



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**CITY OF WILLOUGHBY HILLS
LAKE COUNTY**

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STATE OF OHIO
OFFICE OF THE AUDITOR
JIM PETRO, AUDITOR OF STATE

Lausche Bldg
615 W Superior Ave
Floor 12
Cleveland OH 44113 - 1801
Telephone 216-787-3665
800-626-2297
Facsimile 216-787-3361
www.auditor.state.oh.us

REPORT OF INDEPENDENT ACCOUNTANTS

City of Willoughby Hills
Lake County
35405 Chardon Road
Willoughby Hills, Ohio 44094-9103

To the Members of City Council:

We have audited the accompanying general-purpose financial statements of the City of Willoughby Hills, Lake County, Ohio, (the City) as of and for the years ended December 31, 1999 and December 31, 1998, as listed in the table of contents. These general-purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audits.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Willoughby Hills, Lake County, Ohio, as of December 31, 1999 and December 31, 1998, and the results of its operations and the cash flows of its proprietary fund type for the years then ended in conformity with generally accepted accounting principles.

As described in Note 2 to the accompanying financial statements, in 1998, the City changed its method of accounting for investments and its deferred compensation plans. The City also restated the beginning fund balances for the Expendable Trust and Agency Fund Types and restated the beginning balance for machinery and equipment in the General Fixed Assets Account Group due to certain accounting errors.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 28, 2000 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

A handwritten signature in black ink, appearing to read "Jim Petro".

Jim Petro
Auditor of State

July 28, 2000

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THE CITY OF WILLOUGHBY HILLS, OHIO
LAKE COUNTY
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
DECEMBER 31, 1999

	GOVERNMENTAL FUND TYPES			PROPRIETARY FUND TYPE	FIDUCIARY FUND TYPES	ACCOUNT GROUPS		Totals (Memorandum Only)
	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Enterprise Fund	Expendable Trust and Agency Funds	General Fixed Assets	
ASSETS AND OTHER DEBITS:								
ASSETS:								
Cash and Cash Equivalents	\$397,307	\$925,070	\$150,362	\$1,432,828	\$157,118	\$177,841	\$0	\$0
Investments	55,638	80,408	0	185,650	0	0	0	0
Receivables:								
Taxes	1,071,370	740,371	76,605	0	0	0	0	0
Accounts	38,550	220	0	2,358	79,477	0	0	0
Special Assessments	0	0	412,690	0	0	0	0	0
Interest	13,615	25	0	2,736	0	0	0	0
Intergovernmental Receivables	129,948	29,858	10,454	254,064	0	0	0	0
Inventory of Supplies at Cost	21,202	31,317	0	0	0	0	0	0
Prepaid Items	22,235	0	0	0	10,904	0	0	0
Restricted Assets:								
Cash with Fiscal Agent	0	0	0	0	0	2,120	0	0
Fixed Assets (Net of Accumulated Depreciation)	0	0	0	0	1,384,913	0	5,722,672	0
Other Debits:								
Amount Available in Debt Service Funds	0	0	0	0	0	0	0	160,949
Amount to be Provided for								
General Long - Term Obligations	0	0	0	0	0	0	0	1,328,024
TOTAL ASSETS & OTHER DEBITS:	<u>\$1,749,865</u>	<u>\$1,807,269</u>	<u>\$650,111</u>	<u>\$1,877,636</u>	<u>\$1,632,412</u>	<u>\$179,961</u>	<u>\$5,722,672</u>	<u>\$1,488,973</u>
								<u>\$15,108,899</u>

The notes to the general purpose financial statements are an integral part of this statement.

THE CITY OF WILLOUGHBY HILLS, OHIO
LAKE COUNTY
COMBINED BALANCE SHEET (Continued)
ALL FUND TYPES AND ACCOUNT GROUPS
DECEMBER 31, 1999

	GOVERNMENTAL FUND TYPES				PROPRIETARY FUND TYPE		FIDUCIARY FUND TYPES		ACCOUNT GROUPS		Totals (Memorandum Only)
	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Enterprise Fund	Expendable Trust and Agency Funds	General Fixed Assets	General Long Term Obligations			
LIABILITIES, EQUITY & OTHER CREDITS:											
LIABILITIES:											
Accounts Payable	\$55,213	\$10,155	0	\$0	\$65,172	\$0	\$0	\$0	\$0	\$130,540	
Accrued Wages and Benefits	226,208	7,146	0	0	0	0	0	0	0	233,354	
Intergovernmental Payables	512	0	0	0	0	0	0	0	0	512	
Due to Others	0	0	0	0	0	161,578	0	0	0	161,578	
Deferred Revenue	515,338	739,061	489,162	63,516	0	0	0	0	0	1,807,077	
Compensated Absences Payable	32,661	0	0	0	0	0	0	0	0	32,661	
Capital Leases Payable	0	0	0	0	0	0	0	0	0	0	
General Obligation Bonds Payable	0	0	0	0	0	0	0	0	0	0	
Special Assessment Bonds Payable	0	0	0	0	0	0	0	0	0	0	
with Governmental Commitment	0	0	0	0	0	0	0	0	0	0	
TOTAL LIABILITIES:	829,932	756,362	489,162	63,516	65,172	161,578	0	0	0	299,014	3,854,695
EQUITY & OTHER CREDITS:											
Investment in General Fixed Assets	0	0	0	0	0	0	0	0	0	0	5,722,672
Contributed Capital	0	0	0	0	453,044	0	0	0	0	0	453,044
Retained Earnings - Unreserved	0	0	0	0	1,114,196	0	0	0	0	0	1,114,196
Fund Balances:											
Reserve for Encumbrances	165,991	133,846	0	52,758	0	0	0	0	0	0	352,595
Reserve for Supplies Inventory	21,202	31,317	0	0	0	0	0	0	0	0	52,519
Reserve for Prepaid Items	22,235	0	0	0	0	0	0	0	0	0	22,235
Reserve for Debt Service Unreserved:	0	0	160,949	0	0	0	0	0	0	0	160,949
Undesignated	710,505	885,744	0	1,761,362	0	18,383	0	0	0	0	3,375,994
TOTAL EQUITY & OTHER CREDITS:	919,933	1,050,907	160,949	1,814,120	1,567,240	18,383	0	0	0	3,375,994	11,254,204
TOTAL LIABILITIES, EQUITY AND OTHER CREDITS:	\$1,749,865	\$1,807,269	\$650,111	\$1,877,636	\$1,632,412	\$179,961	\$5,722,672	\$1,488,973	\$5,722,672	\$15,108,899	

The notes to the general purpose financial statements are an integral part of this statement.

THE CITY OF WILLOUGHBY HILLS, OHIO
LAKE COUNTY
COMBINED STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 1999

GOVERNMENTAL FUND TYPES						
	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Expendable Trust Funds	Totals (Memorandum Only)
REVENUES:						
Tax Revenue	\$3,420,140	\$769,503	\$79,256	\$48,447	0	\$4,317,346
Intergovernmental Revenues	918,082	347,429	9,443	556,624	0	1,831,578
Charges for Services	73,048	50,478	0	20,641	0	144,167
Licenses and Permits	91,621	0	0	3,900	0	95,521
Investment Earnings	110,754	266	0	26,495	0	137,515
Special Assessments	0	0	49,769	0	0	49,769
Fines and Forfeitures	265,368	0	0	0	843	266,211
All Other Revenues	41,845	32,678	0	70	0	74,593
Total Revenues	4,920,858	1,200,354	138,468	656,177	843	6,916,700
EXPENDITURES						
Current:						
Security of Persons and Property	3,055,211	484,672	0	0	523	3,540,406
Leisure Time Activities	88,023	64,128	0	0	0	152,151
Community Environment	172,613	0	0	0	0	172,613
Transportation	633,079	792,616	0	0	0	1,425,695
General Government	1,036,820	60,664	2,359	0	0	1,099,843
Capital Outlay	0	0	0	38,320	0	38,320
Debt Service:						
Principal Retirement	0	0	92,000	0	0	92,000
Interest and Fiscal Charges	0	0	56,177	0	0	56,177
Total Expenditures	4,985,746	1,402,080	150,536	38,320	523	6,577,205
Excess (Deficiency) of Revenues Over (Under) Expenditures	(64,888)	(201,726)	(12,068)	617,857	320	339,495
Other Financing Sources (Uses):						
Proceeds from Sale of Fixed Assets	17,703	700	0	0	0	18,403
Operating Transfers-In	0	19,000	0	0	0	19,000
Operating Transfers-Out	(19,000)	0	0	0	0	(19,000)
Total Other Financing Sources and (Uses)	(1,297)	19,700	0	0	0	18,403
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Uses	(66,185)	(182,026)	(12,068)	617,857	320	357,898
Fund Balance, Beginning of Year	971,622	1,224,691	173,017	1,196,263	18,063	3,583,656
Increase/(Decrease) in Inventory Reserve	14,496	8,242	0	0	0	22,738
Fund Balance, End of Year	\$919,933	\$1,050,907	\$160,949	\$1,814,120	\$18,383	\$3,964,292

The notes to the general purpose financial statements are an integral part of this statement.

THE CITY OF WILLOUGHBY HILLS, LAKE COUNTY
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP) BUDGETARY BASIS -
 ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPE
 FOR THE YEAR ENDED DECEMBER 31, 1999

	GENERAL FUND			SPECIAL REVENUE FUNDS		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
REVENUES:						
Taxes	\$3,422,931	\$3,361,918	(\$61,013)	\$732,777	\$768,193	\$35,416
Intergovernmental Revenues	890,162	919,049	28,887	428,806	453,502	24,696
Charges for Services	60,294	61,335	1,041	42,770	50,553	7,783
Licenses & Permits	110,924	91,621	(19,303)	0	0	0
Investment Earnings	80,000	109,132	29,132	250	261	11
Special Assessments	0	0	0	0	0	0
Fines & Forfeitures	320,000	288,038	(31,962)	0	0	0
All Other Revenues	2,525	9,868	7,343	21,860	32,538	10,678
Total Revenues	4,886,836	4,840,961	(45,875)	1,226,463	1,305,047	78,584
EXPENDITURES:						
Current:						
Security of Persons and Property	3,282,725	3,130,867	151,858	509,095	483,358	25,737
Leisure Time Activities	89,737	89,582	155	78,797	67,122	11,675
Community Environment	180,343	174,149	6,194	0	0	0
Transportation	741,699	692,648	49,051	1,230,027	945,209	284,818
General Government	1,156,984	1,084,302	72,682	50,140	67,162	(17,022)
Other Expenditures	0	0	0	0	0	0
Capital Outlay	0	0	0	0	0	0
Debt Service:						
Principal Retirement	0	0	0	0	0	0
Interest and Fiscal Charges	0	0	0	0	0	0
Total Expenditures	5,451,488	5,171,548	279,940	1,868,059	1,562,851	305,208
Excess (Deficiency) of Revenues Over (Under) Expenditures	(564,652)	(330,587)	234,065	(641,596)	(257,804)	383,792
OTHER FINANCING SOURCES (USES):						
Proceeds from Sale of Fixed Assets	5,000	17,703	12,703	0	700	700
Operating Transfers-In	0	0	0	10,000	19,000	9,000
Operating Transfers-(Out)	(19,000)	(19,000)	0	0	0	0
Total Other Financing Sources (Uses)	(14,000)	(1,297)	12,703	10,000	19,700	9,700
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(578,652)	(331,884)	246,768	(631,596)	(238,104)	393,492
Fund Balance, Beginning of Year	308,561	308,561	0	699,581	699,581	0
Prior Year Encumbrances	271,618	271,618	0	400,128	400,128	0
Fund Balance, End of Year	\$1,527	\$248,295	\$246,768	\$468,113	\$861,605	\$393,492

The notes to the general purpose financial statements are an integral part of this statement.

THE CITY OF WILLOUGHBY HILLS, LAKE COUNTY
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP) BUDGETARY BASIS -
 ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPE
 FOR THE YEAR ENDED DECEMBER 31, 1999

	DEBT SERVICE FUNDS			CAPITAL PROJECTS FUNDS		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
REVENUES:						
Taxes	\$75,936	\$79,123	\$3,187	\$55,000	\$48,605	(\$6,395)
Intergovernmental Revenues	8,649	9,241	592	434,846	486,879	52,033
Charges for Services	0	0	0	50,000	20,641	(29,359)
Licenses & Permits	0	0	0	3,000	3,900	900
Investment Earnings	0	0	0	21,000	25,652	4,652
Special Assessments	47,531	49,769	2,238	0	0	0
Fines & Forfeitures	0	0	0	0	0	0
All Other Revenues	0	0	0	60,000	70	(59,930)
Total Revenues	132,116	138,133	6,017	623,846	585,747	(38,099)
EXPENDITURES:						
Current:						
Security of Persons and Property	0	0	0	0	0	0
Leisure Time Activities	0	0	0	0	0	0
Community Environment	0	0	0	0	0	0
Transportation	0	0	0	0	0	0
General Government	11,040	2,359	8,681	0	0	0
Other Expenditures	3,000	0	3,000	0	0	0
Capital Outlay	0	0	0	378,750	91,119	287,631
Debt Service:						
Principal Retirement	92,000	92,000	0	0	0	0
Interest and Fiscal Charges	56,261	56,177	84	0	0	0
Total Expenditures	162,301	150,536	11,765	378,750	91,119	287,631
Excess (Deficiency) of Revenues Over (Under) Expenditures	(30,185)	(12,403)	17,782	245,096	494,628	249,532
OTHER FINANCING SOURCES (USES):						
Proceeds from Sale of Fixed Assets	0	0	0	0	0	0
Operating Transfers-In	0	0	0	255,867	0	(255,867)
Operating Transfers-(Out)	0	0	0	0	0	0
Total Other Financing Sources (Uses)	0	0	0	255,867	0	(255,867)
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(30,185)	(12,403)	17,782	500,963	494,628	(6,335)
Fund Balance, Beginning of Year	162,765	162,765	0	1,056,209	1,056,209	0
Prior Year Encumbrances	0	0	0	14,883	14,883	0
Fund Balance, End of Year	\$132,580	\$150,362	\$17,782	\$1,572,055	\$1,565,720	(\$6,335)

The notes to the general purpose financial statements are an integral part of this statement.

