



Dave Yost • Auditor of State

**City of Willoughby Hills
Lake County, Ohio**

**General Purpose External Financial Statements
For the Year Ended December 31, 2012**

Local Government Services Section

City of Willoughby Hills, Ohio
General Purpose External Financial Statements
For the Year Ended December 31, 2012
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Dave Yost • Auditor of State

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

Accountant's Compilation Report

We have compiled the comprehensive annual financial report for the City of Willoughby Hills as of and for the year ended December 31, 2012. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

Management's Discussion and Analysis is supplementary information required by the Governmental Accounting Standards Board and was prepared by management. We did not compile the information nor do we express an opinion or provide any assurance thereon.

DAVE YOST
Auditor of State

A handwritten signature in cursive script that reads "Unice S. Smith".

Unice S. Smith
Chief of Local Government Services

July 27, 2013

City of Willoughby Hills, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2012
Unaudited

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, 2012. 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

- The City's net position increased by \$1.5 million during 2012 due to an increase in municipal income tax collections as well as to the continued pay-down of long-term obligations.
- In 2012, the City purchased a new fire truck and various police and service vehicles. The City also made various road improvements and completed work on the Euclid Creek Tributary Watershed Area C project.
- Outstanding general obligation bonded debt decreased during 2012 due to annual debt payments.

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 Position 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 Position 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 2012?" The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets and deferred outflows of resources and liabilities and deferred inflows of resources 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.

City of Willoughby Hills, Ohio
Management's Discussion and Analysis
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The *statement of net position* presents information on all of the City of Willoughby Hills' assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between all the elements reported as *net position*. Over time, increases or decreases in net position 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 position changed during the recent year. All changes in net position 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, safety forces fund and general obligation bond retirement fund which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation.

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

City of Willoughby Hills, Ohio
Management's Discussion and Analysis
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Unaudited

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 Position looks at the City as a whole. The following table provides a summary of the City's net position for 2012 compared to 2011.

Table 1
Net Position

	Governmental Activities		Business-Type Activity		Total	
	2012	2011	2012	2011	2012	2011
Assets						
Current and Other Assets	\$16,698,345	\$16,240,680	\$1,327,968	\$1,333,228	\$18,026,313	\$17,573,908
Capital Assets, Net	13,438,372	16,194,464	19,688,502	16,604,328	33,126,874	32,798,792
<i>Total Assets</i>	<u>30,136,717</u>	<u>32,435,144</u>	<u>21,016,470</u>	<u>17,937,556</u>	<u>51,153,187</u>	<u>50,372,700</u>
Liabilities						
Current Liabilities	1,292,951	896,625	229,593	227,892	1,522,544	1,124,517
Long-Term Liabilities						
Due Within One Year	882,554	794,294	317,941	308,829	1,200,495	1,103,123
Due in More Than One Year	12,023,307	12,760,392	3,961,775	4,279,716	15,985,082	17,040,108
<i>Total Liabilities</i>	<u>14,198,812</u>	<u>14,451,311</u>	<u>4,509,309</u>	<u>4,816,437</u>	<u>18,708,121</u>	<u>19,267,748</u>
Deferred Inflows of Resources						
Property Taxes	1,546,431	1,743,799	0	0	1,546,431	1,743,799
Payment in Lieu of Taxes	115,000	112,080	0	0	115,000	112,080
<i>Total Deferred Inflows of Resources</i>	<u>1,661,431</u>	<u>1,855,879</u>	<u>0</u>	<u>0</u>	<u>1,661,431</u>	<u>1,855,879</u>
Net Position						
Net Investment in Capital Assets	10,033,276	9,234,702	15,408,786	12,015,783	25,442,062	21,250,485
Restricted for:						
Capital Projects	653,913	111,192	0	0	653,913	111,192
Debt Service	0	3,297,541	0	0	0	3,297,541
Other Purposes	1,903,539	1,869,834	0	0	1,903,539	1,869,834
Unrestricted	1,685,746	1,614,685	1,098,375	1,105,336	2,784,121	2,720,021
<i>Total Net Position</i>	<u>\$14,276,474</u>	<u>\$16,127,954</u>	<u>\$16,507,161</u>	<u>\$13,121,119</u>	<u>\$30,783,635</u>	<u>\$29,249,073</u>

City of Willoughby Hills, Ohio
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For the City, total net position for governmental activities saw a decrease due to \$3.5 million of capital assets paid for with special assessments and relating to the Euclid Creek Tributary Watershed Area C project being transferred to the Sewer fund due to the project's completion in 2012. The decrease in net position for governmental activities was partially offset by an increase in income tax revenues and a decrease in long-term debt obligations due to annual debt payments.

Total net position for business-type activities showed a significant increase that can be directly attributed to the completion of the Euclid Creek Tributary Watershed Area C sewer project.

In order to further understand what makes up the changes in net position 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 Position

	Governmental Activities		Business-Type Activity		Total	
	2012	2011	2012	2011	2012	2011
Revenues						
Program Revenues						
Charges for Services	\$3,280,576	\$3,097,528	\$1,358,821	\$1,047,473	\$4,639,397	\$4,145,001
Operating Grants and Contributions	877,796	1,054,836	0	0	877,796	1,054,836
Capital Grants and Assessments	508,310	3,544,998	50,166	593,186	558,476	4,138,184
Total Program Revenues	4,666,682	7,697,362	1,408,987	1,640,659	6,075,669	9,338,021
General Revenues						
Property Taxes	1,846,069	1,940,252	0	0	1,846,069	1,940,252
Income Taxes	4,915,746	4,652,883	0	0	4,915,746	4,652,883
Admission Taxes	54,019	19,776	0	0	54,019	19,776
Grants and Entitlements	478,566	878,038	0	0	478,566	878,038
Franchise Taxes	102,039	94,539	0	0	102,039	94,539
Interest	359,546	174,724	431	409	359,977	175,133
Payment in Lieu of Taxes	115,286	112,080	0	0	115,286	112,080
Gain on the Sale of Capital Assets	11,510	0	0	0	11,510	0
Other	123,746	47,316	8,301	0	132,047	47,316
Total General Revenues	8,006,527	7,919,608	8,732	409	8,015,259	7,920,017
Total Revenues	\$12,673,209	\$15,616,970	\$1,417,719	\$1,641,068	\$14,090,928	\$17,258,038

City of Willoughby Hills, Ohio
Management's Discussion and Analysis
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Unaudited

Table 2
Change in Net Position
(continued)

	Governmental Activities		Business-Type Activity		Total	
	2012	2011	2012	2011	2012	2011
Program Expenses						
General Government	\$2,874,318	\$2,710,222	\$0	\$0	\$2,874,318	\$2,710,222
Security of Persons and Property						
Police	3,418,600	3,319,971	0	0	3,418,600	3,319,971
Fire	2,223,451	2,045,612	0	0	2,223,451	2,045,612
Transportation	1,614,898	1,413,237	0	0	1,614,898	1,413,237
Community Environment	163,006	145,704	0	0	163,006	145,704
Leisure Time Activities	362,578	320,083	0	0	362,578	320,083
Interest and Fiscal Charges	414,169	499,381	0	0	414,169	499,381
Sewer	0	0	1,485,346	1,205,777	1,485,346	1,205,777
Total Program Expenses	11,071,020	10,454,210	1,485,346	1,205,777	12,556,366	11,659,987
Transfers	(3,453,669)	65,393	3,453,669	(65,393)	0	0
Change in Net Position	(1,851,480)	5,228,153	3,386,042	369,898	1,534,562	5,598,051
Net Position Beginning of Year	16,127,954	10,899,801	13,121,119	12,751,221	29,249,073	23,651,022
Net Position End of Year	<u>\$14,276,474</u>	<u>\$16,127,954</u>	<u>\$16,507,161</u>	<u>\$13,121,119</u>	<u>\$30,783,635</u>	<u>\$29,249,073</u>

Governmental Activities

For governmental activities, there was a decrease in program revenues for 2012, while general revenues saw an increase. The decrease in operating grant program revenues was due to a reduction in both law enforcement and OPWC grant monies. The decrease in capital grants and assessment program revenues was due to the total assessment receivable for the Euclid Creek Tributary Watershed Area C project being recorded in 2011 (the year of assessment). The increase in general revenues is a result of greater income 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 two 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 has matched its other adjacent Lake County cities with an income tax rate of two percent. The additional one half percent increase was 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 general revenue for governmental activities. The City collects 3 mills of inside millage and 4.3 mills of outside millage. The outside millage is generated from a 1.8 mill perpetual levy for fire and EMS services and a 2.5 mill road levy. 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 remained fairly consistent with 2011 levels.

