2009	Due Within One Year
Governmental Type Activities (continued)					
Special Assessments Bond					
Sanitary Sewer Improvement	$86,790	$0	$17,358	$69,432	$17,358
Other Long-term Obligations					
Lake County Payable	128,570	0	20,868	107,702	20,868
Capital Leases Payable	17,259	102,994	30,942	89,311	27,583
Compensated Absences	526,928	364,081	145,086	745,923	191,333
Total Other Long-term Obligations	672,757	467,075	196,896	942,936	239,784
Total Governmental Type Activities	$4,314,057	$1,717,075	$1,490,996	$4,540,136	$1,739,784
Business-Type Activity					
OWDA Loans					
Oak Street Sewers	$179,238	$0	$10,020	$169,218	$10,389
Euclid Creek Interceptor	3,375,818	0	160,416	3,215,402	165,313
Euclid Creek Sewers	7,234,019	0	289,868	6,944,151	0
Euclid Creek Sewer Design	317,478	79,915	0	397,393	0
Woodlands Sanitary Sewers	483,501	0	18,745	464,756	0
Sewer Laterals	135,633	0	7,365	128,268	0
Total OWDA Loans	11,725,687	79,915	486,414	11,319,188	175,702
OPWC Loans					
Euclid Interceptor	450,000	0	25,000	425,000	37,500
Euclid Sewer Phase II	236,550	0	12,450	224,100	18,675
Total OPWC Loans	686,550	0	37,450	649,100	56,175
Other Long-term Obligations					
Capital Leases Payable	0	177,500	39,046	138,454	32,123
Total Business-Type Activity	$12,412,237	$257,415	$562,910	$12,106,742	$264,000

General Obligation Bond Anticipation Notes The note liability is reflected in the funds which received the proceeds. At December 31, 2009, the amount of bond anticipation notes outstanding was $1,250,000, all of which have been spent.

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

OWDA Loans Ohio Water Development Authority (OWDA) loans consist of money owed to OWDA for sewer improvements. The OWDA loans for the Euclid Creek Sewers, Euclid Creek Sewer Design, Woodlands Sewer, and Sewer Laterals projects have not been finalized and therefore repayment schedules are not included in the schedule of debt requirements. The OWDA loans for the Euclid Interceptor and Oak Street loans are paid from the sewer enterprise fund.

OPWC Loans OPWC loans consist of money owed to the Ohio Public Works Commission for sewer improvements. The loans are interest free. OPWC loans will be paid from the sewer enterprise fund.

The City has pledged future revenues to repay OWDA and OPWC loans in the sewer fund. The debt is payable solely from net revenues and is payable through 2027. Net revenues include all revenues received by the sewer utility less all operating expenses other than depreciation expense. Total principal and interest remaining to be paid on the loans is $4,916,211.

Lake County Payable Lake County Payable consists of money owed to Lake County for the local share of the Pleasant Valley Road and Rodgers Road bridge rehabilitation projects. The payable will be paid from the capital improvements capital projects fund.

Capital Leases Capital lease obligations will be paid from the fund that maintains custody of the related assets. Capital leases will be paid from the drug enforcement special revenue fund, capital improvements capital projects fund and the sewer enterprise fund.

Compensated Absences Compensated absences will be paid from the general fund, the court improvement and the street construction, maintenance and repair special revenue funds.

The City's overall legal debt margin was $28,277,975 with an unvoted debt margin of $16,004,381 at December 31, 2009.

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2009, are as follows:

Governmental Activities:

	General Obligation Bonds		Special Assessment Bonds	
Year	Principal	Interest	Principal	Interest
2010	$232,642	$73,277	$17,358	$3,680
2011	243,642	65,932	17,358	2,760
2012	255,942	58,179	17,358	1,840
2013	263,342	50,102	17,358	920
2014	257,400	51,160	0	0
2015-2019	824,800	109,969	0	0
2020-2021	200,000	8,220	0	0
Total	$2,277,768	$416,839	$69,432	$9,200

Year	Lake County Payable Principal
2010	$20,868
2011	20,868
2012	20,868
2013	20,868
2014	20,868
2015-2018	3,362
Total	$107,702

Business-Type Activity:

Year	OWDA Loans Principal	OWDA Loans Interest	OPWC Loans Principal
2010	$175,702	$102,250	$56,175
2011	181,131	96,822	37,450
2012	186,727	91,225	37,450
2013	192,496	85,454	37,450
2014	198,445	79,507	37,450
2015-2019	1,088,109	301,650	187,250
2020-2024	1,233,214	123,632	187,250
2025-2028	128,796	1,951	68,625
Total	$3,384,620	$882,491	$649,100

Note 17 - Capital Leases - Lessee Disclosure

The City has entered into capitalized leases for police vehicles and a dump truck for the service department. The leases met the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures on the statement of revenues, expenditures, and changes in fund balance for governmental funds.

	Governmental Activities	Business-Type Activities
Vehicle	$128,882	$177,500
Less: Accumulated Depreciation	(15,477)	(17,750)
Total	$113,405	$159,750

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of December 31, 2009.

	Governmental Activities	Business-Type Activities
2010	$30,941	$39,046
2011	22,312	39,046
2012	22,313	39,046
2013	22,312	39,045
Total Mimimum Lease Payments	97,878	156,183
Less: Amount representing interest	(8,567)	(17,729)
Present Value of Mimimum Lease Payments	$89,311	$138,454

Note 18 - Jointly Governed Organization

The City is a member of The Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of electricity. NOPEC is currently comprised of 126 communities who have been authorized by ballot to purchase electricity on behalf of their citizens. The intent of NOPEC is to provide electricity at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity to the citizens of its member communities. The City did not contribute to NOPEC during 2009.

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

Note 19 - Subsequent Event

The City issued $1,250,000 in various purpose improvement notes at 2.95 percent on April 3, 2010. The notes mature on April 3, 2011 and were issued to refinance previous notes in which the City used to pay costs of improvements to U.S. Route 6 and improvements to the municipal building.

The discussion and analysis of the City of Willoughby Hills's (the City) financial performance provides an overall review of the City's financial activities for the year ended December 31, 2008. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers are encouraged to consider the information presented here in conjunction with the additional information contained in the financial statements and notes to enhance their understanding of the City's financial performance.

Financial Highlights

- This is the City's fifth publication of financial statements under the new GASB 34 reporting model.
- Total assets for the City exceeded liabilities by $13,020,283 at December 31, 2008.
- Total assets increased by $321,637 which represents an increase of 1 percent over 2007. The change was due mainly to an increase in cash in governmental activities.
- Total net assets increased by $794,974. This represents an increase of approximately 7 percent from $12,225,309 in 2007 to $13,020,283 in 2008.

Using This Annual Financial Report

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

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

The City of Willoughby Hills as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and asks the questions, "How did we do financially during 2008?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by the private sector. The basis for this accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

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

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

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

Reporting the City's Most Significant Funds

Fund Financial Statements A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, 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 can be divided into three categories: governmental, proprietary and fiduciary.

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

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

The City of maintains twenty-five individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the general fund, and fire levy fund, which are both considered to be major funds. Data from the other governmental funds are combined into single, aggregated presentation.

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

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

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

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

The City as a Whole

As noted earlier, the Statement of Net Assets looks at the City as a whole. The following table provides a summary of the City's net assets for 2008 compared to 2007.

Table 1
Net Assets

	Governmental Activities		Business-Type Activity		Total	
	2008	2007	2008	2007	2008	2007
Assets						
Current and Other Assets	$6,331,599	$5,169,631	$707,568	$707,611	$7,039,167	$5,877,242
Capital Assets, Net	10,556,538	10,116,023	15,038,576	16,319,379	25,595,114	26,435,402
Total Assets	16,888,137	15,285,654	15,746,144	17,026,990	32,634,281	32,312,644
Liabilities						
Current Liabilities	2,749,668	2,693,520	138,036	15,430	2,887,704	2,708,950
Long-Term Liabilities						
Due Within One Year	1,468,683	317,491	226,611	353,633	1,695,294	671,124
Due in More Than One Year	2,845,374	2,892,169	12,185,626	13,815,092	15,031,000	16,707,261
Total Liabilities	7,063,725	5,903,180	12,550,273	14,184,155	19,613,998	20,087,335
Net Assets						
Invested in Capital Assets, Net of Related Debt	7,242,908	7,557,277	2,626,339	2,150,654	9,869,247	9,707,931
Restricted for:						
Capital Projects	488,804	720,338	0	0	488,804	720,338
Debt Service	98,306	118,155	0	0	98,306	118,155
Other Purposes	637,091	582,861	0	0	637,091	582,861
Unrestricted	1,357,303	403,843	569,532	692,181	1,926,835	1,096,024
Total Net Assets	$9,824,412	$9,382,474	$3,195,871	$2,842,835	$13,020,283	$12,225,309

For the City, total assets exceeded total liabilities by $13,020,283 at the close of 2008. Of the total net assets, capital assets, net of related debt make up $9,869,247 or 76 percent of net assets. Total net assets of the City increased from $12,225,309 in 2007 to $13,020,283 in 2008.

