CITY OF WILLOUGHBY HILLS
LAKE COUNTY

SINGLE AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2010

Dave Yost · Auditor of State

CITY OF WILLOUGHBY HILLS
LAKE COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities	12
Fund Financial Statements:	
Balance Sheet – Governmental Funds	14
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	15
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	16
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual – General Fund	18
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual – Fire Emergency Levy Fund	19
Statement of Net Assets – Enterprise Fund	20
Statement of Revenues, Expenses and Changes in Fund Net Assets – Enterprise Fund	21
Statement of Cash Flows – Enterprise Fund	22
Statement of Fiduciary Net Assets – Agency Fund	24
Notes to the Basic Financial Statements	25
Federal Awards Expenditures Schedule	53
Notes to the Federal Awards Expenditures Schedule	54
Independent Accountants' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*	55
Independent Accountants' Report on Compliance with Requirements Applicable to its Major Federal Program and Internal Control over Compliance in Accordance with OMB Circular A-133	57
Schedule of Findings	59
Schedule of Prior Audit Findings	61

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INDEPENDENT ACCOUNTANTS' REPORT

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

To the City Council:

We 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 year ended December 31, 2010, 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, 2010, 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 year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 18, 2011, 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.

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Accounting principles generally accepted in the United States of America require this presentation to include *Management's Discussion and Analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the City's basic financial statements taken as a whole. The federal awards expenditure schedule provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The federal awards expenditure schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Dave Yost

Dave Yost
Auditor of State

August 18, 2011

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, 2010. 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

- On November 2, 2010, a majority of the electors of the City of Willoughby Hills voted to approve an increase of one half percent to the City's income tax rate, raising it to 2 percent. The additional one half percent increase will be used to support the City's safety forces.

- Overall, governmental activities expenses decreased as a result of diligent financial management. The City actively pursues grants to offset costs of providing services and to offer new programs to the Citizens of Willoughby Hills.

- During 2010, the City completed road improvements to Bishop Road as well as slope improvements to Maple Grove. The City has actively pursued and has been successful in obtaining grants and financial assistance from the Ohio Public Works Commission (OPWC) for these improvements.

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 2010?" 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) with 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 2010 compared to 2009.

Table 1
Net Assets

	Governmental Activities		Business-Type Activity		Total	
	2010	2009	2010	2009	2010	2009
Assets						
Current and Other Assets	$5,966,896	$5,622,686	$1,598,078	$1,423,971	$7,564,974	$7,046,657
Capital Assets, Net	11,959,402	11,373,179	19,980,152	15,956,162	31,939,554	27,329,341
Total Assets	17,926,298	16,995,865	21,578,230	17,380,133	39,504,528	34,375,998
Liabilities						
Current Liabilities	2,685,465	2,696,421	509,361	140,608	3,194,826	2,837,029
Long-Term Liabilities						
Due Within One Year	1,763,092	1,739,784	252,309	264,000	2,015,401	2,003,784
Due in More Than One Year	2,507,597	2,800,352	13,481,880	11,842,742	15,989,477	14,643,094
Total Liabilities	6,956,154	7,236,557	14,243,550	12,247,350	21,199,704	19,483,907
Net Assets						
Invested in Capital Assets, Net of Related Debt	8,511,555	7,669,506	6,245,963	3,849,420	14,757,518	11,518,926
Restricted for:						
Capital Projects	332,914	643,591	0	0	332,914	643,591
Other Purposes	1,479,788	695,735	0	0	1,479,788	695,735
Unrestricted	645,887	750,476	1,088,717	1,283,363	1,734,604	2,033,839
Total Net Assets	$10,970,144	$9,759,308	$7,334,680	$5,132,783	$18,304,824	$14,892,091

For the City, total net assets for governmental activities saw an increase. A major component of the City's assets is capital assets. For 2010, 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. In 2010, the City, along with the Ohio Department of Transportation began major road improvements along Euclid-Chardon Road and S.O.M. Center Road by replacing a number of light signals, as well as major intersection improvements. The City also made major improvements to Bishop Road as well as with the Maple Grove slope. The City's net assets also increased as a result of a large increase in cash. This increase in cash is a direct result of cutting costs and strict budgeting throughout the City.

Total net assets for business-type activities showed a significant increase that can be directly attributed to the construction in progress associated with the major improvements being made in the Euclid sanitary sewer project. During 2010, the City received its remaining share of grant money from the Army Corp of Engineers as well as received grant money from the Ohio Public Works Commission to pay for the 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	
	2010	2009	2010	2009	2010	2009
Revenues						
Program Revenues						
Charges for Services	$3,317,432	$2,470,710	$1,184,304	$1,345,022	$4,501,736	$3,815,732
Operating Grants and Contributions	996,158	753,158	0	0	996,158	753,158
Capital Grants and Assessments	747,485	402,000	2,082,388	1,752,236	2,829,873	2,154,236
Total Program Revenues	5,061,075	3,625,868	3,266,692	3,097,258	8,327,767	6,723,126
General Revenues						
Property Taxes	1,848,985	1,976,090	0	0	1,848,985	1,976,090
Income Taxes	3,161,682	3,043,926	0	0	3,161,682	3,043,926
Admission Taxes	41,804	53,597	0	0	41,804	53,597
Grants and Entitlements	882,679	892,036	0	0	882,679	892,036
Franchise Taxes	88,887	78,994	0	0	88,887	78,994
Interest	9,751	22,546	1,556	3,446	11,307	25,992
Payment in Lieu of Taxes	108,399	0	0	0	108,399	0
Other	76,737	178,875	0	150	76,737	179,025
Total General Revenues	6,218,924	6,246,064	1,556	3,596	6,220,480	6,249,660
Total Revenues	$11,279,999	$9,871,932	$3,268,248	$3,100,854	$14,548,247	$12,972,786

Table 2
Change in Net Assets
(continued)