Overall, the largest expenses for the City are in the general government and 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.

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The City's fire department is staffed by approximately 40 to 50 full-time and 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.

Business-Type Activity

The City's business-type activity is comprised of one enterprise fund, which is the City's sanitary sewer system. The largest source of revenue for the Sewer fund is charges for services. On the expense side, the largest expense was for contractual services relating to utilities.

Governmental Funds

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

The City's major governmental funds are the general fund, safety forces special revenue fund and the general obligation bond retirement fund. The general fund saw a decrease in fund balance during the year due mainly to a decrease in local government monies as well as to an increase in transfers out. Despite an increase in income taxes, the safety forces special revenue fund saw a decrease in fund balance due to increased debt service expenditures and transfers out. The general obligation bond retirement fund saw an increase in fund balance resulting from an increase in special assessments and interest relating to those special assessments due to 2012 being the initial collection year for the Euclid Creek Tributary Watershed Area C project.

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 2012, 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 a slight decrease in actual revenue received due mainly to less than estimated municipal income taxes. 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.

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Capital Assets

Table 3 shows 2012 balances of capital assets as compared to 2011.

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

	Governmental Activities		Business-Type Activity		Total	
	2012	2011	2012	2011	2012	2011
Land	\$279,700	\$279,700	\$268,613	\$268,613	\$548,313	\$548,313
Construction in Progress	340,051	3,436,539	0	2,617,291	340,051	6,053,830
Land Improvements	438,654	486,544	0	0	438,654	486,544
Buildings Improvements	5,318,161	5,485,157	0	0	5,318,161	5,485,157
Machinery and Equipment	2,496,557	2,070,341	236,737	272,453	2,733,294	2,342,794
Infrastructure	4,565,249	4,436,183	0	0	4,565,249	4,436,183
Sewer Improvements	0	0	19,183,152	13,445,971	19,183,152	13,445,971
Total Capital Assets	<u>\$13,438,372</u>	<u>\$16,194,464</u>	<u>\$19,688,502</u>	<u>\$16,604,328</u>	<u>\$33,126,874</u>	<u>\$32,798,792</u>

For 2012, the primary additions for governmental activities included a fire truck, vehicles for police and service and major road improvements. Business-type activity additions consisted of construction on the Euclid Creek Tributary Watershed which was completed in 2012. Additional information concerning the City's capital assets can be found in Note 11 to the basic financial statements.

Long-term Obligations

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	
	2012	2011	2012	2011	2012	2011
General Obligation Bonds	\$1,542,900	\$1,796,200	\$2,642	\$5,284	\$1,545,542	\$1,801,484
Special Assessment Bond	17,358	34,716	0	0	17,358	34,716
OPWC Loans	41,998	0	518,025	555,475	560,023	555,475
OWDA Loans	9,236,126	9,534,394	3,721,863	3,955,184	12,957,989	13,489,578
Long-Term Notes	1,200,000	1,200,000	0	0	1,200,000	1,200,000
Lake County Payable	45,098	65,966	0	0	45,098	65,966
Capital Leases	125,100	168,084	37,186	72,602	162,286	240,686
Compensated Absences	697,281	755,326	0	0	697,281	755,326
Total	<u>\$12,905,861</u>	<u>\$13,554,686</u>	<u>\$4,279,716</u>	<u>\$4,588,545</u>	<u>\$17,185,577</u>	<u>\$18,143,231</u>

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The governmental general obligation bonds outstanding consist of the 1993 service garage addition bonds, 2001 fire station improvement bonds, 2004 municipal complex improvement bonds and 2005 aerial ladder fire truck bonds. The special assessment bonds and OWDA loans outstanding are for sanitary sewer improvements. The principal and interest for the special assessments bonds and the OWDA loans 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 through 2031. The OPWC loan outstanding is for the Rogers Road slope failure project. The notes payable outstanding are for the anticipation of bonds being issued for municipal facilities, street improvements, the acquisition of a new fire truck and for the purchase and installation of traffic signals and signs on State Route 91. 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 sanitary sewer improvement general obligation bonds, OPWC loans and OWDA loans outstanding for infrastructure improvement projects, which are repaid using sewer revenues. Additional information concerning debt issuances can be found in Notes 16 and 17 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.

Basic Financial Statements

City of Willoughby Hills, Ohio

Statement of Net Position

December 31, 2012

	Governmental Activities	Business-Type Activity	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$3,076,306	\$1,310,082	\$4,386,388
Materials and Supplies Inventory	53,794	0	53,794
Accounts Receivable	214,651	0	214,651
Intergovernmental Receivable	1,024,936	5,176	1,030,112
Prepaid Items	50,843	12,710	63,553
Municipal Income Taxes Receivable	1,638,359	0	1,638,359
Property Taxes Receivable	1,727,347	0	1,727,347
Special Assessments Receivable	8,795,154	0	8,795,154
Admission Taxes Receivable	1,955	0	1,955
Payment in Lieu of Taxes Receivable	115,000	0	115,000
Nondepreciable Capital Assets	619,751	268,613	888,364
Depreciable Capital Assets, Net	12,818,621	19,419,889	32,238,510
<i>Total Assets</i>	<u>30,136,717</u>	<u>21,016,470</u>	<u>51,153,187</u>
Liabilities			
Accounts Payable	125,837	164,914	290,751
Contracts Payable	110,244	0	110,244
Accrued Wages	111,303	818	112,121
Accrued Interest Payable	190,044	62,085	252,129
Intergovernmental Payable	305,523	1,776	307,299
Notes Payable	450,000	0	450,000
Long-Term Liabilities:			
Due Within One Year	882,554	317,941	1,200,495
Due In More Than One Year	12,023,307	3,961,775	15,985,082
<i>Total Liabilities</i>	<u>14,198,812</u>	<u>4,509,309</u>	<u>18,708,121</u>
Deferred Inflows of Resources			
Property Taxes	1,546,431	0	1,546,431
Payment in Lieu of Taxes	115,000	0	115,000
<i>Total Deferred Inflows of Resources</i>	<u>1,661,431</u>	<u>0</u>	<u>1,661,431</u>
Net Position			
Net Investment in Capital Assets	10,033,276	15,408,786	25,442,062
Restricted for:			
Capital Projects	653,913	0	653,913
Street Construction, Maintenance and Repair	375,561	0	375,561
Road Levy	59,062	0	59,062
Drug Enforcement	282,576	0	282,576
Other Purposes	1,186,340	0	1,186,340
Unrestricted	1,685,746	1,098,375	2,784,121
<i>Total Net Position</i>	<u>\$14,276,474</u>	<u>\$16,507,161</u>	<u>\$30,783,635</u>

See accountant's compilation report

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Statement of Activities
For the Year Ended December 31, 2012

		Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Assessments
	Expenses			
Governmental Activities:				
General Government	\$2,874,318	\$2,333,031	\$6,098	\$0
Security of Persons and Property				
Police	3,418,600	173,033	22,209	0
Fire	2,223,451	288,014	57,589	0
Transportation	1,614,898	120,892	790,310	508,310
Community Environment	163,006	134,972	1,380	0
Leisure Time Activities	362,578	230,634	210	0
Interest and Fiscal Charges	414,169	0	0	0
<i>Total Governmental Activities</i>	11,071,020	3,280,576	877,796	508,310
Business-Type Activity:				
Sewer	1,485,346	1,358,821	0	50,166
<i>Total</i>	\$12,556,366	\$4,639,397	\$877,796	\$558,476

General Revenues

Property Taxes Levied for:

 General Purposes

 Debt Service

 Police Pension

 Fire Levy

 Road Levy

Municipal Income Tax Levied for:

 General Purposes

 Safety Forces

Admission Taxes

Grants and Entitlements not Restricted to Specific Programs

Franchise Taxes

Interest

Payment in Lieu of Taxes

Gain on Sale of Capital Assets

Other

Total General Revenues

Transfers

Total General Revenues and Transfers

Change in Net Position

Net Position Beginning of Year

Net Position End of Year

See accountant's compilation report

See accompanying notes to the basic financial statements

Net (Expense) Revenue and Changes in Net Position		
Governmental Activities	Business-Type Activity	Total
(\$535,189)	\$0	(\$535,189)
(3,223,358)	0	(3,223,358)
(1,877,848)	0	(1,877,848)
(195,386)	0	(195,386)
(26,654)	0	(26,654)
(131,734)	0	(131,734)
(414,169)	0	(414,169)
(6,404,338)	0	(6,404,338)
0	(76,359)	(76,359)
(6,404,338)	(76,359)	(6,480,697)
560,227	0	560,227
118,075	0	118,075
75,467	0	75,467
452,202	0	452,202
640,098	0	640,098
3,849,343	0	3,849,343
1,066,403	0	1,066,403
54,019	0	54,019
478,566	0	478,566
102,039	0	102,039
359,546	431	359,977
115,286	0	115,286
11,510	0	11,510
123,746	8,301	132,047
8,006,527	8,732	8,015,259
(3,453,669)	3,453,669	0
4,552,858	3,462,401	8,015,259
(1,851,480)	3,386,042	1,534,562
16,127,954	13,121,119	29,249,073
\$14,276,474	\$16,507,161	\$30,783,635

See accountant's compilation report

City of Willoughby Hills, Ohio

Balance Sheet

Governmental Funds

December 31, 2012

	General	Safety Forces	General Obligation Bond Retirement	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$868,309	\$267,254	\$132,004	\$1,777,687	\$3,045,254
Materials and Supplies Inventory	2,150	5,128	0	46,516	53,794
Accounts Receivable	9,864	0	0	204,787	214,651
Interfund Receivable	0	2,950	0	0	2,950
Intergovernmental Receivable	292,471	0	348,648	383,817	1,024,936
Prepaid Items	50,843	0	0	0	50,843
Municipal Income Taxes Receivable	1,273,988	364,371	0	0	1,638,359
Property Taxes Receivable	522,201	0	110,058	1,095,088	1,727,347
Special Assessments Receivable	0	0	8,777,330	17,824	8,795,154
Admission Taxes Receivable	1,955	0	0	0	1,955
Payment in Lieu of Taxes Receivable	0	0	0	115,000	115,000
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	31,052	0	0	0	31,052
Total Assets	\$3,052,833	\$639,703	\$9,368,040	\$3,640,719	\$16,701,295
Liabilities					
Accounts Payable	\$43,833	\$37,723	\$0	\$44,281	\$125,837
Contracts Payable	6,419	0	0	103,825	110,244
Accrued Wages	9,764	67,543	0	33,996	111,303
Intergovernmental Payable	166,333	123,740	0	15,450	305,523
Interfund Payable	2,950	0	0	0	2,950
Accrued Interest Payable	0	1,042	0	2,719	3,761
Notes Payable	0	150,000	0	300,000	450,000
Total Liabilities	229,299	380,048	0	500,271	1,109,618
Deferred Inflows of Resources					
Property Taxes	472,632	0	99,612	974,187	1,546,431
Payment in Lieu of Taxes	0	0	0	115,000	115,000
Unavailable Revenue	1,265,785	294,554	9,132,018	575,879	11,268,236
Total Deferred Inflows of Resources	1,738,417	294,554	9,231,630	1,665,066	12,929,667
Fund Balances					
Nonspendable	84,045	5,128	0	46,516	135,689
Restricted	0	0	136,410	1,249,701	1,386,111
Committed	14,582	0	0	307,878	322,460
Assigned	95,921	0	0	0	95,921
Unassigned (Deficit)	890,569	(40,027)	0	(128,713)	721,829
Total Fund Balances (Deficit)	1,085,117	(34,899)	136,410	1,475,382	2,662,010
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$3,052,833	\$639,703	\$9,368,040	\$3,640,719	\$16,701,295

See accountant's compilation report

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
*Reconciliation of Total Governmental Fund Balances to
Net Position of Governmental Activities
December 31, 2012*

Total Governmental Funds Balances	\$2,662,010
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*Amounts reported for governmental activities in the
statement of net position are different because*

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

13,438,372

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

Intergovernmental	831,374	
Special Assessments	8,795,154	
Income Taxes	1,324,434	
Delinquent Property Taxes	112,487	
Charges for Services	204,787	
	<hr/>	
Total		11,268,236

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

(186,283)

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

General Obligation Bonds	(1,542,900)	
Special Assessment Bond	(17,358)	
OPWC Loans Payable	(41,998)	
OWDA Loans Payable	(9,236,126)	
Notes Payable	(1,200,000)	
Lake County Payable	(45,098)	
Capital Leases	(125,100)	
Compensated Absences	(697,281)	
	<hr/>	
Total		(12,905,861)

<i>Net Position of Governmental Activities</i>	<u><u>\$14,276,474</u></u>
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See accountant's compilation report
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, 2012

	General	Safety Forces	General Obligation Bond Retirement	Other Governmental Funds	Total Governmental Funds
Revenues					
Property Taxes	\$563,573	\$0	\$118,782	\$1,155,201	\$1,837,556
Municipal Income Taxes	3,502,060	977,703	0	0	4,479,763
Admission Taxes	54,019	0	0	0	54,019
Charges for Services	90,197	15,639	0	290,879	396,715
Licenses, Permits and Fees	233,900	1,790	0	0	235,690
Fines and Forfeitures	2,199,387	0	0	230,174	2,429,561
Intergovernmental	563,756	2,512	51,947	1,365,906	1,984,121
Special Assessments	0	0	307,427	18,310	325,737
Payment in Lieu of Taxes	0	0	0	115,286	115,286
Interest	1,637	149	353,737	4,023	359,546
Rentals	152,771	0	0	51,024	203,795
Contributions and Donations	1,798	160	0	5,890	7,848
Franchise Taxes	102,039	0	0	0	102,039
Miscellaneous	90,811	17,081	6,448	9,406	123,746
Total Revenues	7,555,948	1,015,034	838,341	3,246,099	12,655,422
Expenditures					
Current:					
General Government	2,709,296	0	37,853	71,862	2,819,011
Security of Persons and Property					
Police	0	3,237,632	0	167,374	3,405,006
Fire	0	1,198,816	0	861,672	2,060,488
Transportation	117,387	0	0	2,093,033	2,210,420
Community Environment	159,558	0	0	3,491	163,049
Leisure Time Activities	222,217	0	0	36,659	258,876
Capital Outlay	0	50,000	68,192	428,493	546,685
Debt Service:					
Principal Retirement	0	22,419	640,628	37,923	700,970
Refunding Notes Redeemed	0	600,000	0	600,000	1,200,000
Interest and Fiscal Charges	0	14,576	327,232	15,122	356,930
Total Expenditures	3,208,458	5,123,443	1,073,905	4,315,629	13,721,435
Excess of Revenues Over (Under) Expenditures	4,347,490	(4,108,409)	(235,564)	(1,069,530)	(1,066,013)
Other Financing Sources (Uses)					
Sale of Capital Assets	11,510	0	0	0	11,510
OPWC Loans Issued	0	0	0	41,998	41,998
OWDA Loans Issued	0	0	68,192	0	68,192
Notes Issued	0	0	0	400,000	400,000
Refunding Notes Issued	0	500,000	0	300,000	800,000
Transfers In	0	3,699,926	241,681	910,902	4,852,509
Transfers Out	(4,411,474)	(200,931)	0	(189,042)	(4,801,447)
Total Other Financing Sources (Uses)	(4,399,964)	3,998,995	309,873	1,463,858	1,372,762
Net Change in Fund Balances	(52,474)	(109,414)	74,309	394,328	306,749
Fund Balances Beginning of Year	1,137,591	74,515	62,101	1,081,054	2,355,261
Fund Balances (Deficit) End of Year	\$1,085,117	(\$34,899)	\$136,410	\$1,475,382	\$2,662,010

See accountant's compilation report
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, 2012*

Net Change in Fund Balances - Total Governmental Funds	\$306,749
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*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 Asset Additions	1,376,970	
Current Year Depreciation	(628,331)	
Total		748,639

Capital assets paid for with special assessments relating to enterprise activities were transferred upon completion from governmental activities to the sewer enterprise fund.	(3,504,731)
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Revenue in the statement of activities that do not provide current financial resources are not reported as revenue in governmental funds.