THE CITY OF WILLOUGHBY HILLS, LAKE COUNTY
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP) BUDGETARY BASIS -
 ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPE
 FOR THE YEAR ENDED DECEMBER 31, 1999

	EXPENDABLE TRUST FUNDS			TOTALS (MEMORANDUM ONLY)		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
REVENUES:						
Taxes	\$0	\$0	\$0	\$4,286,644	\$4,257,839	(\$28,805)
Intergovernmental Revenues	0	0	0	1,762,463	1,868,671	106,208
Charges for Services	0	0	0	153,064	132,529	(20,535)
Licenses & Permits	0	0	0	113,924	95,521	(18,403)
Investment Earnings	0	0	0	101,250	135,045	33,795
Special Assessments	0	0	0	47,531	49,769	2,238
Fines & Forfeitures	2,000	1,053	(947)	322,000	289,091	(32,909)
All Other Revenues	0	0	0	84,385	42,476	(41,909)
Total Revenues	2,000	1,053	(947)	6,871,261	6,870,941	(320)
EXPENDITURES:						
Current:						
Security of Persons and Property	5,000	523	4,477	3,796,820	3,614,748	182,072
Leisure Time Activities	0	0	0	168,534	156,704	11,830
Community Environment	0	0	0	180,343	174,149	6,194
Transportation	0	0	0	1,971,726	1,637,857	333,869
General Government	11,000	0	11,000	1,229,164	1,153,823	75,341
Other Expenditures	0	0	0	3,000	0	3,000
Capital Outlay	0	0	0	378,750	91,119	287,631
Debt Service:						
Principal Retirement	0	0	0	92,000	92,000	0
Interest and Fiscal Charges	0	0	0	56,261	56,177	84
Total Expenditures	16,000	523	15,477	7,876,598	6,976,577	900,021
Excess (Deficiency) of Revenues Over (Under) Expenditures	(14,000)	530	14,530	(1,005,337)	(105,636)	899,701
OTHER FINANCING SOURCES (USES):						
Proceeds from Sale of Fixed Assets	0	0	0	5,000	18,403	13,403
Operating Transfers-In	0	0	0	265,867	19,000	(246,867)
Operating Transfers-(Out)	0	0	0	(19,000)	(19,000)	0
Total Other Financing Sources (Uses)	0	0	0	251,867	18,403	(233,464)
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(14,000)	530	14,530	(753,470)	(87,233)	666,237
Fund Balance, Beginning of Year	17,853	17,853	0	2,244,969	2,244,969	0
Prior Year Encumbrances	0	0	0	686,629	686,629	0
Fund Balance, End of Year	\$3,853	\$18,383	\$14,530	\$2,178,128	\$2,844,365	\$666,237

The notes to the general purpose financial statements are an integral part of this statement.

THE CITY OF WILLOUGHBY HILLS, OHIO
 LAKE COUNTY
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
 RETAINED EARNINGS - PROPRIETARY FUND TYPE
 FOR THE YEAR ENDED DECEMBER 31, 1999

	ENTERPRISE FUND
<u>Operating Revenues:</u>	
Charges for Services	\$368,339
Total Operating Revenues	368,339
<u>Operating Expenses:</u>	
Personal Services	23,426
Contractual Services	358,562
Depreciation	36,502
Total Operating Expenses	418,490
Net Loss	(50,151)
Retained Earnings at Beginning of Year	1,164,347
Retained Earnings at End of Year	\$1,114,196

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

THE CITY OF WILLOUGHBY HILLS, OHIO
LAKE COUNTY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 1999

	<u>ENTERPRISE FUND</u>
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Customers	\$363,092
Cash Payments to Suppliers for Goods and Services	(350,421)
Cash Payments to Employees for Services	<u>(23,426)</u>
Net Cash Provided by Operating Activities	<u>(10,755)</u>
Net Increase in Cash and Cash Equivalents	<u>(10,755)</u>
Cash and Cash Equivalents at the Beginning of Year	<u>167,873</u>
Cash and Cash Equivalents at the End of Year	<u><u>\$157,118</u></u>
<u>Reconciliation of Operating Loss to Net Cash</u>	
<u>Provided by Operating Activities:</u>	
Operating Loss	(\$50,151)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities	
Depreciation Expense	36,502
Changes in Assets and Liabilities:	
Decrease in Accounts Receivable	(5,247)
Decrease in Prepaid Items	(10,904)
Increase in Accounts Payable	<u>19,045</u>
Total Adjustments	<u>39,396</u>
Net Cash Provided by Operating Activities	<u><u>(\$10,755)</u></u>

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

CITY OF WILLOUGHBY HILLS, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Willoughby Hills, Ohio (the City) is a home-rule municipal corporation created under the laws of the State of Ohio. The City operates under its own Charter. The current Charter, which provides for a Council-Mayor form of government, was adopted on September 15, 1970.

The accompanying general purpose financial statements of the City present the financial position of the various fund types and account groups, the results of operations of the various fund types, and the cash flows of the proprietary fund. The financial statements are presented as of December 31, 1999 and for the year then ended and have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to local governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification).

A. Reporting Entity

The accompanying general purpose financial statements comply with the provisions of GASB Statement No. 14, "The Financial Reporting Entity," in that the financial statements include all organizations, activities, functions and component units for which the City (the primary government) is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing body and either (1) the City's ability to impose its will over the organization or (2) the potential that the organization will provide a financial benefit to or impose a financial burden on the City.

Based on the foregoing, the City's financial reporting entity has no component units but includes all funds, account groups, agencies, boards and commissions that are part of the primary government, which includes the following services: police and fire protection, highway and streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

B. Basis of Presentation - Fund Accounting

The accounting system is organized and operated on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures (expenses). The various funds are summarized by type in the general purpose financial statements. The following fund types and account groups are used by the City:

Governmental Funds - Those funds through which most governmental functions typically are financed. The acquisition, use and balances of the City's expendable financial resources and the related current liabilities (except those accounted for in the proprietary fund) are accounted for through governmental funds. All governmental fund types are accounted for using a current financial resources measurement focus. The following are the City's governmental fund types:

General Fund - This fund is used to account for all financial resources except those accounted for in another fund. The general fund balance is available to the City for any purpose provided it is expended or transferred according to the general laws of Ohio, and the limitations of the City Charter.

Special Revenue Funds - These funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditure for specified purposes.

CITY OF WILLOUGHBY HILLS, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

Debt Service Funds - These funds are used for the accumulation of resources for, and the payment of, general obligation and special assessment long-term debt principal and interest (other than that accounted for in the proprietary fund).

Capital Projects Funds - These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

Proprietary Fund

Enterprise Fund - This fund is used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The enterprise fund is accounted for on an "economic resources" measurement focus. This measurement focus provides that all assets and all liabilities associated with the operation of this fund are included on the balance sheet. Fund equity (i.e. net assets) is segregated into contributed capital and retained earnings components. The enterprise fund operating statements present increases (i.e. revenues) and decreases (i.e. expenses) in net total assets. The sewer/pump station fund is the only enterprise fund.

Fiduciary Funds

Trust and Agency Funds - These funds are used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The City maintains both expendable trust funds and agency funds. The expendable trust funds are accounted for and reported similarly to governmental funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Account Groups

To make a clear distinction between fixed assets related to specific funds and those of the general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group - This account group is established to account for fixed assets of the City, other than those accounted for in the proprietary fund.

General Lone-Term Obligations Account Group - This account group is established to account for all long-term debt and other long-term obligations of the City except that accounted for in the proprietary fund.

C. Basis of Accounting

Basis of accounting represents the methodology utilized in the recognition of revenues and expenditures or expenses in the accounts and reported in the financial statements and relates to the timing of the measurements made. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

CITY OF WILLOUGHBY HILLS, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Accounting (Continued)

The modified accrual basis of accounting is followed by the governmental funds and expendable trusts and agency funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, which for the City is considered to be 60 days after year end. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt, which is recognized when due.

Revenue considered susceptible to accrual at year end includes, income taxes, interest on investments, and state levied locally shared taxes (including motor vehicle license fees, gasoline tax, and local government assistance). Other revenue, including licenses, permits, certain charges for services, and miscellaneous revenues, is recorded as revenue when received in cash because it is generally not measurable until actually received.

Special assessment installments, including related accrued interest, which are measurable but not available at December 31 are recorded as deferred revenue. Property taxes measurable as of December 31, 1999 but which are not intended to finance 1999 operations and delinquent property taxes, whose availability is indeterminate, are recorded as deferred revenue as further described in Note 4.

The accrual basis of accounting is utilized for reporting purposes by the proprietary fund. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

Pursuant to GASB Statement No. 20, *"Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting,"* the City follows GASB guidance as applicable to proprietary funds and FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

D. Budgetary Process

The annual budgetary process is prescribed by Charter and by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriation ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation ordinance are subject to amendment throughout the year.

All funds, other than agency funds, are legally required to be budgeted and appropriated; however, only governmental funds are required to be reported. The legal level of budgetary control is by fund. Budgetary control is maintained by not permitting expenditures to exceed appropriations at the fund level. Administrative control is maintained through the establishment of more detailed line-item budgets. Budgetary modifications at the fund level may only be made by ordinance of the City Council. During 1999, appropriations were approved as required and all funds completed the year within their legally authorized appropriations, except as noted in Note 2.

CITY OF WILLOUGHBY HILLS, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Process (Continued)

1. Tax Budget

By July 15, the Mayor submits an annual tax budget for the following fiscal year to City Council for consideration and passage. The adopted budget is submitted to the County Auditor, as secretary of the County Budget Commission, by July 20th of each year, for the period January 1 to December 31 of the following year.

2. Estimated Resources

The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Budget Commission then certifies its actions to the City by September 1st of each year. As part of the certification process, the City receives an official certificate of estimated resources which states the projected receipts by fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include any unencumbered fund balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed or fall short of current estimates. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 1999.

3. Appropriations

A temporary appropriation ordinance to control expenditures may be passed on or about January 1st of each year for the period January 1 through March 31. An annual appropriation ordinance must be passed by April 1st of each year for the period January 1 through December 31. The appropriation ordinance establishes spending controls at the fund level, and may be modified during the year by ordinance of the City Council. Total fund appropriations may not exceed the current estimated resources as certified by the County Budget Commission. Expenditures may not legally exceed budgeted appropriations at the fund level. Administrative control is maintained through the establishment of more detailed line-item budgets. The budgetary figures which appear in the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances--Budget and Actual--All Governmental Fund Types are provided on the budgetary basis to provide a comparison of actual results with the final budget, including all amendments and modifications.

4. Encumbrances

As part of formal budgetary control, purchase orders, contracts and other commitments for expenditures are encumbered and recorded as the equivalent of expenditures (budget basis) in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. However, on the GAAP basis of accounting, encumbrances do not constitute expenditures or liabilities and are reported as reservations of fund balances for governmental funds in the accompanying general purpose financial statements.

5. Lapsing of Appropriations

At the close of each fiscal year, the Unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations.

CITY OF WILLOUGHBY HILLS, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Process (Continued)

5. Lapsing of Appropriations (Continued)

The encumbered appropriation balance is carried forward to the subsequent fiscal year and need not be reappropriated.

6. Budgetary Basis of Accounting

The City's budgetary process accounts for certain transactions on a basis other than generally accepted accounting principles (GAAP). The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recorded. Under the budgetary basis, revenues are recorded when received in cash and expenditures when encumbered. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting.

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the governmental and expendable trust funds:

Excess (Deficiency) of Revenues and Other Financing Sources
Over (Under) Expenditures and Other Financing Uses

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>
GAAP Basis	(\$66,185)	(\$182,026)	(\$12,068)	\$617,857	\$320
Increase (Decrease):					
Accrued Revenues at December 31, 1999 received during 2000	(738,145)	(31,413)	(10,587)	(195,642)	0
Accrued Revenues at December 31, 1998 received during 1999	658,248	136,106	10,252	125,212	210
Accrued Expenditures at December 31, 1999 Paid during 2000	314,594	17,301	0	0	0
Accrued Expenditures at December 31, 1998 Paid during 1999	(307,615)	(34,339)	0	(41)	0
1998 Prepays for 1999	34,104	140	0	0	0
1999 Prepays for 2000	(22,235)	0	0	0	0
Outstanding Encumbrances	(204,650)	(143,873)	0	(52,758)	0
Budget Basis	<u>(\$331,884)</u>	<u>(\$238,104)</u>	<u>(\$12,403)</u>	<u>\$494,628</u>	<u>\$530</u>

CITY OF WILLOUGHBY HILLS, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits, STAR Ohio and short-term certificates of deposit. The certificates of deposit are considered cash equivalents because they are highly liquid investments with original maturity dates of three months or less.