	Governmental Activities		Business-Type Activity		Total	
	2010	2009	2010	2009	2010	2009
Program Expenses						
General Government	$3,113,903	$2,864,041	$0	$0	$3,113,903	$2,864,041
Security of Persons and Property:						
Police	3,071,236	3,237,848	0	0	3,071,236	3,237,848
Fire	1,946,116	2,055,644	0	0	1,946,116	2,055,644
Transportation	1,182,773	1,256,169	0	0	1,182,773	1,256,169
Community Environment	136,638	127,987	0	0	136,638	127,987
Leisure Time Activities	194,127	269,961	0	0	194,127	269,961
Interest and Fiscal Charges	131,358	145,549	0	0	131,358	145,549
Sewer	0	0	1,359,363	1,143,779	1,359,363	1,143,779
Total Program Expenses	9,776,151	9,957,199	1,359,363	1,143,779	11,135,514	11,100,978
Transfers	(293,012)	20,163	293,012	(20,163)	0	0
Change in Net Assets	1,210,836	(65,104)	2,201,897	1,936,912	3,412,733	1,871,808
Net Assets Beginning of Year	9,759,308	9,824,412	5,132,783	3,195,871	14,892,091	13,020,283
Net Assets End of Year	$10,970,144	$9,759,308	$7,334,680	$5,132,783	$18,304,824	$14,892,091

Governmental Activities

For governmental activities, there was an increase in program revenues for 2010, while general revenues saw a slight 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 2009. The decrease in general revenues is a result of fewer property taxes received. Several sources fund the City's governmental activities with the municipal income tax being the largest component. The City has a current municipal income tax rate of 1.5 percent. In November 2010, the voters approved a one half percent increase to the City's income tax rate. Effective January 1, 2011, the City will match its other adjacent Lake County cities with an income tax rate of two percent. The additional one half percent increase will be solely used to support the City's safety forces. The City grants one hundred percent credit to residents who pay municipal income tax to another city. Property tax collections are the next largest source of revenue for governmental activities. The City collects 3 mills of inside millage and 4.4 mills of outside millage. The outside millage is generated from a 1.8 mill perpetual levy for fire and EMS services and a 2.6 mill road levy. In November 2009, the voters renewed their 2005 five year replacement road levy at a rate of 2.5 mills. The collection of this levy began 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 decreased from 2009 levels. This decrease is largely due to the limitation of overtime worked in the police and fire departments. In order to keep costs down, the City also began strict spending and budgeting throughout the City.

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 continued to show a decrease from 2009.

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 and a grant received from the Army Corp of Engineers. 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, 2010, 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 saw a significant increase in fund balance during the year with revenues exceeding expenditures largely due to the City being more conservative in their spending in efforts to reduce costs. The fire levy special revenue fund saw an increase in fund balance with revenues continuing to exceed expenditures for the year. The general bond retirement debt service fund saw an increase in fund balance due to revenue received during year covering the debt payments that were made.

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 2010, 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 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 an increase in actual revenue received largely due to an increase in fines and forfeitures received in the mayor's court. There was 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 2010 balances of capital assets as compared to 2009.

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

	Governmental Activities		Business-Type Activity		Total	
	2010	2009	2010	2009	2010	2009
Land	$34,400	$34,400	$268,613	$268,613	$303,013	$303,013
Construction in Progress	418,204	142,695	13,759,518	9,632,461	14,177,722	9,775,156
Land Improvements	422,963	469,538	0	0	422,963	469,538
Buildings Improvements	5,885,730	5,908,408	0	0	5,885,730	5,908,408
Machinery and Equipment	1,941,013	2,013,950	308,171	343,886	2,249,184	2,357,836
Infrastructure	3,257,092	2,804,188	0	0	3,257,092	2,804,188
Sewer Improvements	0	0	5,643,850	5,711,202	5,643,850	5,711,202
Total Capital Assets	$11,959,402	$11,373,179	$19,980,152	$15,956,162	$31,939,554	$27,329,341

For 2010, the primary additions for governmental activities included a new HVAC system at the City Hall Complex, road improvements and vehicles. Major road improvements included construction started on light signals at S.O.M. Center Road as well as major slope improvements to Maple Grove. 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	
	2010	2009	2010	2009	2010	2009
Notes Payable	$1,250,000	$1,250,000	$0	$0	$1,250,000	$1,250,000
General Obligation Bonds	2,045,126	2,277,768	0	0	2,045,126	2,277,768
Special Assessment Bond	52,074	69,432	0	0	52,074	69,432
OWDA Loans	0	0	13,034,933	11,319,188	13,034,933	11,319,188
OPWC Loans	0	0	592,925	649,100	592,925	649,100
Lake County Payable	107,702	107,702	0	0	107,702	107,702
Capital Leases	61,728	89,311	106,331	138,454	168,059	227,765
Compensated Absences	754,059	745,923	0	0	754,059	745,923
Total	$4,270,689	$4,540,136	$13,734,189	$12,106,742	$18,004,878	$16,646,878

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 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 is working on strengthening its internal control system, and improving its 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, 2010

	Governmental Activities	Business-Type Activity	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	$2,228,182	$1,230,653	$3,458,835
Materials and Supplies Inventory	63,853	0	63,853
Accounts Receivable	104,805	0	104,805
Internal Balances	(332,300)	332,300	0
Intergovernmental Receivable	805,747	24,086	829,833
Prepaid Items	44,156	11,039	55,195
Municipal Income Taxes Receivable	855,433	0	855,433
Property Taxes Receivable	2,022,338	0	2,022,338
Special Assessments Receivable	52,074	0	52,074
Payment in Lieu of Taxes Receivable	108,399	0	108,399
Permissive Motor Vehicle Taxes Receivable	5,426	0	5,426
Deferred Charges	8,783	0	8,783
Nondepreciable Capital Assets	452,604	14,028,131	14,480,735
Depreciable Capital Assets, Net	11,506,798	5,952,021	17,458,819
Total Assets	17,926,298	21,578,230	39,504,528
Liabilities			
Accounts Payable	101,625	5,363	106,988
Contracts Payable	87,332	265,505	352,837
Accrued Wages	84,793	854	85,647
Retainage Payable	20,572	61,716	82,288
Accrued Interest Payable	64,205	49,100	113,305
Matured Compensated Absences	55,518	0	55,518
Intergovernmental Payable	265,351	126,823	392,174
Deferred Revenue	2,006,069	0	2,006,069
Long-Term Liabilities:			
Due Within One Year	1,763,092	252,309	2,015,401
Due In More Than One Year	2,507,597	13,481,880	15,989,477
Total Liabilities	6,956,154	14,243,550	21,199,704
Net Assets			
Invested in Capital Assets, Net of Related Debt	8,511,555	6,245,963	14,757,518
Restricted for:			
Capital Projects	332,914	0	332,914
Street Construction, Maintenance and Repair	292,875	0	292,875
Road Levy	477,302	0	477,302
Drug Enforcement	219,753	0	219,753
Unclaimed Monies	28,043	0	28,043
Other Purposes	461,815	0	461,815
Unrestricted	645,887	1,088,717	1,734,604
Total Net Assets	$10,970,144	$7,334,680	$18,304,824