Delinquent Property Taxes	8,513	
Income Taxes	435,983	
Special Assessments	(325,737)	
Charges for Services	14,815	
Intergovernmental	(127,297)	
Total		6,277

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position.

Notes Payable	1,200,000	
General Obligation Bonds Payable	253,300	
Special Assessment Bonds Payable	17,358	
OWDA Loans Payable	366,460	
Intergovernmental Payable	20,868	
Capital Leases Payable	42,984	
Total		1,900,970

Proceeds are other financing sources in the governmental funds, but the issuance increases long-term liabilities on the statement of net position.

OPWC Loans Issued	(41,998)	
OWDA Loans Issued	(68,192)	
Notes Issued	(400,000)	
Refunding Notes Issued	(800,000)	
Total		(1,310,190)

Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt on the statement of net position.	(57,239)
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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.	58,045
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Change in Net Position of Governmental Activities	(\$1,851,480)
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See accountant's compilation report
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, 2012

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Property Taxes	\$534,500	\$534,500	\$560,894	\$26,394
Municipal Income Taxes	3,682,200	3,682,200	3,526,828	(155,372)
Admission Taxes	50,200	50,200	53,756	3,556
Charges for Services	53,200	53,200	18,212	(34,988)
Licenses, Permits and Fees	244,700	244,700	246,522	1,822
Fines and Forfeitures	893,700	893,700	931,698	37,998
Intergovernmental	624,300	624,300	622,490	(1,810)
Interest	2,100	2,100	1,617	(483)
Rentals	141,400	141,400	152,771	11,371
Contributions and Donations	2,600	2,600	1,588	(1,012)
Franchise Taxes	95,000	95,000	102,039	7,039
Miscellaneous	40,800	46,900	87,301	40,401
<i>Total Revenues</i>	<u>6,364,700</u>	<u>6,370,800</u>	<u>6,305,716</u>	<u>(65,084)</u>
Expenditures				
Current:				
General Government	1,747,444	1,747,544	1,504,567	242,977
Transportation	232,500	125,000	122,187	2,813
Community Environment	163,963	163,963	154,922	9,041
Leisure Time Activities	193,183	197,783	189,959	7,824
<i>Total Expenditures</i>	<u>2,337,090</u>	<u>2,234,290</u>	<u>1,971,635</u>	<u>262,655</u>
<i>Excess of Revenues Over Expenditures</i>	<u>4,027,610</u>	<u>4,136,510</u>	<u>4,334,081</u>	<u>197,571</u>
Other Financing Sources (Uses)				
Sale of Capital Assets	7,000	7,000	11,510	4,510
Advances In	18,500	12,500	2,950	(9,550)
Transfers Out	(4,659,800)	(4,835,800)	(4,433,002)	402,798
<i>Total Other Financing Sources (Uses)</i>	<u>(4,634,300)</u>	<u>(4,816,300)</u>	<u>(4,418,542)</u>	<u>397,758</u>
<i>Net Change in Fund Balance</i>	<u>(606,690)</u>	<u>(679,790)</u>	<u>(84,461)</u>	<u>595,329</u>
<i>Fund Balance Beginning of Year</i>	<u>700,209</u>	<u>700,209</u>	<u>700,209</u>	<u>0</u>
<i>Prior Year Encumbrances Appropriated</i>	<u>125,390</u>	<u>125,390</u>	<u>125,390</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$218,909</u>	<u>\$145,809</u>	<u>\$741,138</u>	<u>\$595,329</u>

See accountant's compilation report

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Safety Forces Fund
For the Year Ended December 31, 2012

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Municipal Income Taxes	\$980,900	\$980,900	\$988,972	\$8,072
Charges for Services	14,800	14,800	15,639	839
Licenses, Permits and Fees	5,800	5,800	1,790	(4,010)
Intergovernmental	0	0	2,512	2,512
Interest	200	200	149	(51)
Contributions and Donations	1,000	1,000	160	(840)
Miscellaneous	100	100	17,081	16,981
<i>Total Revenues</i>	<u>1,002,800</u>	<u>1,002,800</u>	<u>1,026,303</u>	<u>23,503</u>
Expenditures				
Current:				
Security of Persons and Property				
Police	3,524,029	3,524,029	3,245,227	278,802
Fire	1,279,070	1,279,070	1,239,638	39,432
Debt Service				
Principal Retirement	22,419	22,419	22,419	0
Interest and Fiscal Charges	7,427	7,427	7,427	0
<i>Total Expenditures</i>	<u>4,832,945</u>	<u>4,832,945</u>	<u>4,514,711</u>	<u>318,234</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(3,830,145)</u>	<u>(3,830,145)</u>	<u>(3,488,408)</u>	<u>341,737</u>
Other Financing Sources (Uses)				
Advances Out	(12,500)	(12,500)	(2,950)	9,550
Transfers In	4,061,300	4,061,300	3,699,926	(361,374)
Transfers Out	(267,500)	(267,500)	(257,413)	10,087
<i>Total Other Financing Sources (Uses)</i>	<u>3,781,300</u>	<u>3,781,300</u>	<u>3,439,563</u>	<u>(341,737)</u>
<i>Net Change in Fund Balance</i>	<u>(48,845)</u>	<u>(48,845)</u>	<u>(48,845)</u>	<u>0</u>
<i>Fund Balance Beginning of Year</i>	<u>71,066</u>	<u>71,066</u>	<u>71,066</u>	<u>0</u>
<i>Prior Year Encumbrances Appropriated</i>	<u>48,845</u>	<u>48,845</u>	<u>48,845</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$71,066</u>	<u>\$71,066</u>	<u>\$71,066</u>	<u>\$0</u>

See accountant's compilation report

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio

Statement of Fund Net Position

Enterprise Fund

December 31, 2012

	Sewer
Assets	
<i>Current Assets</i>	
Equity in Pooled Cash and Cash Equivalents	\$1,310,082
Intergovernmental Receivable	5,176
Prepaid Items	12,710
<i>Total Current Assets</i>	1,327,968
<i>Noncurrent Assets</i>	
Nondepreciable Capital Assets	268,613
Depreciable Capital Assets, Net	19,419,889
<i>Total Noncurrent Assets</i>	19,688,502
<i>Total Assets</i>	21,016,470
Liabilities	
<i>Current Liabilities</i>	
Accounts Payable	164,914
Accrued Wages	818
Accrued Interest Payable	62,085
Intergovernmental Payable	1,776
General Obligation Bonds Payable	2,642
OWDA Loans Payable	240,663
OPWC Loans Payable	37,450
Capital Leases Payable	37,186
<i>Total Current Liabilities</i>	547,534
<i>Long-Term Liabilities (Net of Current Portion):</i>	
OWDA Loans Payable	3,481,200
OPWC Loans Payable	480,575
<i>Total Long-Term Liabilities</i>	3,961,775
<i>Total Liabilities</i>	4,509,309
Net Position	
Invested in Capital Assets, Net of Related Debt	15,408,786
Unrestricted	1,098,375
<i>Total Net Position</i>	\$16,507,161

See accountant's compilation report

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
*Statement of Revenues,
Expenses and Changes in Fund Net Position
Enterprise Fund
For the Year Ended December 31, 2012*