The City pools its cash for investment and resource management purposes. Each fund's equity in pooled cash and investments represents the balance on hand as if each had maintained its own cash and cash investment account. For *purposes* of the statement of cash flows, the proprietary fund considers its share of equity in pooled certificates of deposit to be cash equivalents. See Note 3, "Cash, Cash Equivalents and Investments."

F. Investments

Investment procedures and interest allocations are restricted by provisions of the Ohio Constitution and the Ohio Revised Code. In accordance with GASB Statement No. 31, "*Accounting and Financial Reporting for Certain Investments and for External Investment Pools*" the City records all its investments at fair value except for nonparticipating investment contracts (repurchase agreements and certificates of deposit) which are reported at cost. The City allocates interest among the various funds based upon the fund's cash balance at the date of investment. See Note 3, "Cash, Cash Equivalents and Investments."

The City has invested funds in the STAR Ohio during 1999. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 1999.

G. Inventory

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

H. Fixed Assets and Depreciation

The accounting and reporting treatment applied to fixed assets is determined by their ultimate use.

1. Property, Plant and Equipment - General Governmental Purposes

Fixed assets acquired or constructed for general governmental purposes are recorded as expenditures in the governmental funds and are capitalized at cost (or estimated historical cost for assets not purchased in recent years) in the General Fixed Assets Account Group. Contributed fixed assets are recorded at fair market value at the date received.

CITY OF WILLOUGHBY HILLS, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Fixed Assets and Depreciation (Continued)

1. Property, Plant and Equipment - General Governmental Purposes (Continued)

Fixed assets consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems, have not been capitalized. Such assets normally are immovable and of value only to the City. Therefore, the purpose of stewardship for capital expenditures can be satisfied without recording these assets.

General fixed asset values were initially determined at December 31, 1985 by identifying historical costs when such information was available. In cases where information supporting original cost was not obtainable, estimated historical costs were developed. For certain fixed assets, the estimates were arrived at by indexing estimated current costs back to the estimated year of acquisition.

The City has elected not to record depreciation in the General Fixed Assets Account Group.

2. Property, Plant and Equipment - Proprietary Fund

Property, plant and equipment acquired by the proprietary fund is stated at cost (or estimated historical cost), including interest capitalized during construction, and architectural and engineering fees where applicable. Contributed fixed assets are recorded at fair market value at the date received.

Depreciation has been provided using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Estimated Lives (Years)</u>
Buildings	15 -25
Improvements other than Buildings	25 - 50
Machinery, equipment, furniture and fixtures	3 -10

I. Long-Term Obligations

Long-term liabilities are being repaid from the following funds:

<u>Obligation</u>	<u>Fund</u>
General Obligation Bonds	Debt Service Funds (General Obligation Bond Retirement Fund)
Special Assessment Bonds	Debt Service Funds (Special Assessment Bond Retirement Fund)
Capital Leases	General Fund
Police/Fire Pension Obligation	Police Pension Fund
Compensated Absences	General Fund

CITY OF WILLOUGHBY HILLS, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Compensated Absences

All full-time City employees earn vacation at varying rates based upon length of service. Upon separation from the City, the employee (or his estate) is paid for his accumulated unused vacation leave balance.

Sick leave is accrued using the vesting method, whereby the liability is recorded on the basis of leave accumulated by employees who are eligible to receive termination payments, as of the balance sheet date, and on leave balances accumulated by other employees who are expected to become eligible in the future to receive such payments.

In accordance with GASB Statement No. 16, "*Accounting for Compensated Absences*," the City records a liability for vacation time and sick leave when the obligation is attributable to services previously rendered, to rights that vest or accumulate, and where payment of the obligation is probable and can be reasonably determined. For governmental funds, that portion of unpaid compensated absences that is expected to be paid using expendable, available resources is reported as an expenditure in the fund from which the individual earning the leave is paid, and a corresponding liability is reflected in the account "compensated absences payable." The remaining portion of the liability is reported in the General Long-Term Obligations Account Group.

K. Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds. Interfund transactions are generally classified as follows:

- Operating transfers are reported as "Other Financing Sources and Uses" in the governmental funds, as "Operating Transfers In" by the recipient fund, and "Operating Transfers Out" by the disbursing fund.
- Residual equity transfers are nonroutine or nonrecurring transfers between funds and are reported as additions to or deductions from the fund equity balance. The City did not perform any residual equity transfers in 1999.

Transactions that would be treated as revenues and expenditures/expenses if they involved organizations external to the City are similarly treated when involving other funds of the City. Transactions that constitute a reimbursement to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures in the reimbursing fund, and as a reduction of expenditures in the fund that is reimbursed.

L. Reservations of Fund Balance

Reserves indicate that a portion of fund balance is not available for expenditure or is legally segregated for a specific future use. Fund balances are reserved for inventories of supplies and materials, prepaid items, debt service and encumbered amounts that have not been accrued at year end

CITY OF WILLOUGHBY HILLS, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Contributed Capital

Proprietary fund type contributed capital is recorded at the fair market value of the related assets at the date received. Depreciation on contributed fixed assets resulting from grants, entitlements and shared revenues is closed to contributed capital. There were no changes to contributed capital during 1999.

N. Total Columns on Combined Financial Statements - Overview

Total columns on the Combined Statements-Overview are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns does not present financial position or results of operations or cash flows in conformity with generally accepted accounting principles, nor is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 2 - COMPLIANCE AND ACCOUNTABILITY

Excess of Expenditures Over Appropriations- For the year ended December 31, 1999, expenditures exceeded appropriations at the fund level (i.e., the legal level of budgetary control) as follows:

<u>Fund</u>	<u>Excess</u>
Special Revenue Funds:	
Court Improvement Fund	\$22,854
Police Pension Fund	64

NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash resources of a majority of individual funds are combined to form a pool of cash and investments. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and Cash Equivalents and Investments." Ohio law requires the classification of funds held by the City into three categories.

Category 1 consists of "active" funds - those funds required to be kept in a "cash" or "cash equivalent" status for immediate use by the City. Such funds must be maintained either as cash in the City treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Category 2 consists of "inactive" funds - those funds not required for use within the current two year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing no later than the end of the current period of designation of depositories.

Category 3 consists of "interim" funds - those funds which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim funds may be invested or deposited in the following securities:

- United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principle or interest by the United States;

CITY OF WILLOUGHBY HILLS, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(Continued)

NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

- Bonds, notes, debentures or other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal 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;
- Written repurchase agreement in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
- Interim deposits in eligible institutions applying for interim funds;
- Bonds and other obligations of the State of Ohio;
- No-load money market mutual funds consisting exclusively of obligations described in the first two bullets of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions, and
- The State Treasury Asset Reserve of Ohio (STAR Ohio).

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.

Ohio Law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the City places deposits must pledge as collateral eligible securities of aggregate fair value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 110% of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation or other legally constituted authority of any other state or any instrumentality of such county, municipal corporation or other authority. Based upon criteria described in GASB Statement No. 3 "Deposits With Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements," collateral held in single financial collateral pools with securities being held by the pledging financial institutions agent in the pool's name are classified as Category 3.

The Governmental Accounting Standards Board has established risk categories for deposits and investments as follows:

Deposits:

- | | |
|------------|---------------------------------------------------------------------------------------------------------------------------|
| Category 1 | Insured or collateralized with securities held by the City or by its agent in the City's name. |
| Category 2 | Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name. |
| Category 3 | Uncollateralized. |

CITY OF WILLOUGHBY HILLS, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(Continued)

NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Investments:

- Category 1 Insured or registered, or securities held by the City or its agent in the City's name.
- Category 2 Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.
- Category 3 Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

A. Deposits

At year end the carrying amount of the City's deposits was \$295,367 and the bank balance was \$482,943. \$102,265 was covered by federal depository insurance. \$380,678 was uncollateralized and uninsured. Although the securities were held by the pledging financial institutions trust department or agent in the City's name and all State statutory requirements for the investment of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

B. Investments

The City's investments at December 31, 1999 are summarized below:

<u>Categorized Investments</u>	<u>Category 3</u>	<u>Fair Value</u>
Repurchase Agreement	<u>\$1,659,299</u>	<u>\$1,659,299</u>
 <u>Non-Categorized Investments</u>		
STAROhio	_____	<u>1,609,676</u>
Total Investments	<u>\$1,659,299</u>	<u>\$3,268,975</u>

C. Reconciliation of Cash, Cash Equivalents and Investments

The classification of cash, cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. Certificates of deposit with original maturities of three months or less are treated as cash and cash equivalents. The classification of cash and cash equivalents (deposits) for purposes of this note is based on criteria set forth in GASB Statement No. 3.

CITY OF WILLOUGHBY HILLS, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(Continued)

NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

C. Reconciliation of Cash, Cash Equivalents and Investments (Continued)

A reconciliation between classifications of cash and investments on the combined financial statements and the classifications per GASB No. 3 is as follows:

	Cash and Cash <u>Equivalents *</u>	<u>Investments</u>
Per Combined Balance Sheet	\$3,242,646	\$321,696
Certificates of Deposit (with maturities of more than 3 months)	321,696	(321,696)
Investments:		
STAR Ohio	(1,609,676)	1,609,676
Repurchase Agreement	<u>(1,659,299)</u>	<u>1,659,299</u>
Per GASB Statement No. 3	<u>\$295,367</u>	<u>\$3,268,975</u>

* Includes Cash with Fiscal Agent.

STAR Ohio is not classified by degree of credit risk since it is not evidenced by securities that exist in physical or book-entry form.

NOTE 4 - TAXES

A. Property Taxes

Property taxes include amounts levied against all real estate and public utility property, and tangible personal property which is used in business, located in the City. Real property taxes (other than public utility) collected during 1999 were levied after October 1, 1998 on assessed values as of January 1, 1998, the lien date. Assessed values are established by the county auditor at 35 percent of appraised market value. All property is required to be reappraised every six years and equalization adjustments are made in the third year following reappraisal. The last reappraisal was completed in 1997. Real property taxes are payable annually or semi-annually. The first payment is due January 20, with the remainder payable by June 20.

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

CITY OF WILLOUGHBY HILLS, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(Continued)

NOTE 4 - TAXES (Continued)

A. Property Taxes (Continued)

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property is currently assessed at 100 percent of its true value. Public utility property taxes are payable on the same dates as real property described previously.

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

The full tax rate for all City operations for the year ended December 31, 1999 was \$7.80 per \$1,000 of assessed value. The assessed value upon which the 1999 property tax receipts were based was \$218,000,484. This amount constitutes \$198,037,380 in real property assessed value, \$6,644,360 in public utility assessed value and \$13,318,744 in tangible personal property assessed value.

Ohio law prohibits taxation of property from all taxing authorities in excess of 1% of assessed value without a vote of the people. Under current procedures, the City's share is .0078% (7.80 mills) of assessed value.

B. Income Tax

The City levies a tax of 1.5% on all salaries, wages, commissions and other compensation and on net profits earned within the City as well as on incomes of residents earned outside the City. In the latter case, the City allows a credit of 100% of the tax paid to another municipality, up to a limit of 1% of the total amount assessed.

Employers within the City are required to withhold income tax on employees' compensation and remit the tax to the City either monthly or quarterly, as required. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. All income tax proceeds are received by the General Fund.

NOTE 5 - RECEIVABLES

Receivables at December 31, 1999 consisted of taxes, interest, accounts receivable, special assessments and intergovernmental receivables arising from shared revenues. All receivables other than those offset by deferred revenues are considered collectible in full.

CITY OF WILLOUGHBY HILLS, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(Continued)

NOTE 6 - OPERATING TRANSFERS

Following is a summary of operating transfers in and out for all funds for 1999:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund:	\$0	\$19,000
Special Revenue Fund:		
Recreation Fund	<u>19,000</u>	<u>0</u>
Totals	<u>\$19,000</u>	<u>\$19,000</u>

NOTE 7 - FIXED ASSETS

A. General Fixed Assets

Summary by category of changes in general fixed assets:

<u>Category</u>	<u>December 31, 1998</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31, 1999</u>
Land	\$340,820	\$0	\$0	\$340,820
Buildings and Improvements	2,292,234	36,110	0	2,328,344
Machinery and Equipment	<u>2,776,629</u>	<u>347,602</u>	<u>(70,723)</u>	<u>3,053,508</u>
Totals	<u>\$5,409,683</u>	<u>\$383,712</u>	<u>(\$70,723)</u>	<u>\$5,772,672</u>

B. Proprietary Fixed Assets

Summary by category at December 31, 1999:

<u>Category</u>	<u>Historic Cost</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>
Buildings	\$233,000	(\$57,990)	\$175,010
Improvements	<u>1,583,467</u>	<u>(373,564)</u>	<u>1,209,903</u>
Property, Plant and Equipment	<u>\$1,816,467</u>	<u>(\$431,554)</u>	<u>\$1,384,913</u>

CITY OF WILLOUGHBY HILLS, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(Continued)

NOTE 8 - DEFINED BENEFIT PENSION PLANS

All of the City's full-time employees participate in one of two separate retirement systems which are cost-sharing multiple employer defined benefit pension plans.