The major component of the City's assets is capital assets, which account for $25,595,114 of the City's $32,634,281 total assets. This is a reflection of the commitment of the City to undertake major capital projects to protect the health and safety of its residents such as the Euclid sewer, Woodlands sewers and sewer laterals sanitary sewer projects.

Governmental activities net assets increased by $441,938 during 2008 and business-type activity net assets increased $353,036. The City was able to report positive balances for combined net assets as well as for the separate governmental and business-type activities. Total revenues increased $472,175 due to increases in charges for services, municipal income taxes, and special assessments. Municipal income taxes increased due to increases in the number of residents and collection of prior delinquencies, while property taxes decreased due to the fallen economy. Expenses for governmental activities increased by $701,259 from 2007 levels. Decreases in continued road maintenance projects as well as conservative spending resulted in decreased transportation expenses. Regular police and fire expenses increased in 2008 due to the implementation of collective bargaining agreements.

Table 2
Change in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues						
Program Revenues						
Charges for Services	$1,812,395	$1,457,978	$1,105,265	$1,102,212	$2,917,660	$2,560,190
Operating Grants and Contributions	739,505	995,754	0	0	739,505	995,754
Capital Grants and Assessments	251,881	284,175	355,097	476,859	606,978	761,034
Total Program Revenues	2,803,781	2,737,907	1,460,362	1,579,071	4,264,143	4,316,978
General Revenues						
Property Taxes	1,973,021	2,114,199	0	0	1,973,021	2,114,199
Income Taxes	3,774,716	3,330,741	0	0	3,774,716	3,330,741
Admission Taxes	48,431	0	0	0	48,431	0
Grants and Entitlements	902,086	933,051	0	0	902,086	933,051
Franchise Taxes	105,326	0	0	0	105,326	0
Interest	174,974	39,674	6,590	0	181,564	39,674
Other	97,692	154,532	14,371	0	112,063	154,532
Total General Revenues	7,076,246	6,572,197	20,961	0	7,097,207	6,572,197
Total Revenues	9,880,027	9,310,104	1,481,323	1,579,071	11,361,350	10,889,175

(continued)

Table 2
Change in Net Assets
(continued)

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Program Expenses						
General Government	$1,921,545	$1,612,397	$0	$0	$1,921,545	$1,612,397
Security of Persons and Property:						
Police	3,158,631	2,826,992	0	0	3,158,631	2,826,992
Fire	2,184,723	1,877,229	0	0	2,184,723	1,877,229
Transportation	1,575,255	1,824,311	0	0	1,575,255	1,824,311
Community Environment	128,400	143,411	0	0	128,400	143,411
Leisure Time Activities	265,446	218,311	0	0	265,446	218,311
Interest and Fiscal Charges	102,587	132,677	0	0	102,587	132,677
Sewer	0	0	1,229,789	1,242,046	1,229,789	1,242,046
Total Program Expenses	9,336,587	8,635,328	1,229,789	1,242,046	10,566,376	9,877,374
Transfers	(101,502)	(693)	101,502	693	0	0
Change in Net Assets	441,938	674,083	353,036	337,718	794,974	1,011,801
Net Assets, Beginning of Year	9,382,474	8,708,391	2,842,835	2,505,117	12,225,309	11,213,508
Net Assets, End of Year	$9,824,412	$9,382,474	$3,195,871	$2,842,835	$13,020,283	$12,225,309

Governmental Activities

Several sources fund our governmental activities with the municipal income tax being the largest component. The City has a current municipal income tax rate of 1.5 percent. This is the lowest rate of any city in Lake County. All of our adjacent Lake County cities have a rate of 2.0 percent. The City tried twice, unsuccessfully, to raise the rate. The City's charter requires any increase in the rate to be approved by the voters. The City's proposed charter amendment to increase the income tax rate failed in November 2002 and February 2003 with 60 percent of the voters voting against the charter change both times. The City grants one hundred percent credit to residents who pay municipal income tax to another city up to 1 percent. Property tax collections are the next largest source of revenue for governmental activities. The City collects 3 mills of inside millage and 4.3 mills of outside millage. The outside millage is generated from a 1.8 mill perpetual levy for fire and EMS services and a 2.6 mill road levy. In November 2004, the voters approved a five year replacement road levy at a rate of 2.5 mills. Since property valuations have increased (the 2.6 mill levy was based on the 2000 valuation and the 2.5 mill replacement levy is based on the 2003 valuation), the proceeds of this levy will increase from $575,000 a year to $715,000 per year. The collection of this levy began in 2006. The City is constantly reviewing its fee structure to insure that all fees constitute a fair charge for the cost of providing government services.

The largest expenses are in the police and fire departments. The police and fire department account for 57 percent of the City's total expenses. In 2008, the police department had total expenses of $3,158,631 and the fire department had total expenses of $2,184,723. Expenses in the police department increased by $331,639 from 2007 levels, while expenses in the fire department also increased by $307,494 from 2007 levels. The main reason for the increase in the police department 2008 regular expenses was caused by an overall increase in compensation levels because of the implementation of collective bargaining agreements.

The City, in conjunction with the Federal Drug Enforcement Agency, vigorously enforces drug laws. They have made several large drug busts and confiscated large quantities of illegal substances. The City places confiscated funds in two special revenue funds. The use of these confiscated funds is governed by the police department control policy.

The City's fire department consists of six officers, three class A firemen and approximately forty part-time firemen. All of these personnel are cross trained as paramedics. In the late 1990's the City began charging for ambulance rides. Proceeds of the ambulance billings are pledged by ordinance to help defray the costs of the $1,153,000 bond taken-out in 2001 for a major renovation of the fire station. The main reason for the increase in the fire department 2008 regular expenses was caused by an overall increase in compensation levels because of the implementation of collective bargaining agreements.

Another major expense is transportation. The City uses a combination of the State license and gasoline excise taxes to fund a ten person service department. In 2001, the City made a change in budgeting and moved all of the department costs into the street construction, maintenance and repair special revenue fund. Prior to this, there were duplicate expense codes for personnel and materials. By combining all transportation services in one fund, the City can monitor the expenses more easily. As a result of being more conservative in their spending, transportation expenses decreased 14 percent from 2007 levels.

Business-Type Activity

The City's business-type activity is comprised of one enterprise fund, which is the City's sanitary sewer system. The City has been under EPA findings and orders related to illegal discharge of waste since 2000. In 2002, the City paid a $16,000 fine to the EPA. The City initiated major renovation projects. The first one was the Euclid Creek Interceptor Project, which was completed in 2005. The next scheduled project was the Euclid Sewer project. In 2005, the City began construction on this next phase of the Euclid Creek Interceptor Project. There is $8,973,805 in construction in progress reflective of this project. The project is financed through Ohio Public Works Commission (OPWC) grants and low or no interest OWDA and OPWC loans. In 2006, the City began construction on the Woodlands Sewers project. This project is also funded through OWDA loans. In 2007, the City began construction on the Sewer Laterals project which was also funded through OWDA loans. As of December 31, 2008, the Euclid Sewer, Woodlands Sewers and Sewer Laterals projects were not completed.

Governmental Funds

A review of the City's governmental funds provides information on near-term flows and balances of expendable resources and serves as a useful measure of a government's net resources. Governmental fund information can be found on page 66 and is accounted for using the modified accrual basis of accounting.

At the end of 2008, the City reported combined governmental fund balances of $1,620,872. Of this amount, $968,465 constitutes unreserved balances, which are available for spending. The remaining $652, 407 is reserved to indicate that is not available for spending due to contractual commitments, long-term advances, and unclaimed monies.

Governmental funds had total revenues of $9,556,478 and expenditures of $9,729,085 leaving a difference of expenditures over revenues of $172,607. The City made budgetary adjustments and expenditure reductions within the general fund as a first step in bringing spending in line with revenues.