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Statement of Activities
For the Year Ended December 31, 2010

	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Assessments
Governmental Activities:				
General Government	$3,113,903	$2,663,141	$995	$200,853
Security of Persons and Property:				
Police	3,071,236	23,009	186,932	0
Fire	1,946,116	293,828	87,624	0
Transportation	1,182,773	3,497	685,825	546,632
Community Environment	136,638	94,826	33,257	0
Leisure Time Activities	194,127	239,131	1,525	0
Interest and Fiscal Charges	131,358	0	0	0
Total Governmental Activities	9,776,151	3,317,432	996,158	747,485
Business-Type Activity:				
Sewer	1,359,363	1,184,304	0	2,082,388
Total	$11,135,514	$4,501,736	$996,158	$2,829,873

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
Payment in Lieu of Taxes
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
($248,914)	$0	($248,914)
(2,861,295)	0	(2,861,295)
(1,564,664)	0	(1,564,664)
53,181	0	53,181
(8,555)	0	(8,555)
46,529	0	46,529
(131,358)	0	(131,358)
(4,715,076)	0	(4,715,076)
0	1,907,329	1,907,329
(4,715,076)	1,907,329	(2,807,747)
567,615	0	567,615
120,273	0	120,273
76,361	0	76,361
458,165	0	458,165
626,571	0	626,571
3,161,682	0	3,161,682
41,804	0	41,804
882,679	0	882,679
88,887	0	88,887
9,751	1,556	11,307
108,399	0	108,399
76,737	0	76,737
6,218,924	1,556	6,220,480
(293,012)	293,012	0
5,925,912	294,568	6,220,480
1,210,836	2,201,897	3,412,733
9,759,308	5,132,783	14,892,091
$10,970,144	$7,334,680	$18,304,824

City of Willoughby Hills, Ohio
Balance Sheet
Governmental Funds
December 31, 2010

	General	Fire Levy	General Bond Retirement	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	$807,884	$106,225	$23,343	$1,262,687	$2,200,139
Materials and Supplies Inventory	5,986	0	0	57,867	63,853
Accounts Receivable	822	97,609	0	6,374	104,805
Interfund Receivable	0	0	0	52,500	52,500
Intergovernmental Receivable	423,726	31,118	7,731	343,172	805,747
Prepaid Items	44,156	0	0	0	44,156
Municipal Income Taxes Receivable	855,433	0	0	0	855,433
Property Taxes Receivable	623,357	501,049	128,278	769,654	2,022,338
Special Assessments Receivable	0	0	0	52,074	52,074
Payment in Lieu of Taxes Receivable	0	0	0	108,399	108,399
Permissive Motor Vehicle Taxes Receivable	0	0	0	5,426	5,426
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	28,043	0	0	0	28,043
Total Assets	$2,789,407	$736,001	$159,352	$2,658,153	$6,342,913
Liabilities					
Accounts Payable	$49,316	$4,010	$0	$48,299	$101,625
Contracts Payable	0	0	0	87,332	87,332
Accrued Wages	6,943	12,532	0	65,318	84,793
Retainage Payable	0	0	0	20,572	20,572
Matured Compensated Absences	55,518	0	0	0	55,518
Intergovernmental Payable	239,491	6,692	0	19,168	265,351
Interfund Payable	0	0	0	384,800	384,800
Deferred Revenue	1,507,376	616,357	136,009	1,147,662	3,407,404
Total Liabilities	1,858,644	639,591	136,009	1,773,151	4,407,395
Fund Balances					
Reserved for Encumbrances	80,495	3,098	0	202,533	286,126
Reserved for Unclaimed Monies	28,043	0	0	0	28,043
Unreserved					
Undesignated, Reported in:					
General Fund	822,225	0	0	0	822,225
Special Revenue Funds	0	93,312	0	759,241	852,553
Debt Service Funds	0	0	23,343	8,135	31,478
Capital Projects Funds (Deficit)	0	0	0	(84,907)	(84,907)
Total Fund Balances	930,763	96,410	23,343	885,002	1,935,518
Total Liabilities and Fund Balances	$2,789,407	$736,001	$159,352	$2,658,153	$6,342,913

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, 2010

Total Governmental Funds Balances		$1,935,518
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.		11,959,402
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Intergovernmental	606,928	
Special Assessments	52,074	
Income Taxes	533,475	
Property Taxes	124,668	
Charges for Services	84,190	
Total		1,401,335
In the statement of activities, interest is accrued on outstanding liabilities, whereas in governmental funds, an interest expenditure is reported when due.		(64,205)
Bond issuance costs will be amortized over the life of the bonds on the statement of net assets.		8,783
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	(2,045,126)	
Special Assessment Bonds	(52,074)	
Lake County Payable	(107,702)	
Capital Leases	(61,728)	
Compensated Absences	(754,059)	
Total		(4,270,689)
Net Assets of Governmental Activities		$10,970,144