A. Public Employees Retirement System (the "PERS of Ohio")

The following information was provided by the PERS of Ohio to assist the City in complying with GASB Statement No. 27, *"Accounting for Pensions by State and Local Government Employers."*

All employees of the City, except full-time uniformed police officers and full-time firefighters, participate in the PERS of Ohio, a cost-sharing multiple employer defined benefit pension plan. The PERS of Ohio provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Chapter 145 of the Ohio Revised Code provides statutory authority to establish and amend benefits. The Public Employees Retirement System of Ohio issues a stand-alone financial report that includes financial statements and required supplementary information for the PERS of Ohio. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 8.5%. The 1999 employer contribution rate for local government employer units was 13.55%, of covered payroll, 9.35% to fund the pension and 4.2% to fund health care. The contribution requirements of plan members and the City are established and may be amended by the Public Employees Retirement Board. The City's contributions to the PERS of Ohio for the years ending December 31, 1999, 1998 and 1997 were \$196,061, \$190,329 and \$ 180,315, respectively, which were equal to the required contributions for each year.

The PERS of Ohio provides postemployment health care benefits to age and service retirants with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirants. Health care coverage for disability recipients is also available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No.12. A portion of each employer's contribution to the PERS of Ohio is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority requiring public employers to fund postemployment health care through their contributions to the PERS of Ohio. The portion of the 1999 employer contribution rate (identified above) that was used to fund health care for the year 1999 was 4.2% of covered payroll which amounted to \$60,772.

Other Postemployment Benefits (OPEB) are financed through employer contributions and investment earnings thereon. Funding and accounting were on a pay-as-you-go basis. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions are expected to be sufficient to sustain the program indefinitely. Expenditures for other postemployment benefits during 1999 were \$523,599,349. As of December 31,1999, the unaudited estimated net assets available for future OPEB payments were \$9,870,285,641. The number of benefit recipients eligible for OPEB at December 31,1999 was \$118,062.

During 1997, the Retirement Board adopted a new calculation method for determining employer contributions applied to OPEB. Under the new method, effective January 1, 1998, employer contributions, equal to 4.2% of member covered payroll, are used to fund health care expenses. Under the prior method, accrued liabilities and normal cost rates were determined for retiree health care coverage.

CITY OF WILLOUGHBY HILLS, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(Continued)

NOTE 8 - DEFINED BENEFIT PENSION PLANS (Continued)

B. Ohio Police and Fire Pension Fund (the "OP&F Fund")

All City full-time police officers and full-time firefighters participate in the OP&F Fund, a cost-sharing multiple-employer defined benefit pension plan. The OP&F Fund provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries. Contribution requirements and benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. The Ohio Police and Fire Pension Fund issues a stand-alone financial report that includes financial statements and required supplementary information for the OP&F Fund. Interested parties may obtain a copy by making a written request to 140 East Town Street, Columbus, Ohio 43215-5164 or by calling (614) 228-2975.

Plan members are required to contribute 10.0% of their annual covered salary, while employers are required to contribute 19.5% and 24.0% respectively for police officers and firefighters. The City's contributions to the OP&F Fund for the years ending December 31, 1999, 1998 and 1997 were \$199,737, \$174,172 and \$142,158 for police and \$127,294, \$113,350 and \$142,797 for firefighters, respectively, which were equal to the required contributions for each year.

The OP&F Fund provides postemployment health care coverage to any person who received or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school on a full-time or two-thirds basis. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No.12. The Ohio Revised Code provides that health care costs paid from the funds of the OP&F Fund shall be included in the employer's contribution rate. The Ohio Revised Code also provides statutory authority allowing the Fund's Board of Trustees to provide postemployment health care coverage to all eligible individuals from the employer's contributions to the OP&F Fund.

The portion of the 1999 covered payroll that was used to fund postemployment health care benefits was \$71,700 representing 7.00% of covered payroll for police and \$37,127 representing 7.00% of covered payroll for fire. Health care funding and accounting was on a pay-as-you-go basis. In addition, since July 1, 1992 most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. As of December 31, 1998, the date of the last actuarial evaluation available, the number of participants eligible to receive health care benefits was 11,424 for police and 9,186 for firefighters. The OP&F Fund does not provide separate data on the funded status and funding progress of postemployment health care benefits. The Fund's total health care expenses for the year ended December 31, 1998 were \$78,596,790, which was net of member contributions of \$5,331,515.

NOTE 9 - COMPENSATED ABSENCES

As of December 31, 1999, the liability for unpaid compensated absences was \$504,656 for all funds of the City. The entire balance of compensated absences was considered long-term since no payments were anticipated which would require the use of current available financial resources. The long-term liability has been reported in the General Long-Term Obligations Account Group.

At December 31, 1999 the total accumulated unpaid sick and vacation leave time recorded in the General Long-Term Obligations Account Group was as follows:

CITY OF WILLOUGHBY HILLS, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(Continued)

NOTE 9 - COMPENSATED ABSENCES (Continued)

	<u>Hours</u>	<u>Amounts</u>
Sick Leave	19,430	\$411,233
Vacation	<u>2,969</u>	<u>60,762</u>
Total	<u>22,399</u>	<u>\$471,995</u>

NOTE 10 - LONG-TERM OBLIGATIONS

Activity in the General Long-Term Obligations Account Group in 1999 was as follows:

	Balance December 31, <u>1998</u>	Issued (Retired)	Balance December 31, <u>1999</u>
General Long-Term Debt:			
General Obligation Bonds:			
7.375% Police Building Addition 1986	\$320,000	(\$40,000)	\$280,000
2.65%-5.30% Sanitary Sewerage Improvement 1993	40,286	(3,300)	36,986
2.65%-5.30% Service Garage Addition 1993	110,000	(5,000)	105,000
2.65%-4.60% Fire Truck Acquisition 1993	<u>95,000</u>	<u>(15,000)</u>	<u>80,000</u>
Total General Obligation Bonds	<u>565,286</u>	<u>(63,300)</u>	<u>501,986</u>
Special Assessment Bonds:			
7.875% Chardon Sewerage System 1987	63,000	(7,000)	56,000
2.65%-5.30% Sanitary Sewerage Improvement 1993	<u>264,714</u>	<u>(21,700)</u>	<u>243,014</u>
Total Special Assessment Bonds with Governmental Commitment	<u>327,714</u>	<u>(28,700)</u>	<u>299,014</u>
Total Long-Term Debt	<u>893,000</u>	<u>(92,000)</u>	<u>801,000</u>
Other Long-Term Obligations:			
Compensated Absences	496,120	(24,125)	471,995
Police/Fire Accrued Liability	11,916	(11,916)	0

CITY OF WILLOUGHBY HILLS, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(Continued)

Capital Leases	<u>281,615</u>	<u>(65,637)</u>	<u>215,978</u>
Total Other Long-Term Obligations	<u>789,651</u>	<u>(101,678)</u>	<u>687,973</u>
Total General Long-Term Debt and Other Long-Term Obligations	<u>\$1,682,651</u>	<u>(\$193,678)</u>	<u>\$1,488,973</u>

The principal amount of the City's Special Assessment Debt outstanding at December 31, 1999, \$299,014 is general obligation debt (backed by the full faith and credit of the City) that is being retired with the proceeds from special assessments levied against benefitted property owners. The City is obligated to repay the debt irrespective of the amount of special assessments collected from property owners. The fund balance of \$74,491 in the Debt Service Special Assessment Bond Retirement Fund at December 31, 1999 is reserved for the retirement of outstanding special assessment bonds.

The Debt Service for the general obligation sanitary sewerage improvement bonds are paid out of the general obligation debt service fund and the special assessment sanitary sewerage improvement bonds are paid out of the special assessment debt service fund. The assets financed by the debt are carried in the Enterprise Fund while the debt is paid out of the Debt Service Funds.

General Obligation Bonds are direct obligations of the City for which its full faith, credit and resources are pledged and are payable from taxes levied on all taxable property in the City. Compensated absences will be paid by the fund from which the employee's salary is paid.

A. Future Long-Term Financing Requirements

Principal and interest requirements to retire long-term debt outstanding at December 31, 1999 are as follows:

	<u>General Obligation Bonds</u>		<u>Special Assessment Bonds</u>		<u>Capital Leases</u>	
<u>Years</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2000	\$67,642	\$31,372	\$24,358	\$16,465	\$68,459	\$10,961
2001	67,642	27,234	24,358	15,168	71,935	7,485
2002	67,642	23,068	24,358	13,853	75,584	3,836
2003	67,642	18,874	24,358	12,520	0	0
2004	47,642	14,652	24,358	11,170	0	0
2005-2009	133,208	31,418	107,792	35,308	0	0
2010-2014	50,568	6,700	69,432	9,200	0	0
2015-2035	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Totals	<u>\$501,986</u>	<u>\$153,318</u>	<u>\$299,014</u>	<u>\$113,684</u>	<u>\$215,978</u>	<u>\$22,282</u>

CITY OF WILLOUGHBY HILLS, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(Continued)

NOTE 10 - LONG-TERM OBLIGATIONS (Continued)

B. Police and Firemen's Pension Fund

The City's liability for past service costs related to the Police and Firemen's Pension Fund at December 31, 1999 was \$22,484 in principal and interest payments through the year 2035; however, in May 1999, the city elected to pay off the entire amount of the liability at the discounted amount of \$8,356.

NOTE 11 - CAPITAL LEASE COMMITMENTS

The City is obligated under several leases accounted for as capital leases. The cost of the leased assets is accounted for in the General Fixed Assets Account Group and the related liability in the General Long Term Obligations Account Group. The original cost of the assets under capital lease was \$343,143.

The following is a schedule of the future minimum lease payments under the capital lease together with the present value of the net minimum lease payment as of December 31, 1999.

<u>Year Ending December 31,</u>	<u>Capital Leases</u>
2000	\$79,420
2001	79,420
2002	<u>79,420</u>
Minimum Lease Payments	238,260
Less: Amount representing interest at the City's incremental borrowing rate of interest	<u>(22,282)</u>
Present value of minimum lease payments	<u>\$215,978</u>

NOTE 12 - CONSTRUCTION COMMITMENTS

As of December 31, 1999, the City had the following commitments with respect to capital improvements:

<u>Capital Projects</u>	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
River Road Slope Stabilization	\$359,036	July 2000
1999 Rd. Program	122,421	April 2000

CITY OF WILLOUGHBY HILLS, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(Continued)

NOTE 13 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injury to employees and natural disasters. The City has contracted with various private carriers for the provision of property damage, general liability, automotive damage, public officials liability, police liability, boiler and machinery damage/loss, umbrella liability, and crime and employee dishonesty.

Deductible levels for the various policies have been selected so as not to expose the City to excessive "first dollars" loss in the case of a claim. Deductibles range between \$250 and \$1,000 per loss for property damage. In the professional liability areas, no deductible exceeds \$2,500.

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past four years.

NOTE 14 - CONTINGENCIES

The City is a party to various legal proceedings which seek damages or injunctive relief generally incidental to its operations and pending projects. The City's management is of the opinion that the ultimate disposition of various claims and legal proceedings will not have a material effect on the financial condition of the City.

THE CITY OF WILLOUGHBY HILLS, OHIO
LAKE COUNTY
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
DECEMBER 31, 1998

	GOVERNMENTAL FUND TYPES			PROPRIETARY FUND TYPE		FIDUCIARY FUND TYPES	ACCOUNT GROUPS		Totals (Memorandum Only)
	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Enterprise Fund	Expendable Trust and Agency Funds	General Fixed Assets	General Long Term Obligations	
ASSETS AND OTHER DEBITS:									
ASSETS:									
Cash and Cash Equivalents	\$493,778	\$992,740	\$162,765	\$942,766	\$167,873	\$190,838	\$0	\$0	\$2,950,760
Investments	86,401	106,969	0	128,326	0	0	0	0	321,696
Receivables:									
Taxes	925,262	772,977	74,333	0	0	0	0	0	1,772,572
Accounts	6,533	155	0	2,516	74,230	0	0	0	83,434
Special Assessments	0	0	459,308	0	0	0	0	0	459,308
Interest	11,993	20	0	1,893	0	0	0	0	13,906
Intergovernmental Receivables	141,873	135,931	10,252	163,247	0	210	0	0	451,513
Inventory of Supplies at Cost	6,706	23,075	0	0	0	0	0	0	29,781
Prepaid Items	34,104	140	0	0	0	0	0	0	34,244
Restricted Assets:									
Cash with Fiscal Agent	0	0	0	0	0	29,641	0	0	29,641
Fixed Assets (Net of Accumulated Depreciation)	0	0	0	0	1,421,415	0	5,409,683	0	6,831,098
Other Debits:									
Amount Available in Debt Service Funds	0	0	0	0	0	0	0	173,017	173,017
Amount to be Provided for									
General Long - Term Obligations	0	0	0	0	0	0	0	1,509,634	1,509,634
TOTAL ASSETS & OTHER DEBITS:	\$1,706,650	\$2,032,007	\$706,658	\$1,238,748	\$1,663,518	\$220,689	\$5,409,683	\$1,682,651	\$14,660,604

The notes to the general purpose financial statements are an integral part of this statement.