General Fund

The general fund is the primary operating fund of the City and at the end of 2008, had a balance of $344,669, which is an increase from 2007. This can be attributed to revenues continuing to exceed expenditures for the year. With an overall increase in revenues in the general fund of over 7 percent, only municipal taxes revenue had a sizable increase. Other revenue sources were comparable to the prior year. Of the general fund balance, $132,196 was reserved for encumbrances and $16,382 was reserved for unclaimed monies.

Fire Levy Fund

The City's only other major fund, the fire levy special revenue fund, accounts for property tax revenues which are used to maintain fire equipment and salaries of the firemen. At the end of the current year, total fund balance for the fire levy fund was ($147,309). Expenditures exceeded revenues in the fire levy fund by $29,140, which caused a continued decrease in fund balance. Management is reviewing the situation to determine the best action.

General Fund Budgeting Highlights

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the general fund. During the course of 2008, the City amended its general fund numerous times as the City tried to avoid waiting until the end of the year to adjust appropriations. All recommendations for budget changes are presented to the Finance Committee of Council before going to City Council for legislative action to approve the change. Budgetary changes normally consist of requests for capital expenditures as the City operates with a legal level of control at the fund, function and object level. The control level of the general fund however is by object level within each department within the fund. This allows the City to make small interdepartmental budget modifications within departments. The general fund is monitored closely with regard to revenues and related expenditures.

For the general fund, original budgeted revenues were $6,300,882. The final budgeted revenues were $6,455,839, with actual revenues of $6,391,796. Original appropriations in the general fund were budgeted at $6,372,862, and final appropriations were $6,091,452, with actual expenditures coming in at $5,874,641.

The difference between the general fund's final amended budget and actual are largely due to a decrease in property taxes collected in 2008 due to increased foreclosures. For expenditures, there was a significant decrease from the original budget to the actual expenditures. This is best contributed to monitoring of the City's spending as much as possible in an effort to maintain positive fund balance.

Capital Assets and Debt Administration

Table 3 shows 2008 balances of capital assets as compared to 2007.

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

	Governmental Activities		Business-Type Activity		Total	
	2008	2007	2008	2007	2008	2007
Land	$34,400	$34,400	$268,613	$268,613	$303,013	$303,013
Construction in Progress	119,388	350,993	8,973,805	8,839,724	9,093,193	9,190,717
Land Improvements	519,341	554,579	0	0	519,341	554,579
Buildings Improvements	5,465,130	5,610,494	0	0	5,465,130	5,610,494
Machinery and Equipment	1,774,125	2,054,740	89,160	90,618	1,863,285	2,145,358
Infrastructure	2,644,154	1,510,817	0	0	2,644,154	1,510,817
Sewer Improvements	0	0	5,706,998	5,718,083	5,706,998	5,718,083
Total Capital Assets	$10,556,538	$10,116,023	$15,038,576	$14,917,038	$25,595,114	$25,033,061

Total capital assets for the City were $25,595,114, an increase of $562,053 from 2007. Capital assets for governmental activities increased $440,515. This increase is attributed to additions for road projects offset by annual depreciation expenses as well as an increase in vehicles purchased by the police department. Capital assets for business-type activities were $15,038,576, an increase of $121,538 from 2007. The increase is attributed to work on the Euclid Sewer, Woodlands Sewers and Sewer Laterals projects. Additional information concerning the City's capital assets can be found in Note 9 to the basic financial statements.

Debt

Table 4 summarizes the City's long-term obligations outstanding.

(Table 4)
Outstanding Obligations at Year End

	Governmental Activities		Business-Type Activity		Total	
	2008	2007	2008	2007	2008	2007
General Obligation Bonds	$2,504,510	$2,588,652	$0	$0	$2,504,510	$2,588,652
Special Assessment Bond	86,790	104,148	0	0	86,790	104,148
OWDA Loans	0	0	11,725,687	12,061,109	11,725,687	12,061,109
OPWC Loans	0	0	686,550	705,275	686,550	705,275
Lake County Payable	128,570	0	0	0	128,570	0
Capital Leases	17,259	0	0	0	17,259	0
Notes Payable	1,050,000	0	0	0	1,050,000	0
Compensated Absences	526,928	516,860	0	0	526,928	516,860
Total	$4,314,057	$3,209,660	$12,412,237	$12,766,384	$16,726,294	$15,976,044

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

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

The notes payable outstanding are for the anticipation of bonds being issued for municipal facilities and street improvements.

The Lake County payable includes money owed to Lake County for the City's local portion of Pleasant Valley Road and Rogers Road bridge rehabilitation projects.

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

Additional information concerning debt issuances can be found in Note 15 and 16 to the basic financial statements.

Current Related Financial Activities

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

Contacting the City of Willoughby Hills' Financial Management

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

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City of Willoughby Hills, Ohio
Statement of Net Assets
December 31, 2008

	Governmental Activities	Business-Type Activity	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	$1,781,025	$702,558	$2,483,583
Materials and Supplies Inventory	82,475	0	82,475
Accrued Interest Receivable	339	0	339
Accounts Receivable	220,081	0	220,081
Intergovernmental Receivable	698,993	5,010	704,003
Prepaid Items	27,582	0	27,582
Special Assessments Receivable	86,790	0	86,790
Municipal Income Taxes Receivable	1,322,363	0	1,322,363
Admission Taxes Receivable	2,006	0	2,006
Permissive Motor Vehicle Taxes Receivable	5,053	0	5,053
Property Taxes Receivable	2,092,595	0	2,092,595
Deferred Charges	12,297	0	12,297
Nondepreciable Capital Assets	153,788	9,242,418	9,396,206
Depreciable Capital Assets, Net	10,402,750	5,796,158	16,198,908
Total Assets	16,888,137	15,746,144	32,634,281
Liabilities			
Accounts Payable	147,061	7,258	154,319
Accrued Wages	233,164	2,396	235,560
Accrued Interest Payable	69,943	9,068	79,011
Intergovernmental Payable	286,421	119,314	405,735
Notes Payable	40,000	0	40,000
Deferred Revenue	1,973,079	0	1,973,079
Long-Term Liabilities:			
Due Within One Year	1,468,683	226,611	1,695,294
Due In More Than One Year	2,845,374	12,185,626	15,031,000
Total Liabilities	7,063,725	12,550,273	19,613,998
Net Assets			
Invested in Capital Assets, Net of Related Debt	7,242,908	2,626,339	9,869,247
Restricted for:			
Capital Projects	488,804	0	488,804
Debt Service	98,306	0	98,306
Street Construction, Maintenance and Repair	154,726	0	154,726
Road Levy	87,519	0	87,519
Drug Enforcement	230,854	0	230,854
Unclaimed Monies	16,382	0	16,382
Other Purposes	147,610	0	147,610
Unrestricted	1,357,303	569,532	1,926,835
Total Net Assets	$9,824,412	$3,195,871	$13,020,283

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Statement of Activities
For the Year Ended December 31, 2008

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Assessments
Governmental Activities:				
General Government	$1,921,545	$215,207	$77,592	$80,424
Security of Persons and Property:				
Police	3,158,631	570,052	117,817	0
Fire	2,184,723	642,946	94,310	0
Transportation	1,575,255	69,234	449,721	168,317
Community Environment	128,400	122,122	0	0
Leisure Time Activities	265,446	192,834	65	3,140
Interest and Fiscal Charges	102,587	0	0	0
Total Governmental Activities	9,336,587	1,812,395	739,505	251,881
Business-Type Activity:				
Sewer	1,229,789	1,105,265	0	355,097
Total	$10,566,376	$2,917,660	$739,505	$606,978

General Revenues
Property Taxes Levied for:
  General Purposes
  Debt Service
  Police Pension
  Fire Levy
  Road Levy
Municipal Income Tax Levied for General Purposes
Admission Taxes
Grants and Entitlements not Restricted to Specific Programs
Franchise Taxes
Interest
Other

Total General Revenues

Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets, Beginning of Year

Net Assets, End of Year

See accompanying notes to the basic financial statements

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activity	Total
($1,548,322)	$0	($1,548,322)
(2,470,762)	0	(2,470,762)
(1,447,467)	0	(1,447,467)
(887,983)	0	(887,983)
(6,278)	0	(6,278)
(69,407)	0	(69,407)
(102,587)	0	(102,587)
(6,532,806)	0	(6,532,806)
0	230,573	230,573
(6,532,806)	230,573	(6,302,233)
617,053	0	617,053
129,997	0	129,997
82,975	0	82,975
498,852	0	498,852
644,144	0	644,144
3,774,716	0	3,774,716
48,431	0	48,431
902,086	0	902,086
105,326	0	105,326
174,974	6,590	181,564
97,692	14,371	112,063
7,076,246	20,961	7,097,207
(101,502)	101,502	0
6,974,744	122,463	7,097,207
441,938	353,036	794,974
9,382,474	2,842,835	12,225,309
$9,824,412	$3,195,871	$13,020,283