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, 2010

	General	Fire Levy	General Bond Retirement	Other Governmental Funds	Total Governmental Funds
Revenues					
Property Taxes	$569,003	$459,285	$119,925	$704,280	$1,852,493
Municipal Income Taxes	3,486,159	0	0	0	3,486,159
Admission Taxes	41,804	0	0	0	41,804
Permissive Motor Vehicle Taxes	0	0	0	69,793	69,793
Charges for Services	32,420	137,855	0	224,111	394,386
Licenses, Permits and Fees	190,820	0	0	0	190,820
Fines and Forfeitures	2,509,213	0	0	96,509	2,605,722
Intergovernmental	869,494	90,451	85,673	1,344,678	2,390,296
Special Assessments	0	0	200,853	17,358	218,211
Payment in Lieu of Taxes	0	0	0	108,399	108,399
Interest	1,995	175	42	7,539	9,751
Rentals	104,288	0	0	0	104,288
Contributions and Donations	2,138	198	0	6,367	8,703
Franchise Taxes	88,887	0	0	0	88,887
Other	41,150	0	0	35,587	76,737
Total Revenues	7,937,371	687,964	406,493	2,614,621	11,646,449
Expenditures					
Current:					
General Government	2,850,951	0	20,785	70,732	2,942,468
Security of Persons and Property:					
Police	2,769,194	0	0	242,915	3,012,109
Fire	1,201,518	574,116	0	30,881	1,806,515
Transportation	24,516	0	0	1,184,146	1,208,662
Community Environment	134,130	0	0	1,429	135,559
Leisure Time Activities	112,122	0	0	75,882	188,004
Capital Outlay	0	0	0	929,563	929,563
Debt Service:					
Principal Retirement	0	0	1,482,642	44,941	1,527,583
Interest and Fiscal Charges	0	0	131,648	7,038	138,686
Total Expenditures	7,092,431	574,116	1,635,075	2,587,527	11,889,149
Excess of Revenues Over (Under) Expenditures	844,940	113,848	(1,228,582)	27,094	(242,700)
Other Financing Sources (Uses)					
General Obligation Notes Issued	0	0	1,250,000	0	1,250,000
Transfers In	49,887	119,983	0	267,230	437,100
Transfers Out	(229,767)	0	0	(500,345)	(730,112)
Total Other Financing Sources (Uses)	(179,880)	119,983	1,250,000	(233,115)	956,988
Net Change in Fund Balances	665,060	233,831	21,418	(206,021)	714,288
Fund Balances (Deficit) Beginning of Year	265,703	(137,421)	1,925	1,091,023	1,221,230
Fund Balances End of Year	$930,763	$96,410	$23,343	$885,002	$1,935,518

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, 2010

Net Change in Fund Balances - Total Governmental Funds		$714,288
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	1,129,998	
Depreciation	(540,505)	
Total		589,493
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.		(3,270)
Revenue in the statement of activities that do not provide current financial resources are not reported as revenue in governmental funds.		
Property Taxes	(3,508)	
Income Taxes	(324,477)	
Special Assessments	(17,358)	
Charges for Services	22,216	
Intergovernmental	(43,323)	
Total		(366,450)
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	1,250,000	
General Obligation Bonds Payable	232,642	
Special Assessment Bonds Payable	17,358	
Capital Leases Payable	27,583	
Total		1,527,583
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	9,085	
Amortization of Bond Issuance Costs	(1,757)	
Total		7,328
Some expenses, such as compensated absences, reported in the statement of activities do no require the use of current financial resources and therefore are not reported as an expenditure in governmental funds.		(8,136)
Change in Net Assets of Governmental Activities		$1,210,836

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, 2010

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Property Taxes	$670,252	$543,700	$569,003	$25,303
Municipal Income Taxes	3,273,917	3,511,300	3,423,732	(87,568)
Admission Taxes	47,101	50,200	44,696	(5,504)
Charges for Services	28,952	31,200	32,420	1,220
Licenses, Permits and Fees	107,669	120,900	190,820	69,920
Fines and Forfeitures	888,105	964,000	1,094,620	130,620
Intergovernmental	821,788	881,200	856,894	(24,306)
Interest	10,562	10,700	1,995	(8,705)
Rentals	104,669	111,900	104,288	(7,612)
Contributions and Donations	1,452	1,600	2,138	538
Franchise Taxes	73,837	80,000	88,887	8,887
Other	28,609	31,801	41,150	9,349
Total Revenues	6,056,913	6,338,501	6,450,643	112,142
Expenditures				
Current:				
General Government	1,563,423	1,577,973	1,416,968	161,005
Security of Persons and Property:				
Police	2,953,146	3,098,546	2,982,171	116,375
Fire	1,334,164	1,344,164	1,314,519	29,645
Transportation	24,950	24,950	24,516	434
Community Environment	139,994	144,994	139,311	5,683
Leisure Time Activities	106,628	132,428	115,019	17,409
Total Expenditures	6,122,305	6,323,055	5,992,504	330,551
Excess of Revenues Over (Under) Expenditures	(65,392)	15,446	458,139	442,693
Other Financing Sources (Uses)				
Advances Out	(45,000)	(45,000)	(45,000)	0
Transfers In	49,887	49,887	49,887	0
Transfers Out	(215,200)	(232,700)	(229,767)	2,933
Total Other Financing Sources (Uses)	(210,313)	(227,813)	(224,880)	2,933
Net Change in Fund Balance	(275,705)	(212,367)	233,259	445,626
Fund Balance Beginning of Year	173,672	173,672	173,672	0
Prior Year Encumbrances Appropriated	174,630	174,630	174,630	0
Fund Balance End of Year	$72,597	$135,935	$581,561	$445,626

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, 2010

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
Revenues				
Property Taxes	$438,600	$438,600	$459,285	$20,685
Charges for Services	170,100	170,100	140,203	(29,897)
Intergovernmental	99,900	99,900	90,451	(9,449)
Interest	800	800	175	(625)
Contributions and Donations	2,000	2,000	198	(1,802)
Total Revenues	711,400	711,400	690,312	(21,088)
Expenditures				
Current:				
Security of Persons and Property:				
Fire	721,771	686,771	613,221	73,550
Excess of Revenues Over (Under) Expenditures	(10,371)	24,629	77,091	52,462
Other Financing Sources (Uses)				
Advances Out	(119,983)	(119,983)	(119,983)	0
Transfers In	119,983	119,983	119,983	0
Total Other Financing Sources (Uses)	0	0	0	0
Net Change in Fund Balance	(10,371)	24,629	77,091	52,462
Fund Balance Beginning of Year	14,818	14,818	14,818	0
Prior Year Encumbrances Appropriated	1,771	1,771	1,771	0
Fund Balance End of Year	$6,218	$41,218	$93,680	$52,462

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Statement of Fund Net Assets
Enterprise Fund
December 31, 2010