THE CITY OF WILLOUGHBY HILLS, OHIO
LAKE COUNTY
COMBINED BALANCE SHEET(Continue)
ALL FUND TYPES AND ACCOUNT GROUPS
DECEMBER 31, 1998

	GOVERNMENTAL FUND TYPES			PROPRIETARY FUND TYPE		FIDUCIARY FUND TYPES		ACCOUNT GROUPS		Totals (Memorandum Only)
	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Enterprise Fund	Expendable Trust and Agency Funds	General Fixed Assets	General Long Term Obligations		
LIABILITIES, EQUITY & OTHER CREDITS:										
LIABILITIES:										
Accounts Payable	\$87,274	\$28,507	0	\$41	\$46,127	\$0	\$0	\$0		\$161,949
Accrued Wages and Benefits	219,917	5,832	0	0	0	0	0	0		225,749
Intergovernmental Payables	424	0	0	0	0	0	0	0		424
Due to Others	0	0	0	0	0	202,626	0	0		202,626
Deferred Revenue	427,413	772,977	533,641	42,444	0	0	0	0		1,776,475
Compensated Absences Payable	0	0	0	0	0	0	0	496,120		496,120
Capital Leases Payable	0	0	0	0	0	0	0	281,615		281,615
General Obligation Bonds Payable	0	0	0	0	0	0	0	565,286		565,286
Special Assessment Bonds Payable	0	0	0	0	0	0	0	0		0
with Governmental Commitment	0	0	0	0	0	0	0	327,714		327,714
Police/Fire Pension Accrued Liability	0	0	0	0	0	0	0	11,916		11,916
TOTAL LIABILITIES:	735,028	807,316	533,641	42,485	46,127	202,626	0	1,682,651		4,049,874
EQUITY & OTHER CREDITS:										
Investment in General Fixed Assets	0	0	0	0	0	0	5,409,683	0		5,409,683
Contributed Capital	0	0	0	0	453,044	0	0	0		453,044
Retained Earnings - Unreserved	0	0	0	0	1,164,347	0	0	0		1,164,347
Fund Balances:										
Reserve for Encumbrances	243,243	373,858	0	14,842	0	0	0	0		631,943
Reserve for Supplies Inventory	6,706	23,075	0	0	0	0	0	0		29,781
Reserve for Prepaid Items	34,104	140	0	0	0	0	0	0		34,244
Reserve for Debt Service	0	0	173,017	0	0	0	0	0		173,017
Unreserved:										
Undesignated	687,569	827,618	0	1,181,421	0	18,063	0	0		2,714,671
TOTAL EQUITY & OTHER CREDITS:	971,622	1,224,691	173,017	1,196,263	1,617,391	18,063	5,409,683	0		10,610,730
TOTAL LIABILITIES, EQUITY AND OTHER CREDITS:	\$1,706,650	\$2,032,007	\$706,658	\$1,238,748	\$1,663,518	\$220,689	\$5,409,683	\$1,682,651		\$14,660,604

The notes to the general purpose financial statements are an integral part of this statement.

THE CITY OF WILLOUGHBY HILLS, OHIO
LAKE COUNTY
COMBINED STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 1998

GOVERNMENTAL FUND TYPES						
	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Expendable Trust Funds	Totals (Memorandum Only)
REVENUES:						
Tax Revenue	\$3,391,720	\$770,381	\$0	\$26,655	0	\$4,188,756
Intergovernmental Revenues	768,022	553,139	10,252	445,352	0	1,776,765
Charges for Services	45,183	43,453	0	0	0	88,636
Licenses and Permits	124,748	0	0	3,700	0	128,448
Investment Earnings	90,000	270	0	23,331	0	113,601
Special Assessments	0	0	51,837	0	0	51,837
Fines and Forfeitures	314,191	0	0	0	2,960	317,151
All Other Revenues	54,447	35,676	0	180	0	90,303
Total Revenues	4,788,311	1,402,919	62,089	499,218	2,960	6,755,497
EXPENDITURES						
Current:						
Security of Persons and Property	2,817,068	387,956	0	0	428	3,205,452
Leisure Time Activities	91,509	55,140	0	0	2,808	149,457
Community Environment	165,651	0	0	0	0	165,651
Transportation	455,552	423,882	0	0	0	879,434
General Government	1,016,501	10,231	12,950	41	0	1,039,723
Capital Outlay	0	0	0	85,153	0	85,153
Debt Service:						
Principal Retirement	0	0	92,000	0	0	92,000
Interest and Fiscal Charges	0	0	61,478	0	0	61,478
Total Expenditures	4,546,281	877,209	166,428	85,194	3,236	5,678,348
Excess (Deficiency) of Revenues Over (Under) Expenditures	242,030	525,710	(104,339)	414,024	(276)	1,077,149
Other Financing Sources (Uses):						
Proceeds from Sale of Fixed Assets	312	1,565	0	0	0	1,877
Operating Transfers-In	0	10,000	0	229,433	11,000	250,433
Operating Transfers-Out	(28,117)	(222,316)	0	0	0	(250,433)
Total Other Financing Sources and (Uses)	(27,805)	(210,751)	0	229,433	11,000	1,877
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Uses	214,225	314,959	(104,339)	643,457	10,724	1,079,026
Fund Balance, Beginning of Year (Restated)	772,056	902,507	277,356	552,806	7,339	2,512,064
Increase/(Decrease) in Inventory Reserve	(14,659)	7,225	0	0	0	(7,434)
Fund Balance, End of Year	\$971,622	\$1,224,691	\$173,017	\$1,196,263	\$18,063	\$3,583,656

The notes to the general purpose financial statements are an integral part of this statement.

THE CITY OF WILLOUGHBY HILLS, LAKE COUNTY
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP) BUDGETARY BASIS -
 ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPE
 FOR THE YEAR ENDED DECEMBER 31, 1998

	GENERAL FUND			SPECIAL REVENUE FUNDS		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
REVENUES:						
Taxes	\$3,250,894	\$3,381,955	\$131,061	\$743,790	\$770,381	\$26,591
Intergovernmental Revenues	804,932	861,389	56,457	640,631	697,653	57,022
Charges for Services	67,483	57,833	(9,650)	42,050	43,371	1,321
Licenses & Permits	108,100	124,748	16,648	0	0	0
Investment Earnings	80,000	88,392	8,392	0	250	250
Special Assessments	0	0	0	0	0	0
Fines & Forfeitures	396,000	314,379	(81,621)	0	0	0
All Other Revenues	27,500	49,194	21,694	12,460	35,676	23,216
Total Revenues	4,734,909	4,877,890	142,981	1,438,931	1,547,331	108,400
EXPENDITURES:						
Current:						
Security of Persons and Property	3,053,662	3,009,900	43,762	482,010	439,039	42,971
Leisure Time Activities	80,850	92,509	(11,659)	80,517	60,531	19,986
Community Environment	163,855	171,482	(7,627)	0	0	0
Transportation	600,804	523,363	77,441	1,169,811	736,255	433,556
General Government	1,087,341	1,045,085	42,256	49,000	41,210	7,790
Capital Outlay	0	0	0	0	0	0
Debt Service:						
Principal Retirement	0	0	0	0	0	0
Interest and Fiscal Charges	0	0	0	0	0	0
Total Expenditures	4,986,512	4,842,339	144,173	1,781,338	1,277,035	504,303
Excess (Deficiency) of Revenues Over (Under) Expenditures	(251,603)	35,551	287,154	(342,407)	270,296	612,703
OTHER FINANCING SOURCES (USES):						
Proceeds from Sale of Fixed Assets	5,000	312	(4,688)	5,000	1,565	(3,435)
Operating Transfers-In	0	0	0	10,000	10,000	0
Operating Transfers-(Out)	0	(28,117)	(28,117)	0	(222,316)	(222,316)
Total Other Financing Sources(Uses)	5,000	(27,805)	(32,805)	15,000	(210,751)	(225,751)
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(246,603)	7,746	254,349	(327,407)	59,545	386,952
Fund Balance, Beginning of Year (Restated)	244,684	244,684	0	503,164	503,164	0
Prior Year Encumbrances	56,131	56,131	0	136,872	136,872	0
Fund Balance, End of Year	\$54,212	\$308,561	\$254,349	\$312,629	\$699,581	\$386,952

The notes to the general purpose financial statements are an integral part of this statement.

THE CITY OF WILLOUGHBY HILLS, LAKE COUNTY
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP) BUDGETARY BASIS -
 ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPE
 FOR THE YEAR ENDED DECEMBER 31, 1998

	DEBT SERVICE FUNDS			CAPITAL PROJECTS FUNDS		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
REVENUES:						
Taxes	\$0	\$0	\$0	\$13,492	\$24,756	\$11,264
Intergovernmental Revenues	0	0	0	363,093	363,093	0
Charges for Services	0	0	0	0	0	0
Licenses & Permits	0	0	0	3,000	3,700	700
Investment Earnings	0	0	0	21,000	23,419	2,419
Special Assessments	48,980	51,837	2,857	0	0	0
Fines & Forfeitures	0	0	0	0	0	0
All Other Revenues	0	0	0	0	180	180
Total Revenues	48,980	51,837	2,857	400,585	415,148	14,563
EXPENDITURES:						
Current:						
Security of Persons and Property	0	0	0	0	0	0
Leisure Time Activities	0	0	0	0	0	0
Community Environment	0	0	0	0	0	0
Transportation	0	0	0	0	0	0
General Government	21,491	11,477	10,014	0	0	0
Capital Outlay	0	0	0	133,055	100,036	33,019
Debt Service:						
Principal Retirement	92,000	92,000	0	0	0	0
Interest and Fiscal Charges	61,508	61,478	30	0	0	0
Total Expenditures	174,999	164,955	10,044	133,055	100,036	33,019
Excess (Deficiency) of Revenues Over (Under) Expenditures	(126,019)	(113,118)	12,901	267,530	315,112	47,582
OTHER FINANCING SOURCES (USES):						
Proceeds from Sale of Fixed Assets	0	0	0	0	0	0
Operating Transfers-In	0	0	0	208,165	229,433	21,268
Operating Transfers-(Out)	0	0	0	0	0	0
Total Other Financing Sources(Uses)	0	0	0	208,165	229,433	21,268
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(126,019)	(113,118)	12,901	475,695	544,545	68,850
Fund Balance, Beginning of Year (Restated)	275,883	275,883	0	432,239	432,239	0
Prior Year Encumbrances	0	0	0	79,425	79,425	0
Fund Balance, End of Year	\$149,864	\$162,765	\$12,901	\$987,359	\$1,056,209	\$68,850

The notes to the general purpose financial statements are an integral part of this statement.

THE CITY OF WILLOUGHBY HILLS, LAKE COUNTY
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP) BUDGETARY BASIS -
 ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPE
 FOR THE YEAR ENDED DECEMBER 31, 1998

	EXPENDABLE TRUST FUNDS			TOTALS (MEMORANDUM ONLY)		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
REVENUES:						
Taxes	\$0	\$0	\$0	\$4,008,176	\$4,177,092	\$168,916
Intergovernmental Revenues	0	0	0	1,808,656	1,922,135	113,479
Charges for Services	0	0	0	109,533	101,204	(8,329)
Licenses & Permits	0	0	0	111,100	128,448	17,348
Investment Earnings	0	0	0	101,000	112,061	11,061
Special Assessments	0	0	0	48,980	51,837	2,857
Fines & Forfeitures	1,800	2,750	950	397,800	317,129	(80,671)
All Other Revenues	0	0	0	39,960	85,050	45,090
Total Revenues	1,800	2,750	950	6,625,205	6,894,956	269,751
EXPENDITURES:						
Current:						
Security of Persons and Property	6,000	428	5,572	3,541,672	3,449,367	92,305
Leisure Time Activities	2,808	2,808	0	164,175	155,848	8,327
Community Environment	0	0	0	163,855	171,482	(7,627)
Transportation	0	0	0	1,770,615	1,259,618	510,997
General Government	0	0	0	1,157,832	1,097,772	60,060
Capital Outlay	0	0	0	133,055	100,036	33,019
Debt Service:						
Principal Retirement	0	0	0	92,000	92,000	0
Interest and Fiscal Charges	0	0	0	61,508	61,478	30
Total Expenditures	8,808	3,236	5,572	7,084,712	6,387,601	697,111
Excess (Deficiency) of Revenues Over (Under) Expenditures	(7,008)	(486)	6,522	(459,507)	507,355	966,862
OTHER FINANCING SOURCES (USES):						
Proceeds from Sale of Fixed Assets	0	0	0	10,000	1,877	(8,123)
Operating Transfers-In	11,000	11,000	0	229,165	250,433	21,268
Operating Transfers-(Out)	0	0	0	0	(250,433)	(250,433)
Total Other Financing Sources(Uses)	11,000	11,000	0	239,165	1,877	(237,288)
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	3,992	10,514	6,522	(220,342)	509,232	729,574
Fund Balance, Beginning of Year (Restated)	7,339	7,339	0	1,463,309	1,463,309	0
Prior Year Encumbrances	0	0	0	272,428	272,428	0
Fund Balance, End of Year	\$11,331	\$17,853	\$6,522	\$1,515,395	\$2,244,969	\$729,574

The notes to the general purpose financial statements are an integral part of this statement.