City of Willoughby Hills, Ohio
Balance Sheet
Governmental Funds
December 31, 2008

	General	Fire Levy	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	$436,522	$10,622	$1,317,499	$1,764,643
Materials and Supplies Inventory	3,000	0	79,475	82,475
Accrued Interest Receivable	339	0	0	339
Accounts Receivable	50,065	159,472	10,544	220,081
Interfund Receivable	0	0	164,983	164,983
Intergovernmental Receivable	417,132	33,858	248,003	698,993
Prepaid Items	27,582	0	0	27,582
Special Assessments Receivable	0	0	86,790	86,790
Municipal Income Taxes Receivable	1,322,363	0	0	1,322,363
Admission Taxes Receivable	2,006	0	0	2,006
Permissive Motor Vehicle Taxes Receivable	0	0	5,053	5,053
Property Tax Receivable	654,575	529,332	908,688	2,092,595
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	16,382	0	0	16,382
Total Assets	$2,929,966	$733,284	$2,821,035	$6,484,285
Liabilities				
Accounts Payable	$47,023	$0	$100,038	$147,061
Accrued Wages	159,391	42,987	30,786	233,164
Intergovernmental Payable	261,218	10,886	14,317	286,421
Interfund Payable	45,000	119,983	0	164,983
Accrued Interest Payable	0	0	1,329	1,329
Notes Payable	0	0	40,000	40,000
Deferred Revenue	2,072,665	706,737	1,211,053	3,990,455
Total Liabilities	2,585,297	880,593	1,397,523	4,863,413
Fund Balances				
Reserved for Encumbrances	132,196	7,295	331,551	471,042
Reserved for Advances	0	0	164,983	164,983
Reserved for Unclaimed Monies	16,382	0	0	16,382
Unreserved				
Undesignated, Reported in:				
General Fund	196,091	0	0	196,091
Special Revenue Funds (Deficit)	0	(154,604)	301,697	147,093
Debt Service Funds	0	0	144,462	144,462
Capital Projects Funds	0	0	480,819	480,819
Total Fund Balances (Deficit)	344,669	(147,309)	1,423,512	1,620,872
Total Liabilities and Fund Balances	$2,929,966	$733,284	$2,821,035	$6,484,285

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio

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

December 31, 2008

Total Governmental Funds Balances		$1,620,872
Amounts reported for governmental activities in the statement of net assets are different because		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		10,556,538
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Intergovernmental	602,749	
Special Assessments	86,790	
Income Taxes	1,064,744	
Property Taxes	119,546	
Charges for Services	143,547	
Total		2,017,376
In the statement of activities, interest is accrued on outstanding liabilities, whereas in governmental funds, an interest expenditure is reported when due.		(68,614)
Bond issuance costs will be amortized over the life of the bonds on the statement of net assets.		12,297
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Notes Payable	(1,050,000)	
General Obligation Bonds	(2,504,510)	
Special Assessment Bonds	(86,790)	
Lake County Payable	(128,570)	
Capital Leases	(17,259)	
Compensated Absences	(526,928)	
Total		(4,314,057)
Net Assets of Governmental Activities		$9,824,412

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended December 31, 2008

	General	Fire Levy	Other Governmental Funds	Total Governmental Funds
Revenues				
Property Taxes	$616,745	$497,603	$856,839	$1,971,187
Municipal Income Taxes	3,467,074	0	0	3,467,074
Admission Taxes	48,431	0	0	48,431
Permissive Motor Vehicle Taxes	0	0	70,452	70,452
Charges for Services	32,688	162,650	206,778	402,116
Licenses, Permits and Fees	115,395	0	0	115,395
Fines and Forfeitures	845,134	0	95,132	940,266
Intergovernmental	942,069	81,515	805,066	1,828,650
Special Assessments	0	0	104,782	104,782
Interest	14,432	789	159,753	174,974
Rentals	89,818	0	72,210	162,028
Contributions and Donations	2,160	2,640	63,305	68,105
Franchise Taxes	105,326	0	0	105,326
Other	95,921	72	1,699	97,692
Total Revenues	6,375,193	745,269	2,436,016	9,556,478
Expenditures				
Current:				
General Government	1,500,491	0	106,424	1,606,915
Security of Persons and Property:				
Police	2,749,944	0	264,700	3,014,644
Fire	1,264,444	774,409	0	2,038,853
Transportation	0	0	1,218,709	1,218,709
Community Environment	127,018	0	0	127,018
Leisure Time Activities	130,580	0	125,483	256,063
Capital Outlay	14,864	0	1,272,029	1,286,893
Debt Service:				
Principal Retirement	0	0	110,129	110,129
Interest and Fiscal Charges	0	0	69,861	69,861
Total Expenditures	5,787,341	774,409	3,167,335	9,729,085
Excess of Revenues Over (Under) Expenditures	587,852	(29,140)	(731,319)	(172,607)
Other Financing Sources (Uses)				
Proceeds of Notes	0	0	1,050,000	1,050,000
Sale of Capital Assets	13,218	0	0	13,218
Inception of Capital Lease	0	0	25,888	25,888
Transfers In	60,250	0	931,512	991,762
Transfers Out	(437,974)	0	(655,290)	(1,093,264)
Total Other Financing Sources (Uses)	(364,506)	0	1,352,110	987,604
Net Change in Fund Balances	223,346	(29,140)	620,791	814,997
Fund Balances (Deficit), Beginning of Year	121,323	(118,169)	802,721	805,875
Fund Balances (Deficit), End of Year	$344,669	($147,309)	$1,423,512	$1,620,872

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio

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

For the Year Ended December 31, 2008

Net Change in Fund Balances - Total Governmental Funds		$814,997
Amounts reported for governmental activities in the statement of activities are different because		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.		
Capital Outlay	1,286,893	
Depreciation	(787,837)	
Total		499,056
The proceeds from the sale of capital assets are reported as other financing sources in the governmental funds. However, the cost of the capital assets is removed from the capital asset account on the statement of net assets when disposed of, resulting in a loss on disposal of capital assets on the statement of activities.		
Proceeds from Sale of Capital Assets	(13,218)	
Loss on Disposal of Capital Assets	(45,323)	
Total		(58,541)
Revenue in the statement of activities that do not provide current financial resources are not reported as revenue in governmental funds.		
Property Taxes	1,834	
Income Taxes	307,642	
Permissive Motor Vehicle Taxes	(21,409)	
Special Assessments	(24,358)	
Charges for Services	143,547	
Intergovernmental	(83,707)	
Total		323,549
Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		
General Obligation Bonds Payable	84,142	
Special Assessment Bonds Payable	17,358	
Capital Leases Payable	8,629	
Total		110,129
Note proceeds are other financing sources in the governmental funds, but the issuance increases long-term liabilities on the statement of net assets.		(1,050,000)
Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt on the statement of net assets.		
Accrued Interest	(30,969)	
Amortization of Bond Issuance Costs	(1,757)	
Total		(32,726)
The inception of a capital lease is reported as an other financing source in governmental funds but increases long-term liabilities on the statement of net assets.		(25,888)
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.		
Lake County Payable	(128,570)	
Compensated Absences	(10,068)	
Total		(138,638)
Change in Net Assets of Governmental Activities		$441,938