	Sewer
Assets	
Current Assets	
Equity in Pooled Cash and Cash Equivalents	$1,230,653
Intergovernmental Receivable	24,086
Interfund Receivable	332,300
Prepaid Items	11,039
Total Current Assets	1,598,078
Noncurrent Assets	
Nondepreciable Capital Assets	14,028,131
Depreciable Capital Assets, Net	5,952,021
Total Noncurrent Assets	19,980,152
Total Assets	21,578,230
Liabilities	
Current Liabilities	
Accounts Payable	5,363
Contracts Payable	265,505
Accrued Wages	854
Retainage Payable	61,716
Accrued Interest Payable	49,100
Intergovernmental Payable	126,823
OWDA Loans Payable	181,130
OPWC Loans Payable	37,450
Capital Leases Payable	33,729
Total Current Liabilities	761,670
Long-Term Liabilities (Net of Current Portion):	
OWDA Loans Payable	12,853,803
OPWC Loans Payable	555,475
Capital Leases Payable	72,602
Total Long-Term Liabilities	13,481,880
Total Liabilities	14,243,550
Net Assets	
Invested in Capital Assets, Net of Related Debt	6,245,963
Unrestricted	1,088,717
Total Net Assets	$7,334,680

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, 2010

	Sewer
Operating Revenue	
Charges for Services	$944,241
Operating Expenses	
Personal Services	117,472
Fringe Benefits	30,850
Contractual Services	590,180
Depreciation	118,934
Other	27,923
Total Operating Expenses	885,359
Operating Income	58,882
Non-Operating Revenue (Expense)	
Interest Income	1,556
Capital Grants	2,082,388
Special Assessments	240,063
Interest and Fiscal Charges	(474,004)
Total Non-Operating Revenue (Expense)	1,850,003
Income before Transfers	1,908,885
Transfers In	293,012
Change in Net Assets	2,201,897
Net Assets Beginning of Year	5,132,783
Net Assets End of Year	$7,334,680

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, 2010

	Sewer
Increase in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Customers	$946,067
Cash Payments for Employee Services and Benefits	(149,874)
Cash Payments for Contractual Services	(577,104)
Cash Payments for Other Operating Expenses	(32,197)
Net Cash Provided by Operating Activities	186,892
Cash Flows from Noncapital Financing Activities	
Transfers In	293,012
Advances Out	(225,000)
Net Cash Provided by Noncapital Financing Activities	68,012
Cash Flows from Capital and Related Financing Activities	
Proceeds from OWDA Loans	2,614,665
Principal Paid on OWDA Loans	(898,920)
Interest Paid on OWDA Loans	(426,613)
Principal Paid on OPWC Loans	(56,175)
Principal Paid on Capital Lease	(32,123)
Interest Paid on Capital Lease	(6,923)
Acquisition of Capital Assets	(3,815,703)
Capital Grants	2,158,378
Special Assessments	240,063
Net Cash Used for Capital and Related Financing Activities	(223,351)
Cash Flows from Investing Activities	
Interest	1,556
Net Increase in Cash and Cash Equivalents	33,109
Cash and Cash Equivalents Beginning of Year	1,197,544
Cash and Cash Equivalents End of Year	$1,230,653

(continued)

City of Willoughby Hills, Ohio
Statement of Cash Flows
Enterprise Fund (continued)
For the Year Ended December 31, 2010

	Sewer
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	$58,882
Adjustments:	
Depreciation	118,934
Decrease in Assets:	
Intergovernmental Receivable	1,826
Prepaids	6,186
Increase/(Decrease) in Liabilities:	
Accounts Payable	(2,547)
Accrued Wages	(2,312)
Intergovernmental Payable	5,923
Total Adjustments	128,010
Net Cash Provided by Operating Activities	$186,892

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Statement of Fiduciary Assets and Liablities
Agency Fund
December 31, 2010

Assets	
Equity in Pooled Cash and Cash Equivalents	$155,655
Liabilities	
Deposits Held and Due to Others	$155,655

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 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 17 of the Basic Financial Statements.

Note 2 - Summary of Significant Accounting Policies

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

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, 2010, but which were levied to finance year 2011 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 object level within each department in the general fund and at fund level for all other funds. Any budgetary modifications at this level may only be made by resolution of City Council. Authority to further allocate Council appropriations within departments and objects has been given to the Director of Finance.

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

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

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 2010, 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, 2010.

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 2010 was $1,995, which includes $475 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, 2010, 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, 2004.

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.

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 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 2010, the City has implemented Governmental Accounting Standard Board (GASB) Statement No. 51, "Accounting and Reporting for Intangible Assets". GASB Statement No. 51 establishes accounting and financial reporting requirements for intangible assets to reduce inconsistencies thereby enhancing the comparability of accounting and financial reporting of such assets among state and local governments. The implementation of this statement did not result in any change to 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.

5. Advances-out are operating transactions (budget) as opposed to balance sheet transactions (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	$665,060	$233,831
Net Adjustment for Revenue Accruals	(1,486,000)	2,348
Unrecorded Cash	(126,327)	(5,437)
Net Adjustment for Expenditure Accruals	1,353,565	(26,560)
Advances Out	(45,000)	(119,983)
Encumbrances	(128,039)	(7,108)
Budget Basis	$233,259	$77,091

Note 5 – Accountability

At December 31, 2010, the safety forces special revenue fund and the tax incremental financing capital projects fund had fund deficits, in the amount of $72,052 and $328,384 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, by surety company bonds deposited with the City Treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Interim monies 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, $1,137,087 of the City's bank balance of $3,614,490 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 institutions 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, 2010, the City had $2,163,139 invested in STAR Ohio with an average maturity of 58 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, 2010, consisted primarily of municipal income taxes, property taxes, payment in lieu of 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 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 $34,716 in the special assessment bond retirement fund. At December 31, 2010, the amount of delinquent special assessments was $10,253.

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 2010 for real and public property taxes represents collections of 2009 taxes. Property tax payments received during 2010 for tangible personal property (other than public utility property) are for 2010 taxes.

2010 real property taxes are levied after October 1, 2010 on the assessed value as of January 1, 2010 the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2010 real property taxes are collected in and intended to finance 2011.

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. 2010 public utility property taxes which became a lien December 31, 2009, are levied after October 1, 2010, and are collected in 2011 with real property taxes.

Tangible personal property tax revenue received during 2010 (other than public utility property tax) represents the collection of 2010 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 2010 were levied after October 1, 2009, on the value as of December 31, 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

The full tax rate for all City operations for the year ended December 31, 2010 was $7.30 per $1,000 of assessed value. The assessed values of real property and public utility tangible property upon which 2010 property tax receipts were based are as follows:

Category	Assessed Value
Real Estate	
Residential/Agricultural	$206,300,240
Other Real Estate	78,821,620
Tangible Personal Property	
Public Utility	3,811,890
Total Assessed Values	$288,933,750

The County Treasurer collects property tax on behalf of all taxing districts within the County, including the City of Willoughby Hills. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2010 and for which there is an enforceable legal claim. In the governmental funds, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2010 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while the remainder of the receivable is deferred.