THE CITY OF WILLOUGHBY HILLS, OHIO
 LAKE COUNTY
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
 RETAINED EARNINGS - PROPRIETARY FUND TYPE
 FOR THE YEAR ENDED DECEMBER 31, 1998

	ENTERPRISE FUND
<u>Operating Revenues:</u>	
Charges for Services	\$381,563
Total Operating Revenues	381,563
<u>Operating Expenses:</u>	
Personal Services	4,024
Contractual Services	390,648
Depreciation	36,502
Total Operating Expenses	431,174
Net Loss	(49,611)
Retained Earnings at Beginning of Year	1,213,958
Retained Earnings at End of Year	\$1,164,347

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

THE CITY OF WILLOUGHBY HILLS, OHIO
LAKE COUNTY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 1998

	ENTERPRISE FUND
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Customers	\$386,829
Cash Payments to Suppliers for Goods and Services	(346,817)
Cash Payments to Employees for Services	(4,024)
Net Cash Provided by Operating Activities	35,988
Net Increase in Cash and Cash Equivalents	35,988
Cash and Cash Equivalents at the Beginning of Year	131,885
Cash and Cash Equivalents at the End of Year	\$167,873
 <u>Reconciliation of Operating Loss to Net Cash Provided by Operating Activities:</u>	
Operating Loss	(\$49,611)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities	
Depreciation Expense	36,502
Changes in Assets and Liabilities:	
Decrease in Accounts Receivable	5,266
Increase in Accounts Payable	44,847
Decrease in Intergovernmental Payables	(1,016)
Total Adjustments	85,599
Net Cash Provided by Operating Activities	\$35,988

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

CITY OF WILLOUGHBY HILLS, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1998

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Willoughby Hills, Ohio (the City) is a home-role municipal corporation created under the laws of the State of Ohio. The City operates under its own Charter. The current Charter, which provides for a Council-Mayor form of government, was adopted on September 15, 1970.

The accompanying general purpose financial statements of the City present the financial position of the various fund types and account groups, the results of operations of the various fund types, and the cash flows of the proprietary fund. The financial statements are presented as of December 31, 1998 and for the year then ended and have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to local governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification).

A. Reporting Entity

The accompanying general purpose financial statements comply with the provisions of GASB Statement No. 14, "The Financial Reporting Entity," in that the financial statements include all organizations, activities, functions and component units for which the City (the primary government) is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing body and either (1) the City's ability to impose its will over the organization or (2) the potential that the organization will provide a financial benefit to or impose a financial burden on the City.

Based on the foregoing, the City's financial reporting entity has no component units but includes all funds, account groups, agencies, boards and commissions that are part of the primary government, which includes the following services: police and fire protection, highway and streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

B. Basis of Presentation - Fund Accounting

The accounting system is organized and operated on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures (expenses). The various funds are summarized by type in the general purpose financial statements. The following fund types and account groups are used by the City:

Governmental Funds - Those funds through which most governmental functions typically are financed. The acquisition, use and balances of the City's expendable financial resources and the related current liabilities (except those accounted for in the proprietary fund) are accounted for through governmental funds. All governmental fund types are accounted for using a current financial resources measurement focus. The following are the City's governmental fund types:

General Fund - This fund is used to account for all financial resources except those accounted for in another fund. The general fund balance is available to the City for any purpose provided it is expended or transferred according to the general laws of Ohio, and the limitations of the City Charter.

Special Revenue Funds - These funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditure for specified purposes.

CITY OF WILLOUGHBY HILLS, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1998
(Continued)

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

Debt Service Funds - These funds are used for the accumulation of resources for, and the payment of, general obligation and special assessment long-term debt principal and interest (other than that accounted for in the proprietary fund).

Capital Projects Funds - These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

Proprietary Fund

Enterprise Fund - This fund is used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The enterprise fund is accounted for on an "economic resources" measurement focus. This measurement focus provides that all assets and all liabilities associated with the operation of this fund are included on the balance sheet. Fund equity (i.e. net assets) is segregated into contributed capital and retained earnings components. The enterprise fund operating statements present increases (i.e. revenues) and decreases (i.e. expenses) in net total assets. The sewer/pump station fund is the only enterprise fund.

Fiduciary Funds

Trust and Agency Funds - These funds are used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The City maintains both expendable trust funds and agency funds. The expendable trust funds are accounted for and reported similarly to governmental funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Account Groups

To make a clear distinction between fixed assets related to specific funds and those of the general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group - This account group is established to account for fixed assets of the City, other than those accounted for in the proprietary fund.

General Long-Term Obligations Account Group - This account group is established to account for all long-term debt and other long-term obligations of the City except that accounted for in the proprietary fund.

CITY OF WILLOUGHBY HILLS, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1998
(Continued)

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Accounting

Basis of accounting represents the methodology utilized in the recognition of revenues and expenditures or expenses in the accounts and reported in the financial statements and relates to the timing of the measurements made. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

The modified accrual basis of accounting is followed by the governmental funds and expendable trust and agency funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, which for the City is considered to be 60 days after year end. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt, which is recognized when due.

Revenue considered susceptible to accrual at year end includes, income taxes, interest on investments, and state levied locally shared taxes (including motor vehicle license fees, gasoline tax, and local government assistance). Other revenue, including licenses, permits, certain charges for services, and miscellaneous revenues, is recorded as revenue when received in cash because it is generally not measurable until actually received.

Special assessment installments, including related accrued interest, which are measurable but not available at December 31 are recorded as deferred revenue. Property taxes measurable as of December 31, 1998 but which are not intended to finance 1998 operations and delinquent property taxes, whose availability is indeterminate, are recorded as deferred revenue as further described in Note 4.

The accrual basis of accounting is utilized for reporting purposes by the proprietary fund. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

Pursuant to GASB Statement No. 20, *"Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting,"* the City follows GASB guidance as applicable to proprietary funds and FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

D. Budgetary Process

The annual budgetary process is prescribed by Charter and by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriation ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation ordinance are subject to amendment throughout the year.

CITY OF WILLOUGHBY HILLS, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1998
(Continued)

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Process (Continued)

All funds, other than agency funds, are legally required to be budgeted and appropriated; however, only governmental funds are required to be reported. The legal level of budgetary control is by fund. Budgetary control is maintained by not permitting expenditures to exceed appropriations at the fund level. Administrative control is maintained through the establishment of more detailed line-item budgets. Budgetary modifications at the fund level may only be made by ordinance of the City Council. During 1998, all appropriations were approved as required and all funds completed the year within their legally authorized appropriations.

1. Tax Budget

By July 15, the Mayor submits an annual tax budget for the following fiscal year to City Council for consideration and passage. The adopted budget is submitted to the County Auditor, as secretary of the County Budget Commission, by July 20th of each year, for the period January 1 to December 31 of the following year.

2. Estimated Resources

The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Budget Commission then certifies its actions to the City by September 1st of each year. As part of the certification process, the City receives an official certificate of estimated resources which states the projected receipts by fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include any unencumbered fund balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed or fall short of current estimates. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 1998.

3. Appropriations

A temporary appropriation ordinance to control expenditures may be passed on or about January 1st of each year for the period January 1 through March 31. An annual appropriation ordinance must be passed by April 1st of each year for the period January 1 through December 31. The appropriation ordinance establishes spending controls at the fund level, and may be modified during the year by ordinance of the City Council. Total fund appropriations may not exceed the current estimated resources as certified by the County Budget Commission. Expenditures may not legally exceed budgeted appropriations at the fund level. Administrative control is maintained through the establishment of more detailed line-item budgets. The budgetary figures which appear in the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances--Budget and Actual--All Governmental Fund Types are provided on the budgetary basis to provide a comparison of actual results with the final budget, including all amendments and modifications.

CITY OF WILLOUGHBY HILLS, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1998
(Continued)

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Process (Continued)

4. Encumbrances

As part of formal budgetary control, purchase orders, contracts and other commitments for expenditures are encumbered and recorded as the equivalent of expenditures (budget basis) in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. However, on the GAAP basis of accounting, encumbrances do not constitute expenditures or liabilities and are reported as reservations of fund balances for governmental funds in the accompanying general purpose financial statements.

5. Lapsing of Appropriations

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the subsequent fiscal year and need not be reappropriated.

6. Budgetary Basis of Accounting

The City's budgetary process accounts for certain transactions on a basis other than generally accepted accounting principles (GAAP). The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recorded. Under the budgetary basis, revenues are recorded when received in cash and expenditures when encumbered. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting.

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the governmental and expendable trust funds:

CITY OF WILLOUGHBY HILLS, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1998
(Continued)

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Process (Continued)

6. Budgetary Basis of Accounting (Continued)

Excess (Deficiency) of Revenues and Other Financing Sources
Over (Under) Expenditures and Other Financing Uses

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>
GAAP Basis	\$214,225	\$314,959	(\$104,339)	\$643,457	\$10,724
Increase (Decrease):					
Accrued Revenues at December 31, 1998 received during 1999	(658,248)	(136,106)	(10,252)	(125,212)	(210)
Accrued Revenues at December 31, 1997 received during 1998	747,827	280,518	0	41,142	0
Accrued Expenditures at December 31, 1998 Paid during 1999	307,615	34,339	0	41	0
Accrued Expenditures at December 31, 1997 Paid during 1998	(338,120)	(33,897)	0	0	0
1997 Prepays for 1998	40,169	0	1,473	0	0
1998 Prepays for 1999	(34,104)	(140)	0	0	0
Outstanding Encumbrances	(271,618)	(400,128)	0	(14,883)	0
Budget Basis	<u>\$7,746</u>	<u>\$59,545</u>	<u>(\$113,118)</u>	<u>\$544,545</u>	<u>\$10,514</u>

E. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits, STAR Ohio and short-term certificates of deposit. The certificates of deposit are considered cash equivalents because they are highly liquid investments with original maturity dates of three months or less.

The City pools its cash for investment and resource management purposes. Each fund's equity in pooled cash and investments represents the balance on hand as if each had maintained its own cash and cash investment account. For purposes of the statement of cash flows, the proprietary fund considers its share of equity in pooled certificates of deposit to be cash equivalents. See Note 3, "Cash, Cash Equivalents and Investments."

CITY OF WILLOUGHBY HILLS, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1998
(Continued)

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Investments

Investment procedures and interest allocations are restricted by provisions of the Ohio Constitution and the Ohio Revised Code. In accordance with GASB Statement No. 31, "*Accounting and Financial Reporting for Certain Investments and for External Investment Pools*", the City records all its investments at fair value except for nonparticipating investment contracts (repurchase agreements and certificates of deposit) which are reported at cost. The City allocates interest among the various funds based upon the fund's cash balance at the date of investment. See Note 3, "Cash, Cash Equivalents and Investments."

The City has invested funds in the STAR Ohio during 1998. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 1998.

G. Inventory

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

H. Fixed Assets and Depreciation

The accounting and reporting treatment applied to fixed assets is determined by their ultimate use.

1. Property, Plant and Equipment - General Governmental Purposes

Fixed assets acquired or constructed for general governmental purposes are recorded as expenditures in the governmental funds and are capitalized at cost (or estimated historical cost for assets not purchased in recent years) in the General Fixed Assets Account Group. Contributed fixed assets are recorded at fair market value at the date received.

Fixed assets consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems, have not been capitalized. Such assets normally are immovable and of value only to the City. Therefore, the purpose of stewardship for capital expenditures can be satisfied without recording these assets.

General fixed asset values were initially determined at December 31, 1985 by identifying historical costs when such information was available. In cases where information supporting original cost was not obtainable, estimated historical costs were developed. For certain fixed assets, the estimates were arrived at by indexing estimated current costs back to the estimated year of acquisition.

The City has elected not to record depreciation in the General Fixed Assets Account Group.

CITY OF WILLOUGHBY HILLS, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1998
(Continued)

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Fixed Assets and Depreciation (Continued)

2. Property, Plant and Equipment - Proprietary Fund

Property, plant and equipment acquired by the proprietary fund is stated at cost (or estimated historical cost), including interest capitalized during construction, and architectural and engineering fees where applicable. Contributed fixed assets are recorded at fair market value at the date received.

Depreciation has been provided using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Estimated Lives (Years)</u>
Buildings	15 - 25
Improvements other than Buildings	25 - 50
Machinery, equipment, furniture and fixtures	3 - 10

I. Long-Term Obligations

Long-term liabilities are being repaid from the following funds:

<u>Obligation</u>	<u>Fund</u>
General Obligation Bonds	Debt Service Funds (General Obligation Bond Retirement Fund)
Special Assessment Bonds	Debt Service Funds (Special Assessment Bond Retirement Fund)
Capital Leases	General Fund
Police/Fire Pension Obligation	Police Pension Fund
Compensated Absences	General Fund

J. Compensated Absences

All full-time City employees earn vacation at varying rates based upon length of service. Upon separation from the City, the employee (or his estate) is paid for his accumulated unused vacation leave balance.

Sick leave is accrued using the vesting method, whereby the liability is recorded on the basis of leave accumulated by employees who are eligible to receive termination payments, as of the balance sheet date, and on leave balances accumulated by other employees who are expected to become eligible in the future to receive such payments.