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio

Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2008

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Property Taxes	$712,182	$716,050	$616,745	($99,305)
Municipal Income Taxes	3,400,000	3,489,884	3,488,642	(1,242)
Admission Taxes	104,000	53,910	46,425	(7,485)
Charges for Services	0	24,000	48,530	24,530
Licenses, Permits and Fees	897,500	183,894	116,575	(67,319)
Fines and Forfeitures	0	791,244	797,493	6,249
Intergovernmental	971,900	998,543	967,297	(31,246)
Interest	10,000	10,437	16,980	6,543
Rentals	70,800	71,276	91,295	20,019
Contributions and Donations	500	556	2,160	1,604
Franchise Taxes	54,000	54,000	105,326	51,326
Other	80,000	62,045	94,328	32,283
Total Revenues	6,300,882	6,455,839	6,391,796	(64,043)
Expenditures				
Current:				
General Government	1,847,390	1,528,280	1,496,201	32,079
Security of Persons and Property:				
Police	2,831,433	2,880,633	2,805,588	75,045
Fire	1,375,009	1,372,009	1,298,287	73,722
Basic Utility Services	100	100	0	100
Community Environment	158,498	137,998	126,321	11,677
Leisure Time Activities	145,568	157,568	133,380	24,188
Capital Outlay	14,864	14,864	14,864	0
Total Expenditures	6,372,862	6,091,452	5,874,641	216,811
Excess of Revenues Over (Under) Expenditures	(71,980)	364,387	517,155	152,768
Other Financing Sources (Uses)				
Sale of Capital Assets	5,800	5,800	10,864	5,064
Transfers In	0	1,633	60,250	58,617
Transfers Out	(24,700)	(462,700)	(437,974)	24,726
Total Other Financing Sources (Uses)	(18,900)	(455,267)	(366,860)	88,407
Net Change in Fund Balance	(90,880)	(90,880)	150,295	241,175
Fund Balance, Beginning of Year	63,291	63,291	63,291	0
Prior Year Encumbrances Appropriated	70,609	70,609	70,609	0
Fund Balance, End of Year	$43,020	$43,020	$284,195	$241,175

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio

Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Fire Levy Fund
For the Year Ended December 31, 2008

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
Revenues				
Property Taxes	$550,000	$576,130	$497,603	($78,527)
Charges for Services	135,000	134,548	146,725	12,177
Intergovernmental	55,000	54,822	81,515	26,693
Interest	0	0	789	789
Contributions and Donations	0	0	2,640	2,640
Other	0	0	72	72
Total Revenues	740,000	765,500	729,344	(36,156)
Expenditures				
Current:				
Security of Persons and Property:				
Fire	799,595	825,095	785,657	39,438
Net Change in Fund Balance	(59,595)	(59,595)	(56,313)	3,282
Fund Balance, Beginning of Year	58,345	58,345	58,345	0
Prior Year Encumbrances Appropriated	1,295	1,295	1,295	0
Fund Balance, End of Year	$45	$45	$3,327	$3,282

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Statement of Fund Net Assets
Enterprise Fund
December 31, 2008

	Sewer
Assets	
Current Assets	
Equity in Pooled Cash and Cash Equivalents	$702,558
Intergovernmental Receivable	5,010
Total Current Assets	707,568
Noncurrent Assets	
Nondepreciable Capital Assets	9,242,418
Depreciable Capital Assets, Net	5,796,158
Total Noncurrent Assets	15,038,576
Total Assets	15,746,144
Liabilities	
Current Liabilities	
Accounts Payable	7,258
Accrued Wages	2,396
Accrued Interest Payable	9,068
Intergovernmental Payable	119,314
OWDA Loans Payable	170,436
OPWC Loans Payable	56,175
Total Current Liabilities	364,647
Long-Term Liabilities (Net of Current Portion):	
OWDA Loans Payable	11,555,251
OPWC Loans Payable	630,375
Total Long-Term Liabilities	12,185,626
Total Liabilities	12,550,273
Net Assets	
Invested in Capital Assets, Net of Related Debt	2,626,339
Unrestricted	569,532
Total Net Assets	$3,195,871

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Statement of Revenues,
Expenses and Changes in Fund Net Assets
Enterprise Fund
For the Year Ended December 31, 2008

	Sewer
Operating Revenue	
Charges for Services	$1,105,265
Other	14,371
Total Operating Revenues	1,119,636
Operating Expenses	
Personal Services	93,483
Fringe Benefits	6,347
Contractual Services	526,645
Depreciation	92,099
Other	225,655
Total Operating Expenses	944,229
Operating Income	175,407
Non-Operating Revenue (Expense)	
Interest Income	6,590
Special Assessments	355,097
Interest and Fiscal Charges	(285,560)
Total Non-Operating Revenue (Expense)	76,127
Income before Transfers	251,534
Transfers In	144,445
Transfers Out	(42,943)
Change in Net Assets	353,036
Net Assets, Beginning of Year	2,842,835
Net Assets, End of Year	$3,195,871

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Statement of Cash Flows
Enterprise Fund
For the Year Ended December 31, 2008

	Sewer
Decrease in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Customers	$1,100,395
Cash Received from Other Operating Sources	14,371
Cash Payments for Employee Services and Benefits	(96,857)
Cash Payments for Contractual Services	(411,219)
Cash Payments for Other Operating Expenses	(219,101)
Net Cash Provided by Operating Activities	387,589
Cash Flows from Noncapital Financing Activities	
Transfers In	144,445
Transfers Out	(42,943)
Net Cash Provided by Noncapital Financing Activities	101,502
Cash Flows from Capital and Related Financing Activities	
Proceeds from OWDA Loans	134,081
Principal Paid on OWDA Loans	(469,503)
Interest Paid on OWDA Loans	(287,907)
Principal Paid on OPWC Loans	(18,725)
Acquisition of Capital Assets	(213,637)
Special Assessments	355,097
Net Cash Used for Capital and Related Financing Activities	(500,594)
Cash Flows from Investing Activities	
Interest	6,590
Net Decrease in Cash and Cash Equivalents	(4,913)
Cash and Cash Equivalents, Beginning of Year	707,471
Cash and Cash Equivalents, End of Year	$702,558
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	$175,407
Adjustments:	
Depreciation	92,099
(Increase)/Decrease in Assets:	
Accounts Receivable	140
Intergovernmental Receivable	(5,010)
Increase in Liabilities:	
Accounts Payable	3,320
Accrued Wages	2,396
Intergovernmental Payable	119,237
Total Adjustments	212,182
Net Cash Provided by Operating Activities	$387,589

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio

Statement of Fiduciary Assets and Liablities

Agency Fund

December 31, 2008

Assets	
Equity in Pooled Cash and Cash Equivalents	$109,549
Liabilities	
Deposits Held and Due to Others	$109,549

See accompanying notes to the basic financial statements

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Note 1 - Reporting Entity

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

Reporting Entity

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

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

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

Note 2 - Summary of Significant Accounting Policies

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

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 statements distinguish between those activities of the City that are governmental and those that are considered business-type.

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

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

Fund Accounting

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

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

> ***General Fund*** The general fund accounts for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the City for any purpose provided it is expended or transferred according to the charter of the City of Willoughby Hills and/or the general laws of Ohio.
>
> ***Fire Levy Fund*** The fire levy special revenue fund is used to account for property tax revenues to be used to maintain fire equipment and for salaries of the firemen.

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

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

> ***Enterprise Fund*** - Enterprise fund may be used to account for any activity for which a fee is charged to external users for goods or services. The following is the City's major enterprise fund:
>
> > ***Sewer Fund*** The sewer fund accounts for the provisions of sanitary sewer services to the residents and commercial users located within the City.

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

Measurement Focus

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

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

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

Basis of Accounting

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

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

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

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

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

Property taxes for which there is an enforceable legal claim as of December 31, 2008, but which were levied to finance year 2009 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount Council may appropriate. The appropriations resolution is Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Council.

The legal level of control has been established by Council at the fund, function and object level within each department for all funds. Any budgetary modifications at this level may only be made by resolution of City Council.

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

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

Cash and Cash Equivalents

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

During 2008, investments were limited to STAR Ohio and non-negotiable certificates of deposit. Non-negotiable certificates of deposit are reported at cost.

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, 2008.

Interest earnings are allocated to City funds according to State statutes, City Charter, grant requirements, or debt related restrictions. Interest revenue credited to the general fund during 2008 was $14,432, which includes $5,010 assigned from other City funds.

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

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2008, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount at the time of purchase and reflecting the expenditure/expense in the year in which the services are consumed.

Inventory

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

Restricted Assets

Assets are reported as restricted when limitations on their use change in nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments or imposed by law through constitutional provisions or enabling legislation. Restricted assets in the general fund represent money set aside for unclaimed monies.

Capital Assets

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

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

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

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

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

Interfund Balances

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

On fund financial statements, long-term interfund loans are offset by a fund balance reserve account, which indicate that they do not constitute "available expendable financial resources" even though it is a component of net current assets. Repayment is expected to be made within a reasonable time.

Compensated Absences

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

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

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

Accrued Liabilities and Long-Term Obligations

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

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

Fund Balance Reserves

The City reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent expendable resources and therefore are not available for appropriation or expenditure. Fund equity reserves have been established for encumbrances, long-term interfund advances, and unclaimed monies. The reserve for unclaimed monies represents cash that, under Ohio law, must remain unclaimed for five years before it becomes available for appropriation.