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. On the November 2, 2010 election, an increase of one half percent was passed making the income tax rate two percent. This increase will be effective January 1, 2011 on substantially all income earned within the City. The City allows a credit of one hundred percent for income tax paid to another municipality up to the total amount owed to the City. Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually.

Income tax proceeds are to be used for the purposes of general municipal operations, maintenance, new equipment, extension and enlargement of municipal services and facilities and capital improvements of the City of Willoughby Hills. In 2010, the proceeds were allocated to the general fund.

Payments in Lieu of Taxes

According to State law, the City has established several tax incremental financing districts within the City under which the City has granted property tax exemptions and agreed to construct certain infrastructure improvements. The property owners have agreed to make payments to the City to help pay the costs of the infrastructure improvements. The amount of those payments generally reflects all or a portion of the property taxes which the property owners would have paid if the property had not been declared exempt. The property owners' contractual promise to make these payments in lieu of taxes generally continues until the costs of the improvement have been paid or the agreement expires, whichever occurs first. Future development by these owners or others may result in subsequent agreements to make payments in lieu of taxes and may therefore spread the costs of the improvements to a larger number of property owners.

Intergovernmental Receivable

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
Local Government	$375,329
Gas Excise Tax	112,274
Homestead and Rollback	111,798
Ohio Public Works Commission	87,332
Motor Vehicle License Tax	87,221
Tangible Personal Property Loss Reimbursement	14,600
Lake County	9,408
Estate Tax	7,741
City of Willoughby	44
Total Governmental Activities	805,747
Business-Type Activity	
Ohio Public Works Commission	19,682
Lake County	4,404
Total Business-Type Activity	$24,086

Note 8 – Interfund Transactions

Interfund Transfers

Transfers made during the year ended December 31, 2010 were as follows:

	Transfer From		
Transfer To	General	Nonmajor Funds	Total
Major Funds			
General	$0	$49,887	$49,887
Fire Levy	0	119,983	119,983
Sewer	0	293,012	293,012
Total Major Funds	0	462,882	462,882
Nonmajor Funds			
Law Enforcement Grants	0	19,670	19,670
Street Construction, Maintenance and Repair	200,000	0	200,000
Recreation	29,767	0	29,767
Road Levy	0	6,437	6,437
Recreation Capital	0	11,356	11,356
Total Nonmajor Funds	229,767	37,463	267,230
Total Governmental Activities	$229,767	$500,345	$730,112

The general fund made transfers to the street construction, maintenance and repair and recreation special revenue funds to provide additional resources for current operations. Nonmajor governmental funds made transfers to the general fund, fire levy special revenue fund, nonmajor governmental funds and the sewer enterprise fund as a result of City Council determining that prior advances would not be repaid to these respective funds.

Interfund Balances

At the end of fiscal year 2010, the tax incremental financing capital projects fund had interfund payables to the road levy special revenue fund and sewer enterprise fund in the amounts of $52,500 and $332,300 respectively, to be repaid within one year.

Note 9 - Capital Assets

Capital asset activity for the year ended December 31, 2010, was as follows:

	Balance 12/31/2009	Additions	Reductions	Balance 12/31/2010
Governmental Activities:				
Capital assets not being depreciated				
Land	$34,400	$0	$0	$34,400
Construction in progress	142,695	275,509	0	418,204
Total capital assets not being depreciated	177,095	275,509	0	452,604
Capital assets being depreciated				
Land Improvements	1,196,277	6,840	(10,900)	1,192,217
Buildings and Improvements	8,121,602	146,313	0	8,267,915
Machinery and Equipment	5,641,236	177,420	(2,500)	5,816,156
Infrastructure	2,982,828	523,916	0	3,506,744
Total capital assets being depreciated	17,941,943	854,489	(13,400)	18,783,032
Less: Accumulated depreciation				
Land Improvements	(726,739)	(50,145)	7,630	(769,254)
Buildings and Improvements	(2,213,194)	(168,991)	0	(2,382,185)
Machinery and Equipment	(3,627,286)	(250,357)	2,500	(3,875,143)
Infrastructure:	(178,640)	(71,012)	0	(249,652)
Total accumulated depreciation	(6,745,859)	(540,505) *	10,130	(7,276,234)
Capital assets being depreciated, net	11,196,084	313,984	(3,270)	11,506,798
Governmental activities capital assets, net	$11,373,179	$589,493	($3,270)	$11,959,402
Business type activities:				
Capital assets not being depreciated				
Land	$268,613	$0	$0	$268,613
Construction in Progress	9,632,461	4,127,057	0	13,759,518
Total capital assets not being depreciated	9,901,074	4,127,057	0	14,028,131
Capital assets being depreciated				
Machinery and Equipment	409,695	0	0	409,695
Infrastructure	6,748,182	15,867	0	6,764,049
Total capital assets being depreciated	7,157,877	15,867	0	7,173,744
Less: Accumulated depreciation				
Machinery and Equipment	(65,809)	(35,715)	0	(101,524)
Infrastructure:	(1,036,980)	(83,219)	0	(1,120,199)
Total accumulated depreciation	(1,102,789)	(118,934)	0	(1,221,723)
Capital assets being depreciated, net	6,055,088	(103,067)	0	5,952,021
Business-type activities capital assets, net	$15,956,162	$4,023,990	$0	$19,980,152

*Depreciation expense was charged to governmental activities as follows:

General Government	$210,914
Security of Persons and Property:	
Police	40,115
Fire	108,357
Leisure Time Activities	6,123
Transportation	174,996
Total	$540,505

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 2010, the City participated in the Municipal Insurance Alliance of Ohio Package Plan which contracted with Custis Insurance Service for the following types of insurance:

Type	Coverage
Property	$13,583,791
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 four years and there have been no significant reductions in overall commercial coverage in any of the past four years.

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

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, but less than, 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, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions and currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units and 18.1 percent of covered payroll for law and public safety employer units. Member contribution rates, as set in the Ohio Revised Code, are not to exceed 10 percent. For the year ended December 31, 2010, members in state and local classifications contributed 10 percent of covered payroll while public safety and law enforcement members contributed 10.5 percent and 11.1 percent, respectively. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Pension Plan. For 2010, member and employer contribution rates were consistent across all three plans.