CITY OF WILLOUGHBY HILLS, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1998
(Continued)

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Compensated Absences (Continued)

In accordance with GASB Statement No. 16, "*Accounting for Compensated Absences*," the City records a liability for vacation time and sick leave when the obligation is attributable to services previously rendered, to rights that vest or accumulate, and where payment of the obligation is probable and can be reasonably determined. For governmental funds, that portion of unpaid compensated absences that is expected to be paid using expendable, available resources is reported as an expenditure in the fund from which the individual earning the leave is paid, and a corresponding liability is reflected in the account "compensated absences payable." The remaining portion of the liability is reported in the General Long-Term Obligations Account Group.

K. Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds. Interfund transactions are generally classified as follows:

- Operating transfers are reported as "Other Financing Sources and Uses" in the governmental funds, as "Operating Transfers In" by the recipient fund, and "Operating Transfers Out" by the disbursing fund.
- Residual equity transfers are nonroutine or nonrecurring transfers between funds and are reported as additions to or deductions from the fund equity balance. The City did not perform any residual equity transfers in 1998.

Transactions that would be treated as revenues and expenditures/expenses if they involved organizations external to the City are similarly treated when involving other funds of the City. Transactions that constitute a reimbursement to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures in the reimbursing fund, and as a reduction of expenditures in the fund that is reimbursed.

L. Reservations of Fund Balance

Reserves indicate that a portion of fund balance is not available for expenditure or is legally segregated for a specific future use. Fund balances are reserved for inventories of supplies and materials, prepaid items, debt service and encumbered amounts that have not been accrued at year end.

M. Contributed Capital

Proprietary fund type contributed capital is recorded at the fair market value of the related assets at the date received. Depreciation on contributed fixed assets resulting from grants, entitlements and shared revenues is closed to contributed capital. There was no change in contributed capital during 1998.

CITY OF WILLOUGHBY HILLS, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1998
(Continued)

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Total Columns on Combined Financial Statements - Overview

Total columns on the Combined Statements-Overview are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns does not present financial position or results of operations or cash flows in conformity with generally accepted accounting principles, nor is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 2 - CHANGES IN ACCOUNTING PRINCIPLE/RESTATEMENT OF FUND BALANCE

A. Prior Period Adjustments

An adjustment was made to the beginning balance of the Law Enforcement Trust Fund reported within the Expendable Funds and the Construction Deposits within the Agency Funds. This was due to an accounting error in which the fines and forfeitures was incorrectly classified as an increase in construction deposits. This creating an overstated balance in the Agency Funds by \$4,531 in the previous year and an understated balance in the Expendable Trust Funds by the same amount. The Construction Deposits balance changed from \$180,248 to \$175,717 and the Law Enforcement Trust Fund balance changed from having no balance to having a balance of \$4,531 as of December 31, 1997.

An adjustment was made to the beginning balance of the General Fixed Assets Account Group. This was due to an accounting error in which the capital leases were not classified as an increase in machinery and equipment in the General Fixed Assets Account Group in the year of inception. This created an understated balance of \$346,343 for machinery and equipment in the previous year. The beginning balance for machinery and equipment change from \$2,317,845 to \$2,664,188.

B. Implementation of GASB Statement No. 31

During fiscal year 1998, the City implemented GASB Statement No. 31, *"Accounting and Financial Reporting for Certain Investments and for External Investments Pools"*. The statement established accounting and reporting guidelines for government investments and investment pools. Certain investments which were reported at cost in previous years are now reported at fair value. The implementation has not required a restatement of fund balance at December 31, 1997.

C. Implementation of GASB Statement No. 32

The Internal Revenue Code previously required that Section 457 deferred compensation plan assets remain the property of the employer government until available to the employee or beneficiary. Under these regulations, plan assets were recorded in the City's deferred compensation agency fund.

CITY OF WILLOUGHBY HILLS, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1998
(Continued)

**NOTE 2 - CHANGES IN ACCOUNTING PRINCIPLE/RESTATEMENT
OF FUND BALANCE (Continued)**

C. Implementation of GASB Statement No. 32 (Continued)

Recent changes to the Internal Revenue Code require Section 457 plan assets to be held in trust for the exclusive benefit of the employees. These plans must establish trust agreements prior to January 1, 1999. During 1998, the Ohio Public Employees Deferred Compensation Program and Aetna Deferred Compensation Program (the "Plans") implemented a Trust Agreement to hold all Plan assets for the employer, whenever contributed, for the exclusive benefit of participants and their beneficiaries. Accordingly, the City has implemented GASB Statement No. 32, "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans" which requires that such assets held in *trust* not be reflected on the government's financial statements. Inasmuch as the City no longer has an accounting fiduciary responsibility for the deferred compensation assets, the beginning balance of the agency funds has been restated to show the reduction of \$760,270 representing the balance of deferred compensation at December 31, 1997. The adjustment resulted in the following changes to the agency funds asset/liability balances at December 31, 1997:

Expendable Trust Funds:

Fund Balance - December 31, 1997 (as reported)	\$2,808
Adjustment due to accounting error	<u>4,531</u>
Fund Balance - December 31, 1997 (restated)	<u>\$7,339</u>

Agency Funds:

Asset/ Liability Balance - December 31, 1997 (as reported)	\$942,198
Adjustment due to accounting error	(4,531)
Adjustment due to change in accounting principle	<u>(760,270)</u>
Asset/ Liability balance - December 31, 1997 (restated)	<u>\$177,397</u>

NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash resources of a majority of individual funds are combined to form a pool of cash and investments. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and Cash Equivalents and Investments." Ohio law requires the classification of funds held by the City into three categories.

Category 1 consists of "active" funds - those funds required to be kept in a "cash" or "cash equivalent" status for immediate use by the City. Such funds must be maintained either as cash in the City treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Category 2 consists of "inactive" funds - those funds not required for use within the current two year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing no later than the end of the current period of designation of depositories.

Category 3 consists of "interim" funds - those funds which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim funds may be invested or deposited in the following securities:

- United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principle or interest by the United States;

CITY OF WILLOUGHBY HILLS, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1998
(Continued)

NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

- Bonds, notes, debentures or other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal 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;
- Written repurchase agreement in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
- Interim deposits in eligible institutions applying for interim funds;
- Bonds and other obligations of the State of Ohio;
- No-load money market mutual funds consisting exclusively of obligations described in the first two bullets of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions, and
- The State Treasury Asset Reserve of Ohio (STAR Ohio).

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.

Ohio Law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the City places deposits must pledge as collateral eligible securities of aggregate fair value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 110% of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation or other legally constituted authority of any other state or any instrumentality of such county, municipal corporation or other authority. Based upon criteria described in GASB Statement No. 3 "Deposits With Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements," collateral held in single financial collateral pools with securities being held by the pledging financial institutions' agent in the pool's name are classified as Category 3.

The Governmental Accounting Standards Board has established risk categories for deposits and investments as follows:

Deposits:

- | | |
|------------|---------------------------------------------------------------------------------------------------------------------------|
| Category 1 | Insured or collateralized with securities held by the City or by its agent in the City's name. |
| Category 2 | Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name. |
| Category 3 | Uncollateralized |

CITY OF WILLOUGHBY HILLS, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1998
(Continued)

NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Investments:

- Category 1 Insured or registered, or securities held by the City or its agent in the City's name.
- Category 2 Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.
- Category 3 Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

A. Deposits

At year end the carrying amount of the City's deposits was \$1,765,555 and the bank balance was \$1,923,827. \$200,000 was covered by federal depository insurance. \$1,723,827 was uncollateralized and uninsured. Although the securities were held by the pledging financial institutions trust department or agent in the City's name and all State statutory requirements for the investment of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

B. Investments

The City's investments at December 31, 1998 are summarized below:

<u>Non-Categorized Investments</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
STAR Ohio	\$1,536,542	\$1,536,542

C. Reconciliation of Cash, Cash Equivalents and Investments

The classification of cash, cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. Certificates of deposit with original maturities of three months or less are treated as cash and cash equivalents. The classification of cash and cash equivalents (deposits) for purposes of this note is based on criteria set forth in GASB Statement No. 3.

A reconciliation between classifications of cash and investments on the combined financial statements and the classifications per GASB No. 3 is as follows:

	Cash and Cash	<u>Investments</u>
Per Combined Balance Sheet	\$2,980,401	\$321,696
Certificates of Deposit (with maturities of more than 3 months)	321,696	(321,696)
Investments:		
STAR Ohio	<u>(1,536,542)</u>	<u>1,536,542</u>
Per GASB Statement No. 3	<u>\$1,765,555</u>	<u>\$1,536,542</u>

* Includes Cash with Fiscal Agent.

CITY OF WILLOUGHBY HILLS, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1998
(Continued)

NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

C. Reconciliation of Cash, Cash Equivalents and Investments (Continued)

STAR Ohio is not classified by degree of credit risk since it is not evidenced by securities that exist in physical or book-entry form.

NOTE 4 - TAXES

A. Property Taxes

Property taxes include amounts levied against all real estate and public utility property, and tangible personal property which is used in business, located in the City. Real property taxes (other than public utility) collected during 1998 were levied after October 1, 1997 on assessed values as of January 1, 1997, the lien date. Assessed values are established by the county auditor at 35 percent of appraised market value. All property is required to be reappraised every six years and equalization adjustments are made in the third year following reappraisal. The last reappraisal was completed in 1997. Real property taxes are payable annually or semi-annually. The first payment is due January 20, with the remainder payable by June 20.

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

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property is currently assessed at 100 percent of its true value. Public utility property taxes are payable on the same dates as real property described previously.

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

The full tax rate for all City operations for the year ended December 31, 1998 was \$7.80 per \$1,000 of assessed value. The assessed value upon which the 1998 property tax receipts were based was \$213,932,624. This amount constitutes \$195,852,810 in real property assessed value, \$6,554,160 in public utility assessed value and \$11,525,654 in tangible personal property assessed value.

Ohio law prohibits taxation of property from all taxing authorities in excess of 1% of assessed value without a vote of the people. Under current procedures, the City's share is .0078% (7.80 mills) of assessed value.

CITY OF WILLOUGHBY HILLS, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1998
(Continued)

NOTE 4 - TAXES (Continued)

B. Income Tax

The City levies a tax of 1.5% on all salaries, wages, commissions and other compensation and on net profits earned within the City as well as on incomes of residents earned outside the City. In the latter case, the City allows a credit of 100% of the tax paid to another municipality, up to a limit of 1% of the total amount assessed.

Employers within the City are required to withhold income tax on employees' compensation and remit the tax to the City either monthly or quarterly, as required. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. All income tax proceeds are received by the General Fund.

NOTE 5 - RECEIVABLES

Receivables at December 31, 1998 consisted of taxes, interest, accounts receivable, special assessments and intergovernmental receivables arising from shared revenues. All receivables other than those offset by deferred revenues are considered collectible in full.

NOTE 6 - OPERATING TRANSFERS

Following is a summary of operating transfers in and out for all funds for 1998:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund:	\$0	(\$28,117)
Special Revenue Funds:		
Road Levy Fund	0	(208,165)
Park Maintenance Fund	0	(14,151)
Recreation Fund	<u>10,000</u>	<u>0</u>
Total Special Revenue Funds	10,000	(222,316)
Capital Projects Funds:		
Bishop Road Widening Project	124,877	0
Chardon Road Widening Project	83,288	0
Recreation Development Project	<u>21,268</u>	<u>0</u>
Total Special Revenue Funds	229,433	0
Expendable Trust Fund:		
Underground Storage Trust	<u>11,000</u>	<u>0</u>
Total Expendable Trust Fund	<u>11,000</u>	<u>0</u>
Total	<u>\$250,433</u>	<u>(\$250,433)</u>

CITY OF WILLOUGHBY HILLS, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1998
(Continued)

NOTE 7 - FIXED ASSETS

A. General Fixed Assets

Summary by category of changes in general fixed assets:

<u>Category</u>	<u>December 31, 1997</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31, 1998</u>
Land	\$340,820	\$0	\$0	\$340,820
Buildings and Improvements	2,230,672	61,562	0	2,292,234
Machinery and Equipment	<u>2,664,188</u>	<u>112,441</u>	<u>0</u>	<u>2,776,629</u>
Totals	<u>\$5,235,680</u>	<u>\$174,003</u>	<u>\$0</u>	<u>\$5,409,683</u>

B. Proprietary Fixed Assets

Summary by category at December 31, 1998:

<u>Category</u>	<u>Historic Cost</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>
Buildings	\$233,000	(\$53,330)	\$179,670
Improvements	<u>1,583,467</u>	<u>(341,722)</u>	<u>1,241,745</u>
Property, Plant and Equipment	<u>\$1,816,467</u>	<u>(\$395,052)</u>	<u>\$1,421,415</u>

NOTE 8 - DEFINED BENEFIT PENSION PLANS

All of the City's full-time employees participate in one of two separate retirement systems which are cost-sharing multiple employer defined benefit pension plans.

A. Public Employees Retirement System (the "PERS of Ohio")

The following information was provided by the PERS of Ohio to assist the City in complying with GASB Statement No. 27, "Accounting for Pensions by State and Local Government Employers."