Net Assets

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

Net assets restricted for other purposes include resources for court improvements, recreation, police pensions and fire department activities.

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

Operating Revenues and Expenses

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

Interfund Activity

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

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

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

Bond Issuance Costs

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

As permitted by State statute, the City paid bond issuance costs from the bond proceeds and therefore does not consider that portion of the debt to be capital-related debt. That portion of the debt was offset against the unamortized bond issuance costs which were included in the determination of unrestricted net assets. Reporting both within the same element of net assets prevents one classification from being overstated while another is understated by the same amount.

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.

Note 3 – Changes in Accounting Principles

For 2008, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations". GASB Statement No. 49 establishes accounting and financial reporting requirements for pollution remediation obligations by requiring more timely and complete reporting of the obligations and by requiring all governments to account for pollution remediation obligations in the same manner. The implementation of this statement did not result in any changes to the financial statements.

Note 4 - Budgetary Basis of Accounting

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

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

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

3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).

4. Unreported cash represents amounts received but not included as revenue on the budgetary statements, but is reported on the operating statements prepared using GAAP.

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

Net Change in Fund Balance

	General	Fire Levy
GAAP Basis	$223,346	($29,140)
Net Adjustment for Revenue Accruals	12,656	(15,925)
Unrecorded Cash	1,593	0
Net Adjustment for Expenditure Accruals	79,816	(3,953)
Encumbrances	(167,116)	(7,295)
Budget Basis	$150,295	($56,313)

Note 5 – Accountability

At December 31, 2008, the fire levy and road levy special revenue funds had fund deficits, in the amount of $147,309 and $35,632, respectively, due to adjustments for accrued liabilities. The general fund is liable for any deficit in these funds and provides transfers when cash is required, not when accruals occur.

Note 6 - Deposits and Investments

The City is a charter City and has adopted an investment policy through City Ordinance. The City has elected to follow the provisions of State statutes. State statutes classify monies held by the City into three categories.

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

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;

2. Bonds, notes, debentures, or any other obligation or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

3. Written repurchase agreements in the securities listed above;

4. Bonds and other obligations of the State of Ohio;

5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;

6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);

7. The State Treasurer's investment pool (STAR Ohio); and

8. Commercial paper and bankers acceptances if training requirements have been met.

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

1. Bonds of the State of Ohio;

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

3. Obligations of the City.

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

Deposits

Custodial Credit Risk - Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, $1,793,299 of the City's bank balance of $2,593,132 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

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

Investments

At December 31, 2008, the City had $159,700 invested in STAR Ohio with an average maturity of 54.7 days.

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

Credit Risk - Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The City has no policy that addresses credit risk.

Note 7 - Receivables

Receivables at December 31, 2008, consisted primarily of municipal income taxes, property taxes, admission taxes, permissive motor vehicle taxes, intergovernmental receivables arising from entitlements and shared revenues, special assessments, and accounts (billings for user charged services including unbilled utility services).

No allowance for doubtful accounts has been recorded because of uncollectible amounts are expected to be insignificant. All receivables except property taxes and special assessments are expected to be received within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

Special assessments expected to be collected in more than one year amount to $69,432 in the special assessment bond retirement fund. At December 31, 2008, the amount of delinquent special assessments was $25,738.

Property Taxes

Property taxes include amounts levied against all real, public utility and tangible personal property located in the City. Property tax revenue received during 2008 for real and public property taxes represents collections of 2007 taxes. Property tax payments received during 2008 for tangible personal property (other than public utility property) are for 2008 taxes.

2008 real property taxes are levied after October 1, 2008 on the assessed value as of January 1, 2008 the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2008 real property taxes are collected in and intended to finance 2009.

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

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2008 public utility property taxes which became a lien December 31, 2007, are levied after October 1, 2008, and are collected in 2009 with real property taxes.

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

The full tax rate for all City operations for the year ended December 31, 2008 was $7.30 per $1,000 of assessed value. The assessed values of real property, public utility tangible property, and tangible personal property upon which 2008 property tax receipts were based are as follows:

Category	Assessed Value
Real Estate	
Residential/Agricultural	$226,304,470
Other Real Estate	80,253,620
Tangible Personal Property	
Public Utility	3,298,910
General	7,185,383
Total Assessed Values	$317,042,383

Income Taxes

The City levies a municipal income tax of one and one half percent on substantially all income earned within the City; in addition, residents are required to pay tax on income earned outside the City. The City allows a credit of one hundred percent for income tax paid to another municipality up to 1 percent. Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually.

Income tax proceeds are to be used for the purposes of general municipal operations, maintenance, new equipment, extension and enlargement of municipal services and facilities and capital improvements of the City of Willoughby Hills. In 2008, the proceeds were allocated to the general fund.

Intergovernmental Receivable

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
Local Government	$374,755
Homestead and Rollback	118,846
Gasoline Tax	116,486
Motor Vehicle License Tax	72,964
Tangible Personal Property Loss Reimbursement	15,942
Total Governmental Activities	$698,993
Business-Type Activity	
Lake County	$5,010

Note 8 – Interfund Transactions

Interfund Transfers

Transfers made during the year ended December 31, 2008 were as follows:

	Transfer From			
Transfer To	General	Nonmajor Funds	Sewer Fund	Total
Major Funds				
General	$0	$60,250	$0	$60,250
Sewer	0	144,445	0	144,445
Total Major Funds	0	204,695	0	204,695
Nonmajor Funds				
Street Construction, Maintenance and Repair	400,000	340,000	0	740,000
Recreation	26,000	0	0	26,000
BRF Fund	0	0	42,943	42,943
Fire Department Capital Improvement	0	110,595	0	110,595
Recreation Capital	11,974	0	0	11,974
Total Nonmajor Funds	437,974	450,595	42,943	931,512
Total Governmental Activities	$437,974	$655,290	$42,943	$1,136,207

The general fund transfers to the street construction, maintenance and repair, and recreation special revenue funds, and the recreation capital projects fund to provide additional resources for current operations. Nonmajor governmental funds made transfers to nonmajor governmental funds and the sewer enterprise fund to provide additional resources for current operations and as debt payments came due. The sewer enterprise fund made a transfer to the BRF special revenue fund to provide monies for the pay off an interfund payable in the BRF fund.

Interfund Balances

Interfund balances at December 31, 2008 consisted of $45,000 from the capital improvement capital projects fund to the general fund and $119,983 to the fire levy special revenue fund.

Note 9 - Capital Assets

Capital asset activity for the year ended December 31, 2008, was as follows:

	Balance 12/31/2007	Additions	Reductions	Balance 12/31/2008
Governmental Activities:				
Capital assets not being depreciated				
Land	$34,400	$0	$0	$34,400
Construction in progress	350,993	56,344	(287,949)	119,388
Total capital assets not being depreciated	385,393	56,344	(287,949)	153,788
Capital assets being depreciated				
Land Improvements	1,181,712	14,565	0	1,196,277
Buildings and Improvements	7,510,947	3,990	0	7,514,937
Machinery and Equipment	4,991,521	310,825	(138,847)	5,163,499
Infrastructure	1,573,491	1,189,118	0	2,762,609
Total capital assets being depreciated	15,257,671	1,518,498	(138,847)	16,637,322
Less: Accumulated depreciation				
Land Improvements	(627,133)	(49,803)	0	(676,936)
Buildings and Improvements	(1,900,453)	(149,354)	0	(2,049,807)
Machinery and Equipment	(2,936,781)	(532,899)	80,306	(3,389,374)
Infrastructure:	(62,674)	(55,781)	0	(118,455)
Total accumulated depreciation	(5,527,041)	(787,837) *	80,306	(6,234,572)
Capital assets being depreciated, net	9,730,630	730,661	(58,541)	10,402,750
Governmental activities capital assets, net	$10,116,023	$787,005	($346,490)	$10,556,538

	Balance 12/31/2007	Additions	Reductions	Balance 12/31/2008
Business-type activity:				
Capital assets not being depreciated				
Land	$268,613	$0	$0	$268,613
Construction in progress	8,839,724	134,081	0	8,973,805
Total capital assets not being depreciated	9,108,337	134,081	0	9,242,418
Capital assets being depreciated				
Machinery and Equipment	110,084	9,170	0	119,254
Infrastructure	6,590,373	70,386	0	6,660,759
Total capital assets being depreciated	6,700,457	79,556	0	6,780,013