	<u>Sewer</u>
Operating Revenue	
Charges for Services	\$1,358,821
Other	<u>8,301</u>
<i>Total Operating Revenues</i>	<u>1,367,122</u>
Operating Expenses	
Personal Services	84,950
Fringe Benefits	29,739
Contractual Services	726,807
Depreciation	468,007
Other	<u>45,950</u>
<i>Total Operating Expenses</i>	<u>1,355,453</u>
<i>Operating Income</i>	<u>11,669</u>
Non-Operating Revenues (Expenses)	
Interest Income	431
Interest and Fiscal Charges	<u>(129,893)</u>
<i>Total Non-Operating Revenues (Expenses)</i>	<u>(129,462)</u>
<i>Loss before Transfers and Capital Contributions</i>	<u>(117,793)</u>
Capital Contributions	3,554,897
Transfers Out	<u>(51,062)</u>
<i>Change in Net Position</i>	3,386,042
<i>Net Position Beginning of Year</i>	<u>13,121,119</u>
<i>Net Position End of Year</i>	<u><u>\$16,507,161</u></u>

See accountant's compilation report
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, 2012

	<u>Sewer</u>
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Customers	\$1,353,645
Cash Received from Other Operating Sources	8,301
Cash Payments for Employee Services and Benefits	(114,027)
Cash Payments for Contractual Services	(724,554)
Cash Payments for Other Operating Expenses	<u>(45,125)</u>
<i>Net Cash Provided by Operating Activities</i>	<u>478,240</u>
Cash Flows from Noncapital Financing Activities	
Advances In	70,000
Transfers Out	<u>(51,062)</u>
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>18,938</u>
Cash Flows from Capital and Related Financing Activities	
Principal Paid on General Obligation Bonds	(2,642)
Interest Paid on General Obligation Bonds	(280)
Principal Paid on OWDA Loans	(233,321)
Interest Paid on OWDA Loans	(129,633)
Principal Paid on OPWC Loans	(37,450)
Principal Paid on Capital Lease	(35,416)
Interest Paid on Capital Lease	(3,630)
Acquisition of Capital Assets	(47,450)
Capital Grants	<u>54,526</u>
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(435,296)</u>
Cash Flows from Investing Activities	
Interest	<u>431</u>
<i>Net Increase in Cash and Cash Equivalents</i>	62,313
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>1,247,769</u>
<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$1,310,082</u></u>

(continued)

See accountant's compilation report

City of Willoughby Hills, Ohio
Statement of Cash Flows
Enterprise Fund (continued)
For the Year Ended December 31, 2012

	<u>Sewer</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	<u>\$11,669</u>
Adjustments:	
Depreciation	468,007
Increase in Assets:	
Intergovernmental Receivable	(5,176)
Prepays	(1,611)
Increase/(Decrease) in Liabilities:	
Accounts Payable	4,723
Accrued Wages	(105)
Intergovernmental Payable	<u>733</u>
<i>Total Adjustments</i>	<u>466,571</u>
<i>Net Cash Provided by Operating Activities</i>	<u><u>\$478,240</u></u>

Noncash Capital Financing Activities

During 2012, upon completion of the Euclid Creek Tributary Watershed Area C project, related assets of \$3,504,731 paid for with special assessments were transferred from governmental activities to the sewer enterprise fund. These amounts are included in capital contributions.

See accountant's compilation report

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Fund
December 31, 2012

Assets

Equity in Pooled Cash and Cash Equivalents	<u><u>\$177,837</u></u>
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Liabilities

Deposits Held and Due to Others	<u><u>\$177,837</u></u>
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See accountant's compilation report

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

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 19 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 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 position and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

Government-wide Financial Statements The statement of net position 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 position 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 deferred outflows of resources and liabilities and deferred inflows of resources is reported as fund balance. The following are the City's major governmental funds:

General Fund The general fund accounts for and reports 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.

Safety Forces Fund The safety forces special revenue fund is used to account for and report voter approved income taxes that are restricted for salaries of police and firemen and for police and fire supplies and equipment.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

General Obligation Bond Retirement Fund The general obligation bond retirement fund is used to account for and report restricted property taxes levied to be used for the payment of 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, committed or assigned to a particular purpose.

Proprietary Fund Proprietary fund reporting focuses on the determination of operating income, changes in net position, 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 and report 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 and reports the provisions of sanitary sewer services to the residents and commercial users located within the City.

Fiduciary Funds Fiduciary fund reporting focuses on net position and changes in net position. 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 and reports 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 deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of the City are included on the Statement of Net Position. The Statement of Activities presents increases (e.g. revenues) and decreases (e.g. expenses) in total net position.

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 deferred outflows of resources and current liabilities and deferred inflows of resources 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 deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of these funds are included on the statement of fund net position. The statement of changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activity.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

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 outflows/inflows of resources 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 8). 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 Outflows/Inflows of Resources In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. The City does not have any deferred outflows of resources.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes, payments in lieu of taxes and unavailable revenue. Property taxes and payments in lieu of taxes represent amounts for which there is an enforceable legal claim as of December 31, 2012, but which were levied to finance year 2013 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City unavailable revenue includes delinquent property taxes, charges for services, income taxes, intergovernmental and special assessments. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

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 2012, 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 net asset value per share which is the price the investment could be sold for on December 31, 2012.

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 2012 was \$1,637 which includes \$869 assigned from other City funds.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

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, 2012, 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 position 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 position 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:

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	15 - 20 years
Buildings and Improvements	10 - 50 years
Machinery and Equipment	5 - 20 years
Infrastructure	20 - 50 years

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

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 position, 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.

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 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

Fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable: The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

Restricted: Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation (City ordinances).

Enabling legislation authorizes the City to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the City can be compelled by an external party-such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

Committed The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution, as both are equally binding) of City Council. Those committed amounts cannot be used for any other purpose unless City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, the committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by City Council, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints is not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned: Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. These amounts are assigned by Council. In the general fund, assigned amounts represent intended uses established by policies of the City Council or a City official delegated that authority by City Charter or ordinance, or by State Statute. State statute authorizes the Finance Director to assign fund balance for purchases on order provided such amounts have been lawfully appropriated.

Unassigned: Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The City applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

Net Position

Net position represents the difference between all other elements in a statement of financial position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for other purposes include resources restricted for elderly bus fare, the community block grant program and cemetery maintenance.

The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is 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.

Contributions of Capital

Contributions of capital in enterprise fund financial statements arise from grants restricted to capital acquisition and construction and from contributions of capital assets paid for with special assessments from the general obligation bond retirement governmental fund.

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.

Estimates

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

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

Note 3 – Change in Accounting Principles

For 2012, the City has implemented Governmental Accounting Standard Board (GASB) Statement No. 60, “Accounting and Financial Reporting for Service Concession Arrangements,” Statement No. 62, “Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements,” Statement No. 63, “Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,” Statement No. 64, “Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53,” Statement No. 65, “Items Previously Reported as Assets and Liabilities” and Statement No. 66, “Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62.”

GASB Statement No. 60 improves financial reporting by addressing issues related to service concession arrangements, which are a type of public-private or public-public partnership. The implementation of this statement did not result in any change in the City’s financial statements.

GASB Statement No. 62 incorporates into GASB’s authoritative literature certain FASB and AICPA pronouncements issued on or before November 30, 1989. The implementation of this statement did not result in any change in the City’s financial statements.

GASB Statement No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related note disclosures. These changes were incorporated in the City’s 2012 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 64 clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The implementation of this statement did not result in any change in the City’s financial statements.

GASB Statement No. 65 properly classifies certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognizes certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). The implementation of this statement did not result in any change in the City’s financial statements.