All employees of the City, except full-time uniformed police officers and full-time firefighters, participate in the PERS of Ohio, a cost-sharing multiple employer defined benefit pension plan. The PERS of Ohio provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Chapter 145 of the Ohio Revised Code provides statutory authority to establish and amend benefits. The Public Employees Retirement System of Ohio issues a stand-alone financial report that includes financial statements and required supplementary information for the PERS of Ohio. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085 or 1-800-222-7377.

CITY OF WILLOUGHBY HILLS, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1998
(Continued)

NOTE 8 - DEFINED BENEFIT PENSION PLANS (Continued)

A. Public Employees Retirement System (the "PERS of Ohio")(Continued)

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 8.5%. The 1998 employer contribution rate for local government employer units was 13.55%, of covered payroll, 9.35% to fund the pension and 4.2% to fund health care. The contribution requirements of plan members and the City are established and may be amended by the Public Employees Retirement Board. The City's contributions to the PERS of Ohio for the years ending December 31, 1998, 1997 and 1996 were \$190,329, \$180,315 and \$195,667, respectively, which were equal to the required contributions for each year.

The PERS of Ohio provides postemployment health care benefits to age and service retirants with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirants. Health care coverage for disability recipients is also available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No.12. A portion of each employer's contribution to the PERS of Ohio is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority requiring public employers to fund postemployment health care through their contributions to the PERS of Ohio. The portion of the 1998 employer contribution rate (identified above) that was used to fund health care for the year 1998 was 4.2% of covered payroll which amounted to \$58,995.

Other Postemployment Benefits (OPEB) are financed through employer contributions and investment earnings thereon. Funding and accounting were on a pay-as-you-go basis. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions are expected to be sufficient to sustain the program indefinitely. Expenditures for other postemployment benefits during 1998 were \$440,596,663. As of December 31, 1998, the unaudited estimated net assets available for future OPEB payments were \$9,447,325,318. The number of benefit recipients eligible for OPEB at December 31, 1998 was 115,579.

During 1997, the Retirement Board adopted a new calculation method for determining employer contributions applied to OPEB. Under the new method, effective January 1, 1998, employer contributions, equal to 4.2% of member covered payroll, are used to fund health care expenses. Under the prior method, accrued liabilities and normal cost rates were determined for retiree health care coverage.

B. Police and Firemen's Disability and Pension Fund (the PFDPF System of Ohio)

All City full-time police officers and full-time firefighters participate in the Police and Firemen's Disability and Pension Fund of Ohio (the "PFDPF System of Ohio"), a cost-sharing multiple-employer defined benefit pension plan. The PFDPF System of Ohio provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries. Contribution requirements and benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. The Police and Firemen's Disability and Pension Fund of Ohio issues a stand-alone financial report that includes financial statements and required supplementary information for the PFDPF System of Ohio. Interested parties may obtain a copy by making a written request to 140 East Town Street, Columbus, Ohio 43215-5164 or by calling (614) 228-2975.

CITY OF WILLOUGHBY HILLS, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1998
(Continued)

NOTE 8 - DEFINED BENEFIT PENSION PLANS (Continued)

B. Police and Firemen's Disability and Pension Fund (the PFDPF System of Ohio) (Continued)

Plan members are required to contribute 10.0% of their annual covered salary, while employers are required to contribute 19.5% and 24.0% respectively for police officers and firefighters. The City's contributions to the PFDPF System of Ohio for the years ending December 31, 1998, 1997 and 1996 were \$174,172, \$142,158 and \$151,761 for police and \$113,350, \$142,797 and \$114,251 for firefighters, respectively, which were equal to the required contributions for each year.

The PFDPF System of Ohio provides postemployment health care coverage to any person who received or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school on a full-time or two-thirds basis. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No.12. The Ohio Revised Code provides that health care costs paid from the funds of the Police and Firemen's Disability and Pension Fund shall be included in the employer's contribution rate. The Ohio Revised Code also provides statutory authority allowing the Fund's Board of Trustees to provide postemployment health care coverage to all eligible individuals from the employer's contributions to the PFDPF System of Ohio.

The portion of the 1998 covered payroll that was used to fund postemployment health care benefits was \$58,057 representing 6.50% of covered payroll for police and \$30,699 representing 6.50% of covered payroll for fire. Health care funding and accounting were on a pay-as-you-go basis. In addition, since July 1, 1992 most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. As of December 31, 1997, the number of participants eligible to receive health care benefits was 11,239 for police and 9,205 for firefighters. The PFDPF System of Ohio does not provide separate data on the funded status and funding progress of postemployment health care benefits. The Fund's total health care expenses for the year ended December 31, 1997 were \$76,459,832, which is net of member contributions of \$5,331,515.

In addition to the current contribution, the City pays installments on the accrued liability incurred when the State of Ohio established the statewide pension system for police and firefighters in 1967. As of December 31, 1998, the unfunded liability of the City was \$11,916, payable in semiannual payments through the year 2035. This is an accounting liability of the City which will not vary. The liability is reported in the general long-term obligations account group.

NOTE 9 - COMPENSATED ABSENCES

As of December 31, 1998, the liability for unpaid compensated absences was \$496,120 for all funds of the City. The entire balance of compensated absences was considered long-term since no payments were anticipated which would require the use of current available financial resources. The long-term liability has been reported in the General Long-Term Obligations Account Group.

CITY OF WILLOUGHBY HILLS, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1998
(Continued)

NOTE 9 - COMPENSATED ABSENCES (Continued)

At December 31, 1998 the total accumulated unpaid sick and vacation leave time recorded in the General Long-Term Obligations Account Group was as follows:

	<u>Hours</u>	<u>Amounts</u>
Sick Leave	20,182	\$418,552
Vacation	<u>3,884</u>	<u>77,568</u>
Total	<u>24,066</u>	<u>\$496,120</u>

NOTE 10 - LONG-TERM OBLIGATIONS

Activity in the General Long-Term Obligations Account Group in 1998 was as follows:

	Balance December 31, <u>1997</u>	Issued (Retired)	Balance December 31, <u>1998</u>
General Long-Term Debt:			
General Obligation Bonds:			
7.375% Police Building Addition 1986	\$360,000	(\$40,000)	\$320,000
2.65%-5.30% Sanitary Sewerage Improvement 1993	43,586	(3,300)	40,286
2.65%-5.30% Service Garage Addition 1993	115,000	(5,000)	110,000
2.65%-4.60% Fire Truck Acquisition 1993	<u>110,000</u>	<u>(15,000)</u>	<u>95,000</u>
Total General Obligation Bonds	<u>628,586</u>	<u>(63,300)</u>	<u>565,286</u>
Special Assessment Bonds:			
7.875% Chardon Sewerage System 1987	70,000	(7,000)	63,000
2.65%-5.30% Sanitary Sewerage Improvement 1993	<u>286,414</u>	<u>(21,700)</u>	<u>264,714</u>
Total Special Assessment Bonds with Governmental Commitment	<u>356,414</u>	<u>(28,700)</u>	<u>327,714</u>
Total Long-Term Debt	<u>985,000</u>	<u>(92,000)</u>	<u>893,000</u>
Other Long-Term Obligations:			
Compensated Absences	479,287	16,833	496,120
Police/Fire Accrued Liability	12,074	(158)	11,916
Capital Leases	<u>351,323</u>	<u>(69,708)</u>	<u>281,615</u>

CITY OF WILLOUGHBY HILLS, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1998
(Continued)

Total Other Long-Term Obligations	<u>842,684</u>	<u>(53,033)</u>	<u>789,651</u>
Total General Long-Term Debt and Other Long-Term Obligations	<u>\$1,827,684</u>	<u>(\$145,033)</u>	<u>\$1,682,651</u>

The principal amount of the City's Special Assessment Debt outstanding at December 31, 1998, \$327,714 is general obligation debt (backed by the full faith and credit of the City) that is being retired with the proceeds from special assessments levied against benefitted property owners. The City is obligated to repay the debt irrespective of the amount of special assessments collected from property owners. The fund balance of \$72,829 in the Debt Service Special Assessment Bond Retirement Fund at December 31, 1998 is reserved for the retirement of outstanding special assessment bonds.

The Debt Service for the general obligation sanitary sewerage improvement bonds are paid out of the general obligation debt service fund and the special assessment sanitary sewerage improvement bonds are paid out of the special assessment debt service fund. The assets financed by the debt are carried in the Enterprise Fund while the debt is paid out of the Debt Service Funds.

General Obligation Bonds are direct obligations of the City for which its full faith, credit and resources are pledged and are payable from taxes levied on all taxable property in the City. Compensated absences will be paid by the fund from which the employee's salary is paid.

A. Future Long-Term Financing Requirements

Principal and interest requirements to retire long-term debt outstanding at December 31, 1998 are as follows:

<u>Years</u>	<u>General Obligation Bonds</u>		<u>Special Assessment Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
1999	\$63,299	\$35,289	\$28,701	\$17,916
2000	67,642	31,372	24,358	16,465
2001	67,642	27,234	24,358	15,168
2002	67,642	23,068	24,358	13,853
2003	67,642	18,874	24,358	12,520
2004-2008	168,209	42,720	114,791	41,879
2009-2013	63,210	10,050	86,790	13,800
2014-2035	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Totals	<u>\$565,286</u>	<u>\$188,607</u>	<u>\$327,714</u>	<u>\$131,601</u>

CITY OF WILLOUGHBY HILLS, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1998
(Continued)

NOTE 10 - LONG-TERM OBLIGATIONS (Continued)

<u>Years</u>	<u>Police/Fire Accrued Pension Liability</u>		<u>Capital Leases</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
1999	\$165	\$504	\$65,637	\$14,268
2000	172	498	68,459	10,961
2001	179	490	71,935	7,485
2002	187	483	75,584	3,836
2003	196	474	0	0
2004-2008	1,110	2,240	0	0
2009-2013	1,368	1,981	0	0
2014-2035	<u>8,539</u>	<u>3,898</u>	<u>0</u>	<u>0</u>
<u>Totals</u>	<u>\$11,916</u>	<u>\$10,568</u>	<u>\$281,615</u>	<u>\$36,550</u>

B. Police and Firemen's Pension Fund

The City's liability for past service costs related to the Police and Firemen's Pension Fund at December 31, 1998 was \$22,484 in principal and interest payments through the year 2035. Only the principal amount of \$11,916 is included in the General Long Term Obligations Account Group.

NOTE 11 - CAPITAL LEASE COMMITMENTS

The City is obligated under several leases accounted for as capital leases. The cost of the leased assets is accounted for in the General Fixed Assets Account Group and the related liability in the General Long- Term Obligations Account Group. The original cost of the assets under capital lease was \$370,407.

The following is a schedule of the future minimum lease payments under the capital lease together with the present value of the net minimum lease payment as of December 31, 1998.

<u>Year Ending December 31,</u>	<u>Capital Leases</u>
1999	\$79,905
2000	79,420
2001	79,420
2002	<u>79,420</u>
Minimum Lease Payments	318,165
Less: Amount representing interest at the City's incremental borrowing rate of interest	<u>(36,550)</u>
Present value of minimum lease payments	<u>\$281,615</u>

CITY OF WILLOUGHBY HILLS, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1998
(Continued)

NOTE 12 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injury to employees and natural disasters. The City has contracted with various private carriers for the provision of property damage, general liability, automotive damage, public officials liability, police liability, boiler and machinery damage/loss, umbrella liability, and crime and employee dishonesty.

Deductible levels for the various policies have been selected so as not to expose the City to excessive "first dollars" loss in the case of a claim. Deductibles range between \$250 and \$1,000 per loss for property damage. In the professional liability areas, no deductible exceeds \$2,500.

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past four years.

NOTE 13 - CONTINGENCIES

The City is a party to various legal proceedings which seek damages or injunctive relief generally incidental to its operations and pending projects. The City's management is of the opinion that the ultimate disposition of various claims and legal proceedings will not have a material effect on the financial condition of the City.

NOTE 14 - CONSTRUCTION COMMITMENTS

As of December 31, 1998, the City had the following commitments with respect to capital improvements:

<u>Capital Projects</u>	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
River Rd. Retaining Wall	\$ 51,800	July 2000
1998 Rd. Program	\$ 215,982	April 2000



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

Lausche Bldg
615 W Superior Ave
Floor 12
Cleveland OH 44113 - 1801
Telephone 216-787-3665
800-626-2297
Facsimile 216-787-3361
www.auditor.state.oh.us

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

City of Willoughby Hills
Lake County
35405 Chardon Road
Willoughby Hills, Ohio 44094-9103

To the Members of City Council:

We have audited the financial statements of the City of Willoughby Hills, Lake County, Ohio, (the City), as of and for the years ended December 31, 1999 and December 31, 1998, and have issued our report thereon dated July 28, 2000. In this report, we noted the City changed its method of accounting for investments and its deferred compensation plans, and that the City also restated the beginning fund balances for the Expendable Trust and Agency Fund Types and restated the beginning balance for machinery and equipment in the General Fixed Assets Account Group due to certain accounting errors. We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated July 28, 2000.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the City in a separate letter dated July 28, 2000.

This report is intended for the information and use of management and City Council and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro", with a large, stylized flourish at the end.

Jim Petro
Auditor of State

July 28, 2000



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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

CITY OF WILLOUGHBY HILLS

LAKE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
OCTOBER 3, 2000**