(continued)

	Balance 12/31/2007	Additions	Reductions	Balance 12/31/2008
Business-type activity (continued):				
Less: Accumulated depreciation				
Machinery and Equipment	(19,466)	(10,628)	0	(30,094)
Infrastructure	(872,290)	(81,471)	0	(953,761)
Total accumulated depreciation	(891,756)	(92,099)	0	(983,855)
Capital assets being depreciated, net	5,808,701	(12,543)	0	5,796,158
Business-type activity capital assets, net	$14,917,038	$121,538	$0	$15,038,576

*Depreciation expense was charged to governmental activities as follows:

General Government	$312,800
Security of Persons and Property:	
Police	86,025
Fire	155,151
Leisure Time Activities	8,262
Transportation	225,599
Total	$787,837

Note 10 - 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 2008, the City participated in the Arrowhead Public Risk Municipal Package Plan which contracted with Custis Insurance Service for the following types of insurance:

Type	Coverage
Property	$11,622,733
Inland Marine	1,000,000
General Liability	1,000,000 / 2,000,000 aggregate
Vehicle Liability	1,000,000 per occurrence
Law Enforcement Liability	1,000,000 aggregate
Public Officials Liability	1,000,000 aggregate
Employment Practices Liability	1,000,000 aggregate
Umbrella	5,000,000 aggregate

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

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

Note 11 – Defined Benefit Pension Plan

Ohio Public Employees Retirement System

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

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

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions. For the year ended December 31, 2008, the members in State and local classifications contributed 10.0 percent of covered payroll and public safety and law enforcement members contributed 10.1 percent.

The City's contribution rate for 2008 was 14.0 percent, except for those plan members in law enforcement or public safety, for whom the City's contribution was 17.4 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2008, 2007, and 2006 were $115,158, $125,452, and $168,426, respectively; 91 percent has been contributed for 2008 and 100 percent for 2007 and 2006. Contributions to the member-directed plan for 2008 were $11,324 made by the City and $8,089 made by the plan members.

Ohio Police and Fire Pension Fund

Plan Description - The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability 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.

Funding Policy - Plan members are required to contribute 10.0 percent of their annual covered salary to fund pension obligations. The City's contribution was 19.5 percent for police officers and 24.0 percent for firefighters. Contribution rates are established by State statute. For 2008, a portion of the City's contributions equal to 6.75 percent of covered payroll was allocated to fund the post-employment health care plan. The City's contributions to OP&F for police and firefighters were $167,333 and $129,319 for the year ended December 31, 2008, $208,094 and $187,441 for the year ended December 31, 2007, and $138,580 and $105,942 for the year ended December 31, 2006. 66 percent has been contributed for police and firefighters for 2008. The full amount has been contributed for 2007 and 2006.

As of December 31, 2008, the City's part-time firefighters are covered by Social Security rather than OP&F. The employees' liability is 6.2 percent of wages paid.

Note 12 - Postemployment Benefits

Ohio Public Employees Retirement System

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

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

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

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

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2008, state and local government employers contributed at a rate of 14.0 percent of covered payroll (17.4 percent for public safety and law enforcement). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding post-employment health care benefits. For 2008, the amount of the employer contributions which was allocated to fund post-employment health care was 7.0 percent of covered payroll.

The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits by the retirees or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2008, 2007, and 2006 were $126,482, $88,507, and $82,382 respectively; 91 percent has been contributed for 2008 and 100 percent for 2007 and 2006.

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

Ohio Police and Fire Pension Fund

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

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

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

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

Funding Policy – OP&F's post-employment health care plan was established and is administered as an Internal Revenue Code 401(h) account within the defined benefit plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees. The Ohio Revised Code sets the contribution rates for participating employers and for plan members to the OP&F. Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.5 percent and 24.0 percent of covered payroll for police and fire employers, respectively.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made to the pension plan to the 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2008, the employer contribution allocated to the health care plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Section 401(h).

The OP&F Board of Trustees is also authorized to establish requirements for contributions to the healthcare plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions to OP&F which were allocated to fund post-employment health care benefits for police and firefighters were $88,588 and $50,603 for the year ended December 31, 2008, $110,167 and $73,346 for the year ended December 31, 2007, and $91,404 and $50,526 for the year ended December 31, 2006. The full amount has been contributed for 2007 and 2006. 66 percent has been contributed for police and firefighters for 2008.

Note 13 – Other Employee Benefits

Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Employees earn vacation at different rates which are affected by length of service. At the time of separation the employee is entitled to payment for any earned but unused vacation. Sick leave is accrued at the rate of 4.6 hours for each 80 hours of completed service, including paid holidays and paid vacation, with a maximum accumulation of 960 hours. Upon retirement, employees are paid for all the sick days they have accumulated.

Health Care Benefits

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

The cost per month for health care is as follows:

	Employee Only	Employee Plus Spouse	Employee Plus Child	Family
Medical Mutual	$352.21	$702.41	$702.41	$979.10
Comp Benefits - Vision Plan	6.18	12.37	11.75	18.47
Comp Benefits - Dental (DHMO)	13.44	24.54	25.86	34.48
Comp Benefits - Dental (PPO)	33.22	66.52	69.96	113.20

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

	Employee Only	Employee Plus Spouse	Employee Plus Child	Family
Health Only	$35.22	$70.24	$70.24	$97.91
Health and Vision	35.84	70.24	70.24	97.91
Health and Dental (DHMO)	35.84	71.48	71.42	99.76
Health, Vision and Dental (DHMO)	36.56	72.69	72.83	101.36

Life Insurance

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

Note 14 - Contingencies

Grants

The City receives financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2008.

Litigation

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

Note 15 - Short-Term Obligations

A summary of note transactions for the year ended December 31, 2008 follows:

Governmental Type Activities	Balance 12/31/07	Additions	Deletions	Balance 12/31/08
2008, 2.99% Street Improvement	$0	$40,000	$0	$40,000

According to Ohio law, notes may be issued in anticipation of bond proceeds or for up to 50 percent of anticipated revenue collections.

On March 28, 2008, the City issued bond anticipation notes, in the amount of $640,000 for constructing public infrastructure improvements related to U.S. Route 6. The notes have an interest rate of 2.99 percent and mature on April 2, 2009. $600,000 was rolled over to 2009.

Note 16 - Long-term Obligations

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

Debt Issue	Interest Rate	Original Issue Amount	Year of Maturity
Business Type Activity			
Ohio Water Development Authority Loans:			
Oak Street Sewers - 2002	3.64%	$232,330	2022
Euclid Creek Interceptor - 2003	3.03%	3,682,533	2025
Euclid Creek Sewers - 2005	3.25%	7,457,667	2027
Euclid Creek Sewer Design - 2006	3.20%	261,429	2014
Woodlands Sanitary Sewers - 2006	3.25%	480,644	2027
Sewer Laterals - 2007	4.17%	140,985	2027
Ohio Public Works Commission Loans:			
Euclid Interceptor - 2005	0%	500,000	2026
Euclid Sewer Phase II - 2006	0%	249,000	2027
Governmental Activities			
Bond Anticipation Notes:			
Municipal Facilities Improvement - 2008	2.99%	450,000	2009
Street Improvement - 2008	2.99%	600,000	2009
General Obligation Bonds:			
Service Garage Addition Bond - 1993	2.65-5.30%	135,000	2013
Sanitary Sewer Improvement Bond - 1993	2.65-5.30%	56,785	2013
Fire Station Improvement Bond - 2001	5.05%	1,153,000	2016
Municipal Complex Improvement Bond - 2004	4.11%	1,200,000	2021
Fire Truck Bonds - 2005	4.16%	768,000	2016
Special Assessment Bonds:			
Sanitary Sewer Improvement Bond - 1986	7.13%	373,215	2013

Changes in long-term obligations of the City during 2008 were as follows:

	Outstanding 12/31/2007	Additions	Reductions	Outstanding 12/31/2008	Due Within One Year
Business-Type Activity					
OWDA Loans					
Oak Street Sewers	$188,903	$0	$9,665	$179,238	$10,020
Euclid Creek Interceptor	3,531,481	0	155,663	3,375,818	160,416
Euclid Creek Sewers	7,457,667	57,025	280,673	7,234,019	0
Euclid Creek Sewer Design	261,429	56,049	0	317,478	0
Woodlands Sanitary Sewers	480,644	21,007	18,150	483,501	0
Sewer Laterals	140,985	0	5,352	135,633	0
Total OWDA Loans	12,061,109	134,081	469,503	11,725,687	170,436
OPWC Loans					
Euclid Interceptor	462,500	0	12,500	450,000	37,500
Euclid Sewer Phase II	242,775	0	6,225	236,550	18,675
Total OPWC Loans	705,275	0	18,725	686,550	56,175
Total Business-Type Activity	$12,766,384	$134,081	$488,228	$12,412,237	$226,611