The City's 2010 contribution rate was 14.0 percent, except for those plan members in law enforcement or public safety, for whom the City's contribution was 17.87 percent of covered payroll. The portion of employer contributions used to fund pension benefits is net of post-employment health care benefits. The portion of employer contribution allocated to health care for members in the Traditional Plan was 5.5 percent from January 1 through February 28, 2010, and 5 percent from March 1 through December 31, 2010. The portion of employer contributions allocated to health care for members in the Combined Plan was 4.73 percent from January 1 through February 28, 2010, and 4.23 percent from March 1 through December 31, 2010. Employer contribution rates are actuarially determined.

The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2010, 2009 and 2008 were $114,354, $126,455, and $115,158, respectively. For 2010, 90 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2009 and 2008. Contributions to the Member-Directed Plan for 2010 were $10,938 made by the City and $7,813 made by 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 – The Ohio Revised Code requires plan members 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 OP&F Pension Fund is authorized by the Ohio Revised Code to allocate a portion of the employer contributions to retiree health care benefits. The portion of employer contributions used to fund pension benefits was 12.75 percent of covered payroll for police officers and 17.25 percent of covered payroll for firefighters. The City's contributions to OP&F for police and firefighters pension were $160,053 and $132,977 for the year ended December 31, 2010, $169,000 and $131,556 for the year ended December 31, 2009, and $208,094 and $187,441 for the year ended December 31, 2008, respectively. For 2010, 69 percent for police and 70 percent for firefighters has been contributed with the balance for both police and firefighters being reported as an intergovernmental payable. The full amount has been contributed for 2009 and 2008.

Social Security

As in prior years, as of December 31, 2010, 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) administers three separate pension plans: The Traditional Pension Plan—a cost sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan—a defined contribution plan; and the Combined Plan—a cost sharing, multiple employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing multiple-employer defined benefit post-employment health care plan for qualifying members of both the Traditional Pension and the 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, 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 mandate, 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 administrated in accordance with, Internal Revenue Code 401(h). The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement 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 2010, state and local employers contributed at a rate of 14.0 percent of covered payroll, and public safety and law enforcement employers contributed at 17.87 percent. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units and 18.1 percent of covered payroll for law and public safety employer units.

Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 5.5 percent from January 1 through February 28, 2010, and 5 percent from March 1 through December 31, 2010. The portion of employer contributions allocated to health care for members in the Combined Plan was 4.73 percent from January 1 through February 28, 2010, and 4.23 percent from March 1 through December 31, 2010.

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, 2010, 2009 and 2008 were $63,747, $115,137, and $126,482, respectively. For 2010, 90 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2009 and 2008.

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 on 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 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 by Ohio Revised Code 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. 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 administrated 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 the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2010, 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 Sections 115 and 401(h).

The OP&F Board of Trustees also is 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 $84,734 and $52,034 for the year ended December 31, 2010, $89,471 and $51,479 for the year ended December 31, 2009, and $88,588 and $50,603 for the year ended December 31, 2008. For 2010, 69 percent has been contributed for police and 70 percent has been contributed for firefighters with the balance for both police and firefighters being report as an intergovernmental payable. The full amount has been contributed for 2009 and 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 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	$456.88	$911.06	$881.79	$1,407.59
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	$45.69	$91.11	$88.18	$140.76
Health and Vision	46.44	92.37	89.47	142.84
Health and Dental Basic	46.89	93.55	91.41	145.43
Health, Vision and Dental Basic	47.64	94.81	92.70	147.51

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, 2010.

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 - 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 A - 2009	2.95%	$450,000	2010
Municipal Facilities Improvement B - 2009	2.95%	200,000	2010
Municipal Facilities Improvement A - 2010	2.50%	450,000	2011
Municipal Facilities Improvement B - 2010	2.50%	200,000	2011
Street Improvement - 2009	2.95%	600,000	2010
Street Improvement - 2010	2.50%	600,000	2011
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
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	3.25%	261,429	2031
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 2010 were as follows:

	Outstanding 12/31/2009	Additions	Reductions	Outstanding 12/31/2010	Due Within One Year
Governmental Type Activities					
General Obligation Bond Anticipation Notes					
2009 A Municipal Facilities Improvement	$450,000	$0	$450,000	$0	$0
2009 B Municipal Facilities Improvement	200,000	0	200,000	0	0
2010 A Municipal Facilities Improvement	0	450,000	0	450,000	450,000
2010 B Municipal Facilities Improvement	0	200,000	0	200,000	200,000
2009 Street Improvement	600,000	0	600,000	0	0
2010 Street Improvement	0	600,000	0	600,000	600,000
Total General Obligation Bond Anticipation Notes	1,250,000	1,250,000	1,250,000	1,250,000	1,250,000
General Obligation Bonds					
Service Garage Addition	40,000	0	10,000	30,000	10,000
Sanitary Sewer Improvement	10,568	0	2,642	7,926	2,642
Fire Station Improvement	645,200	0	79,000	566,200	83,000
Municipal Complex Improvement	995,000	0	65,000	930,000	70,000
Fire Truck	587,000	0	76,000	511,000	78,000
Total General Obligation Bonds	2,277,768	0	232,642	2,045,126	243,642
Special Assessments Bond					
Sanitary Sewer Improvement	69,432	0	17,358	52,074	17,358
Other Long-term Obligations					
Lake County Payable	107,702	0	0	107,702	41,736
Capital Leases Payable	89,311	0	27,583	61,728	19,743
Compensated Absences	745,923	199,469	191,333	754,059	190,613
Total Other Long-term Obligations	942,936	199,469	218,916	923,489	252,092
Total Governmental Type Activities	$4,540,136	$1,449,469	$1,718,916	$4,270,689	$1,763,092