GASB Statement No. 66 resolves conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports. The implementation of this statement did not result in any change in the City’s financial statements.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

Note 4 - Fund Balances

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balances	General	Safety Forces	General Obligation Bond Retirement	Other Governmental Funds	Total
<i>Nonspendable</i>					
Unclaimed Monies	\$31,052	\$0	\$0	\$0	\$31,052
Inventory	2,150	5,128	0	46,516	53,794
Prepaid	50,843	0	0	0	50,843
<i>Total Nonspendable</i>	84,045	5,128	0	46,516	135,689
<i>Restricted for</i>					
Court Improvements	0	0	0	29,667	29,667
Veterans Memorial	0	0	0	4,235	4,235
Police Pension	0	0	0	9,493	9,493
Public Safety	0	0	0	39,530	39,530
Street Maintenance	0	0	0	274,884	274,884
Enforcement and Education	0	0	0	329,982	329,982
Debt	0	0	136,410	9,216	145,626
Capital Improvements	0	0	0	552,694	552,694
<i>Total Restricted</i>	0	0	136,410	1,249,701	1,386,111
<i>Committed to</i>					
Underground Storage	11,000	0	0	0	11,000
Parks and Recreation	0	0	0	81,523	81,523
Assistance to Seniors	0	0	0	6,451	6,451
Capital Improvements	0	0	0	219,904	219,904
Legal and Financial Services	3,582	0	0	0	3,582
<i>Total Committed</i>	14,582	0	0	307,878	322,460
<i>Assigned to</i>					
Recreation	22,074	0	0	0	22,074
Purchases on Order	73,847	0	0	0	73,847
<i>Total Assigned</i>	95,921	0	0	0	95,921
<i>Unassigned (Deficit)</i>	890,569	(40,027)	0	(128,713)	721,829
<i>Total Fund Balances (Deficit)</i>	\$1,085,117	(\$34,899)	\$136,410	\$1,475,382	\$2,662,010

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

Note 5 - 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 restricted, committed or assigned 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 In and Out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).
6. Budgetary revenues and expenditures of the recreation fund are classified to the general fund for GAAP reporting.

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

Net Change in Fund Balance		
	General	Safety Forces
GAAP Basis	(\$52,474)	(\$109,414)
Net Adjustment for Revenue Accruals	(1,184,630)	(488,731)
Advances In	2,950	0
Beginning Unrecorded Cash	5,813	92,056
Ending Unrecorded Cash	(6,798)	(109,570)
Net Adjustment for Expenditure Accruals	1,284,959	656,382
Perspective Difference:		
Recreation	(5,343)	0
Advances Out	0	(2,950)
Encumbrances	(128,938)	(86,618)
Budget Basis	<u>(\$84,461)</u>	<u>(\$48,845)</u>

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

Note 6 – Fund Deficits

At December 31, 2012, the safety forces and road levy special revenue funds and the light signals TIF project capital projects fund had fund deficits, in the amounts of \$34,899, \$32,072 and \$96,641 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 7 - 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;

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

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, \$2,082,745 of the City's bank balance of \$2,490,717 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, 2012, the City had \$2,065,818 invested in STAR Ohio with an average maturity of 55.4 days.

City of Willoughby Hills, Ohio
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For the Year Ended December 31, 2012

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 8 - Receivables

Receivables at December 31, 2012, 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 \$8,361,100 in the general obligation bond retirement fund. At December 31, 2012, the amount of delinquent special assessments was \$104,692.

Property Taxes

Property taxes include amounts levied against all real and public utility property located in the City. Property tax revenue received during 2012 for real and public utility property taxes represents collections of 2011 taxes.

2012 real property taxes were levied after October 1, 2012, on the assessed value as of January 1, 2012, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2012 real property taxes are collected in and intended to finance 2013.

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. 2012 public utility property taxes which became a lien December 31, 2011, are levied after October 1, 2012, and are collected in 2013 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2012, was \$7.30 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2012 property tax receipts were based are as follows:

City of Willoughby Hills, Ohio
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For the Year Ended December 31, 2012

<u>Category</u>	<u>Assessed Value</u>
Real Estate	
Residential/Agricultural	\$206,367,930
Other Real Estate	78,738,290
Tangible Personal Property	
Public Utility	<u>3,953,680</u>
Total Assessed Values	<u><u>\$289,059,900</u></u>

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and public utility property taxes and outstanding delinquencies which were measurable as of December 31, 2012, and for which there was an enforceable legal claim. In governmental funds, the portion of the receivable not levied to finance 2012 operations is offset to deferred inflows of resources – property taxes. On the accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on the modified accrual basis the revenue has been reported as deferred inflows of resources – unavailable revenue.

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 was 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 2012, the proceeds were allocated to the general fund and the safety forces special revenue 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.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

Intergovernmental Receivable

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
<i>Governmental Activities</i>	
Lake County	\$340,725
Local Government	198,914
Motor Vehicle License Tax	128,296
Homestead and Rollback	113,771
Gas Excise Tax	112,363
U.S. Department of Justice	47,935
Willoughby Eastlake Library	35,549
Lake County Storm Water Reimbursement Grant	21,982
Estate Tax	21,548
Tangible Personal Property Loss Reimbursement	2,197
Willoughby Municipal Court	1,656
	<u>1,024,936</u>
<i>Total Governmental Activities</i>	<u>\$1,024,936</u>
<i>Business-Type Activity</i>	
Lake County	<u>\$5,176</u>

Note 9 – Interfund Transactions

Interfund Transfers

Transfers made during the year ended December 31, 2012 were as follows:

<u>Transfer To</u>	<u>Transfer From</u>				<u>Total</u>
	<u>General</u>	<u>Safety Forces</u>	<u>Other Governmental Funds</u>	<u>Sewer</u>	
Major Funds					
Safety Forces	\$3,699,926	\$0	\$0	\$0	\$3,699,926
General Obligation Bond Retirement	0	1,577	189,042	51,062	241,681
<i>Total Major Funds</i>	<u>3,699,926</u>	<u>1,577</u>	<u>189,042</u>	<u>51,062</u>	<u>3,941,607</u>
Other Governmental Funds					
Street Construction, Maintenance and Repair	704,326	0	0	0	704,326
Fire Levy	0	199,354	0	0	199,354
Recreation Improvement	7,222	0	0	0	7,222
<i>Total Other Governmental Funds</i>	<u>711,548</u>	<u>199,354</u>	<u>0</u>	<u>0</u>	<u>910,902</u>
<i>Total Governmental Activities</i>	<u>\$4,411,474</u>	<u>\$200,931</u>	<u>\$189,042</u>	<u>\$51,062</u>	<u>\$4,852,509</u>

City of Willoughby Hills, Ohio
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For the Year Ended December 31, 2012

The general fund made transfers to the safety forces and street construction, maintenance and repair special revenue funds and the recreation improvement capital projects fund to provide additional resources for current operations. The safety forces special revenue fund, other governmental funds and the sewer fund made transfers to the general obligation bond retirement fund for debt payment requirements. The safety forces fund made a transfer to the fire levy as an operating subsidy.

Interfund Balances

At the end of 2012, the general fund had an interfund payable to the safety forces special revenue fund in the amount of \$2,950. This interfund payable is to be repaid within one year.

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 2012, 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	\$14,741,736
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.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

Note 11 - Capital Assets

Capital asset activity for the year ended December 31, 2012, was as follows:

	Balance 12/31/2011	Additions	Reductions	Balance 12/31/2012
Governmental Activities:				
Capital assets not being depreciated				
Land	\$279,700	\$0	\$0	\$279,700
Construction in progress	3,436,539	408,243	(3,504,731)	340,051
Total capital assets not being depreciated	3,716,239	408,243	(3,504,731)	619,751
Capital assets being depreciated				
Land Improvements	1,203,678	0	0	1,203,678
Buildings and Improvements	8,286,550	0	0	8,286,550
Machinery and Equipment	6,101,642	730,170	(47,500)	6,784,312
Infrastructure	4,782,126	238,557	0	5,020,683
Total capital assets being depreciated	20,373,996	968,727	(47,500)	21,295,223
Less: Accumulated depreciation				
Land Improvements	(717,134)	(47,890)	0	(765,024)
Buildings and Improvements	(2,801,393)	(166,996)	0	(2,968,389)
Machinery and Equipment	(4,031,301)	(303,954)	47,500	(4,287,755)
Infrastructure:	(345,943)	(109,491)	0	(455,434)
Total accumulated depreciation	(7,895,771)	(628,331) *	47,500	(8,476,602)
Capital assets being depreciated, net	12,478,225	340,396	0	12,818,621
Governmental activities capital assets, net	<u>\$16,194,464</u>	<u>\$748,639</u>	<u>(\$3,504,731)</u>	<u>\$13,438,372</u>
Business type activities:				
Capital assets not being depreciated				
Land	\$268,613	\$0	\$0	\$268,613
Construction in Progress	2,617,291	47,450	(2,664,741)	0
Total capital assets not being depreciated	2,885,904	47,450	(2,664,741)	268,613
Capital assets being depreciated				
Machinery and Equipment	409,695	0	0	409,695
Infrastructure	15,737,854	6,169,472	0	21,907,326
Total capital assets being depreciated	16,147,549	6,169,472	0	22,317,021
Less: Accumulated depreciation				
Machinery and Equipment	(137,242)	(35,716)	0	(172,958)
Infrastructure:	(2,291,883)	(432,291)	0	(2,724,174)
Total accumulated depreciation	(2,429,125)	(468,007)	0	(2,897,132)
Capital assets being depreciated, net	13,718,424	5,701,465	0	19,419,889
Business-type activities capital assets, net	<u>\$16,604,328</u>	<u>\$5,748,915</u>	<u>(\$2,664,741)</u>	<u>\$19,688,502</u>