	Outstanding 12/31/2007	Additions	Reductions	Outstanding 12/31/2008	Due Within One Year
Governmental Type Activities					
General Obligation Bond Anticipation Notes					
Municipal Facilities Improvement	$0	$450,000	$0	$450,000	$450,000
Street Improvement	0	600,000	0	600,000	600,000
Total General Obligation Bond Anticipation Notes	0	1,050,000	0	1,050,000	1,050,000
General Obligation Bonds					
Service Garage Addition	60,000	0	10,000	50,000	10,000
Sanitary Sewer Improvement	15,852	0	2,642	13,210	2,642
Fire Station Improvement	791,800	0	71,500	720,300	75,100
Municipal Complex Improvement	1,060,000	0	0	1,060,000	65,000
Fire Truck	661,000	0	0	661,000	74,000
Total General Obligation Bonds	2,588,652	0	84,142	2,504,510	226,742
Special Assessments Bond					
Sanitary Sewer Improvement	104,148	0	17,358	86,790	17,358
Other Long-term Obligations					
Lake County Payable	0	149,438	20,868	128,570	20,868
Capital Leases Payable	0	25,888	8,629	17,259	8,629
Compensated Absences	516,860	310,142	300,074	526,928	145,086
Total Other Long-term Obligations	516,860	485,468	329,571	672,757	174,583
Total Governmental Type Activities	$3,209,660	$1,535,468	$431,071	$4,314,057	$1,468,683

OWDA Loans Ohio Water Development Authority (OWDA) loans consist of money owed to OWDA for sewer improvements. The OWDA loans for the Euclid Creek Sewers, Euclid Creek Sewer Design, Woodlands Sewer, and Sewer Laterals projects have not been finalized and therefore repayment schedules are not included in the schedule of debt requirements. The OWDA loans for the Euclid Interceptor and Oak Street loans are paid from the sewer enterprise fund.

OPWC Loans OPWC loans consist of money owed to the Ohio Public Works Commission for sewer improvements. The loans are interest free. OPWC loans will be paid from the sewer enterprise fund.

The City has pledged future revenues to repay OWDA and OPWC loans in the sewer fund. The debt is payable solely from net revenues and is payable through 2027. Net revenues include all revenues received by the sewer utility less all operating expenses other than depreciation expense. Total principal and interest remaining to be paid on the loans is $5,216,509.

General Obligation Bond Anticipation Notes The note liability is reflected in the funds which received the proceeds. At December 31, 2008, the amount of bond anticipation notes outstanding was $1,050,000, of which $688,798 had been spent.

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

Lake County Payable Lake County Payable consists of money owed to Lake County for the local share of the Pleasant Valley Road and Rodgers Road bridge rehabilitation projects. The payable will be paid from the capital improvements capital projects fund.

Capital Leases Capital lease obligations will be paid from the fund that maintains custody of the related assets. Capital leases will be paid from the general fund.

Compensated absences Compensated absences will be paid from the general fund and the court improvement and street construction, maintenance and repair special revenue funds.

The City's overall legal debt margin was $30,931,129 with an unvoted debt margin of $17,437,331 at December 31, 2008. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2008, are as follows:

Business-Type Activity:

	OWDA Loans		OPWC Loans
Year	Principal	Interest	Principal
2009	$170,436	$107,516	$56,175
2010	175,701	102,250	37,450
2011	181,131	96,822	37,450
2012	186,727	91,225	37,450
2013	192,496	85,454	37,450
2014-2018	1,055,484	319,171	187,250
2019-2023	1,212,427	160,874	187,250
2024-2028	380,654	11,591	106,075
Total	$3,555,056	$974,903	$686,550

Governmental Activities:

	General Obligation Bonds		Special Assessment Bonds	
Year	Principal	Interest	Principal	Interest
2009	$226,742	$106,978	$17,358	$4,600
2010	232,642	73,277	17,358	3,680
2011	243,642	65,932	17,358	2,760
2012	255,942	58,179	17,358	1,840
2013	263,342	50,102	17,358	920
2014-2018	987,200	149,157	0	0
2019-2021	295,000	18,392	0	0
Total	$2,504,510	$522,017	$86,790	$13,800

	Lake County Payable
Year	Principal
2009	$20,868
2010	20,868
2011	20,868
2012	20,868
2013	20,868
2014-2018	24,230
Total	$128,570

Note 17 - Capital Leases - Lessee Disclosure

The City has entered into an interest free capitalized lease for a vehicle. The lease met the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures on the statement of revenues, expenditures, and changes in fund balance for governmental funds.

	Governmental Activities
Vehicle	$25,888
Less: Accumulated Depreciation	(2,589)
Total	$23,299

At December 31, 2008, the City owes $17,259 in principal outstanding.

Note 18 - Jointly Governed Organization

The City is a member of The Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of electricity. NOPEC is currently comprised of 112 communities who have been authorized by ballot to purchase electricity on behalf of their citizens. The intent of NOPEC is to provide electricity at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity to the citizens of its member communities. The City did not contribute to NOPEC during 2008.

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

Note 19 - Subsequent Events

The City issued $1,250,000 in various purpose improvement notes at 2.95 percent on April 2, 2009. The notes mature on April 2, 2010 and were issued to refinance previous notes in which the City used to pay costs of improvements to U.S. Route 6 and improvements to the municipal building.

The City issued $1,250,000 in various purpose improvement notes at 2.95 percent on April 3, 2010. The notes mature on April 3, 2011 and were issued to refinance previous notes in which the City used to pay costs of improvements to U.S. Route 6 and improvements to the municipal building.

Mary Taylor, CPA
Auditor of State

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

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

To the City Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Willoughby Hills, Lake County, Ohio (the City) as of and for the years ended December 31, 2009 and 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 17, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the City's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the City's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

Lausche Building / 615 Superior Ave., NW / Twelfth Floor / Cleveland, OH 44113-1801
Telephone: (216) 787-3665 (800) 626-2297 Fax: (216) 787-3361
www.auditor.state.oh.us

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2009-001.

The City's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the City's response and, accordingly, we express no opinion on it.

We did note certain matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated November 17, 2010.

We intend this report solely for the information and use of the audit committee, management, the City Council, and others within the City. We intend it for no one other than these specified parties.

Mary Taylor

Mary Taylor, CPA
Auditor of State

November 17, 2010

CITY OF WILLOUGHBY HILLS
LAKE COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2009 and 2008

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

FINDING NUMBER 2009-001

Material Noncompliance Citation

Proper Encumbering

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

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

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

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

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

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

Thirty-five percent (7 of 20), or $625,181 out of $1,992,630 in 2009 and Thirty-five percent (5 of 14), or $477,679 out of $1,345,421 in FY 2008 of the transactions tested were not certified by the Finance Director at the time the commitment was incurred and there was no evidence the City followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

FINDING NUMBER 2009-001 (Continued)

Proper Encumbering * (Continued)

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

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

Official's Response:

The City concurs with this recommendation. Current City procedures require that all employees responsible for purchasing goods or services on the City's behalf obtain a properly approved purchase order prior to making a purchase commitment.

CITY OF WILLOUGHBY HILLS
LAKE COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2009 and 2008

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***
2007-001	Proper Encumbering – ORC 5705.41(D) – The City did not properly encumber all expenditures prior to receiving the goods or services.	No	Repeated as Finding Number 2009-001
2007-002	Expenditures plus Encumbrances in excess of Appropriations – ORC 5705.41 (B) (D) – The City had many instances where expenditures plus encumbrances exceeded appropriations.	No	Partially Corrected, one fund is in violation, therefore included in management letter
2007-003	Accounting Software – The City did not properly maintain or utilize their ledgers.	Yes	
2007-004	Cash Reconciliation – The City did not properly reconcile their bank accounts or maintain supporting documentation for the reconciliations during the year.	Yes	
2007-005	Timely Posting of Receipts	Yes	

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Mary Taylor, CPA
Auditor of State

CITY OF WILLOUGHBY HILLS

LAKE COUNTY

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JANUARY 4, 2011

88 E. Broad St. / Fourth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us