	Outstanding 12/31/2009	Additions	Reductions	Outstanding 12/31/2010	Due Within One Year
Business-Type Activity					
OWDA Loans					
Oak Street Sewers	$169,218	$0	$10,389	$158,829	$10,770
Euclid Creek Interceptor	3,215,402	0	165,313	3,050,089	170,360
Euclid Creek Sewers	6,944,151	0	299,366	6,644,785	0
Euclid Creek Sewer Design	397,393	2,614,665	402,723	2,609,335	0
Woodlands Sanitary Sewers	464,756	0	19,360	445,396	0
Sewer Laterals	128,268	0	1,769	126,499	0
Total OWDA Loans	11,319,188	2,614,665	898,920	13,034,933	181,130
OPWC Loans					
Euclid Interceptor	425,000	0	37,500	387,500	25,000
Euclid Sewer Phase II	224,100	0	18,675	205,425	12,450
Total OPWC Loans	649,100	0	56,175	592,925	37,450
Other Long-term Obligations					
Capital Leases Payable	138,454	0	32,123	106,331	33,729
Total Business-Type Activity	$12,106,742	$2,614,665	$987,218	$13,734,189	$252,309

General Obligation Bond Anticipation Notes The note liability is reflected in the funds which received the proceeds. At December 31, 2010, 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 Interceptor and Oak Street loans are paid from the sewer enterprise fund. The City has entered into a contractual agreement for construction loans from the Ohio Water Development Authority (OWDA). Under the terms of this agreement, OWDA will reimburse, advance or directly pay the construction costs of the approved projects. OWDA will capitalize administrative costs and construction interest and then add them to the total amounts of the final loans. The loans will not have an accurate repayment schedule until the loans are finalized and, therefore, are not included in the schedule of future debt service requirements. The balances of these loans are as follows:

Euclid Creek Sewers	$6,644,785
Euclid Creek Sewers Design	2,609,335
Woodlands Sanitary Sewers	445,396
Sewer Laterals	126,499
Total	$9,826,015

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 $4,582,084.

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 City's overall legal debt margin was $28,294,843 with an unvoted debt margin of $15,891,356 at December 31, 2010.

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2010, are as follows:

Governmental Activities:

	General Obligation Bonds		Special Assessment Bonds	
Year	Principal	Interest	Principal	Interest
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	270,300	39,406	0	0
2016-2020	654,500	76,728	0	0
2021	100,000	2,055	0	0
Total	$2,045,126	$343,562	$52,074	$5,520

Year	Lake County Payable Principal
2011	$41,736
2012	20,868
2013	20,868
2014	20,868
2015	3,362
Total	$107,702

Business-Type Activity:

Year	OWDA Loans Principal	OWDA Loans Interest	OPWC Loans Principal
2011	$181,130	$96,822	$37,450
2012	186,728	91,225	37,450
2013	192,496	85,454	37,450
2014	198,445	79,507	37,450
2015	204,578	73,373	37,450
2016-2020	1,121,743	268,015	187,250
2021-2025	1,123,798	85,846	187,250
2026-2027	0	0	31,175
Total	$3,208,918	$780,242	$592,925

Note 16 - 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	$102,994	$177,500
Less: Accumulated Depreciation	(20,598)	(35,500)
Total	$82,396	$142,000

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, 2010.

	Governmental Activities	Business-Type Activities
2011	$22,312	$39,046
2012	22,313	39,046
2013	22,312	39,045
Total Mimimum Lease Payments	66,937	117,137
Less: Amount representing interest	(5,209)	(10,806)
Present Value of Mimimum Lease Payments	$61,728	$106,331

Note 17 - Jointly Governed Organization

The City is a member of The Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of electricity. NOPEC is currently comprised of over 100 communities who have been authorized by ballot to purchase electricity on behalf of their citizens. The intent of NOPEC is to provide electricity at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity to the citizens of its member communities. The City did not contribute to NOPEC during 2010.

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, 31320 Solon Road, Suite 20, Solon, Ohio 44139 or at the website www.nopecinfo.org.

Note 18 – Subsequent Event

On March 30, 2011, the City retired $1,250,000 in bond anticipation notes payable and issued $1,250,000 in new notes. The new notes have a maturity date of March 29, 2012 and an interest rate of 1.0 percent.

On April 30, 2011, the City issued $250,000 in tax anticipation notes payable. The new notes have maturity date of April 26, 2012 and an interest rate of 2 percent.

CITY OF WILLOUGHBY HILLS
LAKE COUNTY

FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2010

Federal Grantor/Pass Through Grantor Program Title	Federal CFDA Number	Disbursements
U. S. DEPARTMENT OF JUSTICE		
Passed Through Ohio Attorney General's Office:		
Increase Officer Patrol Time	16.738	$ 43,460
Total U.S. Department of Justice		**43,460**
U.S. DEPARTMENT OF DEFENSE		
Direct Program:		
Water Resources Development Act	12.XXX	1,787,411
Total U.S. Department of Defense		**1,787,411**
Total Federal Awards Expenditures		**$1,830,871**

The accompanying notes to this schedule are an integral part of this schedule.

CITY OF WILLOUGHBY HILLS
LAKE COUNTY

NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
YEAR ENDED DECEMBER 31, 2010

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Expenditures Schedule (the Schedule) summarizes activity of the Center's federal award programs. The schedule has been prepared on the cash basis of accounting.

CFDA – Catalog of Federal Domestic Assistance

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 year ended December 31, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 18, 2011. 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.

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 2010-001.

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 also noted a certain matter not requiring inclusion in this report that we reported to the City's management in a separate letter dated August 18, 2011.

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.

Dave Yost

Dave Yost
Auditor of State

August 18, 2011

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO ITS MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

To the City Council:

Compliance

We have audited the compliance of the City of Willoughby Hills, Lake County, Ohio, (the City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to its major federal program for the year ended December 31, 2010. The summary of auditor's results section of the accompanying schedule of findings identifies the City's major federal program. The City's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its major federal program. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City of Willoughby Hills complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended December 31, 2010.

Internal Control Over Compliance

The City's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of opining on compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the City's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

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

We intend this report solely for the information and use of the audit committee, management, the City Council, others within the City, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

Dave Yost

Dave Yost
Auditor of State

August 18, 2011

CITY OF WILLOUGHBY HILLS
LAKE COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2010

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any other significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Water Resources Development Act 12.XXX
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > $ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

FINDING NUMBER 2010-001

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.

CITY OF WILLOUGHBY HILLS
LAKE COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2010

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

FINDING NUMBER 2010-001 (Continued)

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-two percent (8 of 25) 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.

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.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

CITY OF WILLOUGHBY HILLS
LAKE COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2010

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***
2009-001	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 2010-001

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Dave Yost · 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
SEPTEMBER 22, 2011

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