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

*Depreciation expense was charged to governmental activities as follows:

General Government	\$104,503
Security of Persons and Property	
Police	111,394
Fire	119,102
Leisure Time Activities	78,702
Transportation	214,630
Total	<u>\$628,331</u>

During 2012, upon completion of the Euclid Creek Tributary Watershed Area C project, related assets of \$3,504,731 paid for with special assessments were transferred from governmental activities to business-type activities.

Note 12 – 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 visiting <https://www.opers.org/investments/cafr.shtml>, 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. Member contribution rates, as set forth in the Ohio Revised Code, are not to exceed 10 percent of covered payroll. For the year ended December 31, 2012, members contributed 10 percent of covered payroll. Members may participate in all three plans. For 2012, member and employer contribution rates were consistent across all three plans.

City of Willoughby Hills, Ohio
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For the Year Ended December 31, 2012

The City's 2012 contribution rate was 14.0 percent. 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 4.00 percent for 2012. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent for 2012. 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, 2012, 2011 and 2010 were \$192,400, \$186,369 and \$114,354 respectively. For 2012, 92.32 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2011 and 2010. Contributions to the Member-Directed Plan for 2012 were \$13,582 made by the City and \$9,701 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 \$166,515 and \$136,712 for the year ended December 31, 2012, \$164,040 and \$131,042 for the year ended December 31, 2011, and \$160,053 and \$132,977 for the year ended December 31, 2010, respectively. For 2012, 75.99 percent for police and 75.99 percent for firefighters has been contributed with the balance for both police and firefighters being report as an intergovernmental payable. The full amount has been contributed for 2011 and 2010.

Social Security

As of December 31, 2012, 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 13 – 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 visiting <https://www.opers.org/investments/cafr.shtml>, 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 2012, state and local employers contributed at a rate of 14.0 percent of covered payroll. These are the maximum employer contribution rates permitted by the Ohio Revised Code.

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 4.0 percent for 2012. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent for 2012. Effective January 1, 2013, the portion of employer contributions allocated to healthcare was lowered to 1 percent for both plans, as recommended by the OPERS Actuary.

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.

City of Willoughby Hills, Ohio
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The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2012, 2011 and 2010 were \$76,960, \$74,548 and \$63,747, respectively. For 2012, 92.32 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2011 and 2010.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4 percent of the employer contributions toward the health care fund after the end of the transition period.

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. That report is also available on OP&F's website at www.op-f.org.

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, 2012, 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).

City of Willoughby Hills, Ohio
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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 \$88,155 and \$53,496 for the year ended December 31, 2012, \$86,845 and \$51,277 for the year ended December 31, 2011, and \$84,734 and \$52,034 for the year ended December 31, 2010. For 2012, 75.99 percent has been contributed for police and 75.99 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 2011 and 2010.

Note 14 – 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 Anthem. Vision is offered through Vision Service Plan (VSP), and dental insurance is offered through Principal Dental. 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 Children	Family
Anthem	\$429.15	\$943.27	\$724.40	\$1,324.78
VSP - Vision Plan	7.50	12.64	12.90	20.80
Principal Basic - Dental	12.78	26.03	34.45	49.86
Principal Buy-Up - Dental	30.17	61.38	73.61	109.15

The employee payroll deduction is 12 percent of the above figures:

	Employee Only	Employee Plus Spouse	Employee Plus Children	Family
Health Only	\$51.50	\$113.19	\$86.93	\$158.97
Health and Vision	52.40	114.71	88.48	161.47
Health and Dental Basic	53.03	116.31	91.06	164.95
Health, Vision and Dental Basic	53.93	117.83	92.61	167.45

City of Willoughby Hills, Ohio
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For the Year Ended December 31, 2012

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 15 - 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, 2012.

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 16 – Note Debt

A summary of note transactions for the year ended December 31, 2012 follows:

	Balance 12/31/2011	Additions	Reductions	Balance 12/31/2012
Governmental Activities				
2011 - 1.00% Various Purpose Notes, Series A	\$250,000	\$0	(\$250,000)	\$0
2012 - 1.00% Various Purpose Notes	0	300,000	0	300,000
2011 - 2.00% Various Purpose Notes, Series B	50,000	0	(50,000)	0
2012 - 1.625% Various Purpose Notes	0	100,000	0	100,000
2012 - 1.00% Fire Truck Acquisition Note	0	50,000	0	50,000
Total Governmental Activities	<u>\$300,000</u>	<u>\$450,000</u>	<u>(\$300,000)</u>	<u>\$450,000</u>

All the notes are backed by the full faith and credit of the City of Willoughby Hills and mature within one year. The note liability is reflected in the funds which received the proceeds. The maturity date for both Various Purpose Notes is March 14, 2013. The maturity date for the Fire Truck Acquisition Note is June 6, 2013.

City of Willoughby Hills, Ohio
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Note 17 - 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			
<i>General Obligation Bonds:</i>			
Service Garage Addition - 1993	2.65-5.30%	\$135,000	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
<i>Special Assessment Bonds:</i>			
Sanitary Sewer Improvement - 1986	7.13%	373,215	2013
<i>Ohio Public Works Commission Loans:</i>			
Rogers Road Slope Restoration - 2012	0.00%	41,998	2022
<i>Ohio Water Development Authority Loans:</i>			
Oak Street Sewers - 2002	3.64%	232,330	2022
Euclid Creek Interceptor - 2003	3.03%	3,900,762	2025
Euclid Creek Sewers - 2005	3.25%	7,757,446	2027
Euclid Creek Tributary Watershed Area C - 2006	3.25%	3,579,517	2032
Woodlands Sanitary Sewers - 2006	3.25%	501,651	2027
Sewer Laterals - 2007	4.17%	140,985	2027
<i>Long-Term Notes Payable:</i>			
Various Purpose Notes - 2012	1.00%	700,000	2013
Various Purpose Notes - 2012	1.625%	100,000	2013
Fire Truck Acquisition Note - 2012	1.00%	400,000	2013
Business Type Activity			
<i>General Obligation Bonds:</i>			
Sanitary Sewer Improvement - 1993	2.65-5.30%	56,785	2013
<i>Ohio Water Development Authority Loans:</i>			
Euclid Creek Interceptor - 2003	3.03%	3,900,762	2025
Euclid Creek Sewers - 2005	3.25%	7,757,446	2027
<i>Ohio Public Works Commission Loans:</i>			
Euclid Interceptor - 2005	0.00%	500,000	2026
Euclid Sewer Phase II - 2006	0.00%	249,000	2027

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

Changes in long-term obligations of the City during 2012 were as follows:

	Outstanding 12/31/2011	Additions	Reductions	Outstanding 12/31/2012	Due Within One Year
Governmental Type Activities					
<i>General Obligation Bonds</i>					
Service Garage Addition	\$20,000	\$0	\$10,000	\$10,000	\$10,000
Fire Station Improvement	483,200	0	87,300	395,900	91,700
Municipal Complex Improvement	860,000	0	75,000	785,000	75,000
Fire Truck	433,000	0	81,000	352,000	84,000
<i>Total General Obligation Bonds</i>	<u>1,796,200</u>	<u>0</u>	<u>253,300</u>	<u>1,542,900</u>	<u>260,700</u>
<i>Special Assessments Bond</i>					
Sanitary Sewer Improvement	34,716	0	17,358	17,358	17,358
<i>OPWC Loans</i>					
Rogers Road Slope Restoration	0	41,998	0	41,998	0
<i>OWDA Loans paid with Assessments</i>					
Oak Street Sewers	148,059	0	11,166	136,893	11,576
Euclid Creek Interceptor	558,256	0	33,612	524,644	34,624
Euclid Creek Sewers	4,701,900	0	227,932	4,473,968	235,399
Euclid Creek Tributary Watershed Area C	3,579,517	68,192	67,640	3,580,069	138,595
Woodlands Sanitary Sewers	425,403	0	20,648	404,755	21,325
Sewer Laterals	121,259	0	5,462	115,797	5,692
<i>Total OWDA Loans</i>	<u>9,534,394</u>	<u>68,192</u>	<u>366,460</u>	<u>9,236,126</u>	<u>447,211</u>
<i>Other Long-term Obligations</i>					
Notes Payable	1,200,000	1,200,000	1,200,000	1,200,000	0
Lake County Payable	65,966	0	20,868	45,098	20,868
Capital Leases Payable	168,084	0	42,984	125,100	45,159
Compensated Absences	755,326	326,700	384,745	697,281	91,258
<i>Total Other Long-term Obligations</i>	<u>2,189,376</u>	<u>1,526,700</u>	<u>1,648,597</u>	<u>2,067,479</u>	<u>157,285</u>
Total Governmental Type Activities	<u>\$13,554,686</u>	<u>\$1,636,890</u>	<u>\$2,285,715</u>	<u>\$12,905,861</u>	<u>\$882,554</u>
Business-Type Activities					
<i>General Obligation Bonds</i>					
Sanitary Sewer Improvement	\$5,284	\$0	\$2,642	\$2,642	\$2,642
<i>OWDA Loans</i>					
Euclid Creek Interceptor	2,321,473	0	141,949	2,179,524	146,296
Euclid Creek Sewers	1,633,711	0	91,372	1,542,339	94,367
<i>Total OWDA Loans</i>	<u>3,955,184</u>	<u>0</u>	<u>233,321</u>	<u>3,721,863</u>	<u>240,663</u>
<i>OPWC Loans</i>					
Euclid Interceptor	362,500	0	25,000	337,500	25,000
Euclid Sewer Phase II	192,975	0	12,450	180,525	12,450
<i>Total OPWC Loans</i>	<u>555,475</u>	<u>0</u>	<u>37,450</u>	<u>518,025</u>	<u>37,450</u>
<i>Other Long-term Obligations</i>					
Capital Leases Payable	72,602	0	35,416	37,186	37,186
Total Business-Type Activities	<u>\$4,588,545</u>	<u>\$0</u>	<u>\$308,829</u>	<u>\$4,279,716</u>	<u>\$317,941</u>

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

General Obligation and Special Assessment Bonds Governmental general obligation bonds are paid from the general obligation bond retirement debt service fund from property taxes. Business-type general obligation bonds are paid from the sewer enterprise fund. Special assessment bonds are 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 Oak Street, Euclid Interceptor, Woodlands Sewers and Sewer Laterals loans are paid from the general obligation bond retirement fund with special assessments levied against benefited property owners. In the event that a property owner would fail to pay the assessment, payment would be made by the City. The OWDA loan for the City's portion of the Euclid Interceptor is paid from the sewer enterprise fund with user charges. The City has entered into contractual agreements 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 payment schedule until finalized, and therefore several loans have not been included in the schedule of future debt service requirements. Until a final repayment schedule is available, the City is paying based on estimates. The balances of these loans are as follows:

Governmental Activities:

Euclid Creek Sewers	\$4,473,968
Euclid Creek Sewers Tributary Watershed Area C	3,580,069

Business-type Activities:

Euclid Creek Sewers	1,542,339
Total	<u>\$9,596,376</u>

OPWC Loans OPWC loans consist of money owed to the Ohio Public Works Commission for the Rogers Road slope restoration and sewer improvements. The loans are interest free. OPWC loans will be paid from the road levy special revenue fund and the sewer enterprise fund.

A line of credit has been established with the Ohio Public Works Commission in the amount of \$50,000 for the Rogers Road Slope Restoration project. During 2012, the City received proceeds of \$41,998. This loan has not been finalized and therefore the repayment schedule is not included in the schedule of debt service payments.

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 finalized loans is \$3,151,057. Principal and interest paid for the current year and total net revenues were \$400,404 and \$480,107, respectively.

Notes Payable The note liability is reflected in the funds which received the proceeds. At December 31, 2012, the amount of long-term notes outstanding was \$1,200,000.

Lake County Payable The 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 general obligation bond retirement fund.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

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 safety forces 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 \$27,278,912 with an unvoted debt margin of \$12,832,224 at December 31, 2012.

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2012, are as follows:

Governmental Activities:

Year	General Obligation Bonds		Special Assessment Bonds		OWDA Loans	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$260,700	\$62,997	\$17,358	\$920	\$73,217	\$38,173
2014	257,400	51,160	0	0	75,623	35,768
2015	270,300	39,406	0	0	78,109	33,280
2016	284,500	27,048	0	0	80,677	30,713
2017	85,000	17,570	0	0	83,333	28,059
2018-2022	385,000	32,366	0	0	459,678	97,267
2023-2027	0	0	0	0	331,452	26,415
Total	<u>\$1,542,900</u>	<u>\$230,547</u>	<u>\$17,358</u>	<u>\$920</u>	<u>\$1,182,089</u>	<u>\$289,675</u>

Lake County Payable	
Year	Principal
2013	\$20,868
2014	12,115
2015	12,115
Total	<u>\$45,098</u>

Business-Type Activity:

Year	General Obligation Bonds		OWDA Loans		OPWC Loans
	Principal	Interest	Principal	Interest	Principal
2013	\$2,642	\$140	\$146,296	\$65,034	\$37,450
2014	0	0	150,778	60,553	37,450
2015	0	0	155,396	55,936	37,450
2016	0	0	160,156	51,176	37,450
2017	0	0	165,061	46,270	37,450
2018-2022	0	0	904,308	152,350	187,250
2023-2027	0	0	497,529	22,189	143,525
Total	<u>\$2,642</u>	<u>\$140</u>	<u>\$2,179,524</u>	<u>\$453,508</u>	<u>\$518,025</u>

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

Note 18 - Capital Leases - Lessee Disclosure

The City has entered into capitalized leases for police radio equipment, a dump truck for the service department and a sewer maintenance vehicle. The leases met the criteria of a capital lease. 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
Equipment	126,099	0
Less: Accumulated Depreciation	(66,416)	(71,000)
Total	<u>\$162,677</u>	<u>\$106,500</u>

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, 2012.

	Governmental Activities	Business-Type Activities
2013	\$52,158	\$39,045
2014	29,846	0
2015	29,846	0
2016	29,846	0
Total Mimimum Lease Payments	<u>141,696</u>	<u>39,045</u>
Less: Amount representing interest	(16,596)	(1,859)
Present Value of Mimimum Lease Payments	<u>\$125,100</u>	<u>\$37,186</u>

Note 19 - 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 2012.

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.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

Note 20 – Encumbrances

Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At year end the amount of encumbrances expected to be honored upon performance by the vendor in the next year were as follows:

<i>Major Funds:</i>	
General Fund	\$128,938
Safety Forces Fund	86,618
Sewer Fund	626,698
Other Governmental Funds	445,927
Total	<u>\$1,288,181</u>

Note 21 – Subsequent Events

On March 13, 2013, the City retired \$1,450,000 in bond anticipation notes and issued \$1,100,000 in new notes. The new notes have a maturity date of March 13, 2014 and an interest rate of 1.0 percent.

On March 13, 2013, the City retired \$200,000 in federally taxable bond anticipation notes and issued \$100,000 in new notes. The new notes have a maturity date of March 13, 2014 and an interest rate of 2.0 percent.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

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