

# **City of Willowick**

**Basic Financial Statements  
December 31, 2008**





# Mary Taylor, CPA

Auditor of State

Honorable Mayor and Members of Council  
City of Willowick  
30435 Lakeshore Blvd  
Willowick, Ohio 44095

We have reviewed the *Independent Auditors' Report* of the City of Willowick, Lake County, prepared by Ciuni & Panichi, Inc., for the audit period January 1, 2008 through December 31, 2008. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA  
Auditor of State

August 11, 2009

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# **City of Willowick, Ohio**

For The Year Ended December 31, 2008

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## Independent Auditors' Report

Members of the City Council  
Willowick, Ohio

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

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

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

As described in Note 3, during the year ended December 31, 2008, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB)*, No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, No. 50, *Pension Disclosures* and SFAS 157, *Fair Value Measurements*.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2009 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

 **C&P Advisors, LLC**

Ciuni & Panichi, Inc.

Joel Strom Associates LLC

C&P Wealth Management, LLC



25201 Chagrin Boulevard  
Cleveland, Ohio 44122.5683  
p. 216.831.7171  
f. 216.831.3020  
[www.cp-advisors.com](http://www.cp-advisors.com)

Members of the City Council  
Willowick, Ohio

The management's discussion and analysis on pages 3 through 13, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Cini & Panichi, Inc.*

Cleveland, Ohio  
June 30, 2009

**City of Willowick**  
*Management's Discussion and Analysis (Unaudited)*  
*For The Fiscal Year Ended December 31, 2008*

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

### **Financial Highlights**

Key financial highlights for 2008 are as follows:

- ◆ The assets of the City of Willowick exceeded its liabilities at the close of the most recent fiscal year by \$42,073,347. Of this amount, \$5,776,693 may be used to meet the City's ongoing obligations to citizens and creditors.
- ◆ Total assets decreased by \$745,292, which represents a decrease of 1.38 percent over 2007. The most significant change was a decrease in income tax receivable of \$616,090 and a decrease in cash of \$1,052,574 or 12.06%.
- ◆ Total liabilities increased by \$310,470, which represents an increase of 2.87 percent over 2007. The main factors contributing to this increase was an increase of notes payable during the year. The City reissued notes totaling \$3,820,000. Accounts Payable also increased \$229,191 from the prior year contributing to the increase.
- ◆ In total, net assets in governmental activities decreased by \$374,448 during 2008, which represents a one percent decrease from 2007. Net assets in business-type activities decreased \$681,314 or 11.75 percent from 2007.

### **Using this Annual Financial Report**

This discussion and analysis is intended to serve as an introduction to the City of Willowick's basic financial statements. The City of Willowick's basic financial statements are comprised of three components:

- 1) Government-wide financial statements
- 2) Fund financial statements, and
- 3) Notes to the financial statements

#### ***Government-wide Financial Statements – Reporting the City of Willowick as a Whole***

##### *Statement of Net Assets and the Statement of Activities*

The Statement of Net Assets presents information on all the City of Willowick's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increase or decrease in net assets may serve as a useful indicator of whether the financial position of the City of Willowick is improving or deteriorating. However, in evaluating the overall position of the City, nonfinancial factors such as the City's tax base, change in property and income tax laws, and the condition of the capital assets should also be considered.

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

Both the Statement of Net Assets and the Statement of Activities use the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

***Fund Financial Statements***

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

***Governmental Funds***

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

**City of Willowick**  
*Management's Discussion and Analysis (Unaudited)*  
*For The Fiscal Year Ended December 31, 2008*

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The City of Willowick maintains 28 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances, for the General fund, Fire Emergency Special Revenue fund, and the Capital Improvement Capital Projects fund, all of which are considered to be major funds.

*Proprietary Funds*

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

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

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

*Fiduciary Funds*

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

*Notes to the Financial Statements*

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

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

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

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

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

**City of Willowick**  
*Management's Discussion and Analysis (Unaudited)*  
*For The Fiscal Year Ended December 31, 2008*

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Table 1 provides a summary of the City's net assets for 2008 as compared to 2007.

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

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
<b>Assets:</b>						
Current and other assets	\$ 15,148,599	\$ 15,361,127	\$ 414,616	\$ 1,204,042	\$ 15,563,215	\$ 16,565,169
Capital assets, net	<u>32,124,158</u>	<u>32,050,105</u>	<u>5,526,007</u>	<u>5,343,398</u>	<u>37,650,165</u>	<u>37,393,503</u>
<i>Total assets</i>	<u><u>47,272,757</u></u>	<u><u>47,411,232</u></u>	<u><u>5,940,623</u></u>	<u><u>6,547,440</u></u>	<u><u>53,213,380</u></u>	<u><u>53,958,672</u></u>
<b>Liabilities:</b>						
Current liabilities	5,620,200	6,003,146	189,992	177,045	5,810,192	6,180,191
Long-term liabilities:						
Due within one year	3,652,657	3,091,578	614,381	559,001	4,267,038	3,650,579
Due in more than one year	<u>1,043,399</u>	<u>985,559</u>	<u>19,404</u>	<u>13,234</u>	<u>1,062,803</u>	<u>998,793</u>
<i>Total liabilities</i>	<u><u>10,316,256</u></u>	<u><u>10,080,283</u></u>	<u><u>823,777</u></u>	<u><u>749,280</u></u>	<u><u>11,140,033</u></u>	<u><u>10,829,563</u></u>
<b>Net assets:</b>						
Invested in capital assets, net of related debt	28,669,649	29,647,039	4,916,007	4,718,398	33,585,656	34,365,437
Restricted for:						
Capital projects	139,066	2,525,941	-	-	139,066	2,525,941
Debt Service	3,356	-	-	-	3,356	-
Other purposes	2,568,576	2,472,247	-	-	2,568,576	2,472,247
Unrestricted	<u>5,575,854</u>	<u>2,650,639</u>	<u>200,839</u>	<u>1,079,762</u>	<u>5,776,693</u>	<u>3,730,401</u>
<i>Total net assets</i>	<u><u>\$ 36,956,501</u></u>	<u><u>\$ 37,330,949</u></u>	<u><u>\$ 5,116,846</u></u>	<u><u>\$ 5,798,160</u></u>	<u><u>\$ 42,073,347</u></u>	<u><u>\$ 43,129,109</u></u>

The largest portion (79.83 percent) of the City's net assets reflects its invested in capital assets, net of related debt. Capital assets include land, land improvements, buildings and improvements, machinery and equipment, vehicles and infrastructure. The City uses those capital assets to provide services to its citizens; consequently, they are not available for future spending. Capital assets, net of the related debt to acquire the assets as of December 31, 2008, were \$33,585,656. Although the City's investment is reported net of related debt, it should be noted that resources to repay the debt must be provided from other sources since capital assets may not be used to liquidate these liabilities.

An additional portion of the City's net assets (6.44 percent) represents resources that have been restricted on how they may be used. The remaining balance of unrestricted net assets \$5,776,693 may be used to meet the government's ongoing obligations to citizens and creditors.

The total net assets of the City decreased by \$1,055,762 or by 2.45 percent. The following factors were responsible for this increase:

- A decrease in cash and cash equivalents of \$1,052,574.
- An increase in intergovernmental receivable, net of \$620,700.
- A decrease in deferred revenue of \$550,813.
- An increase in accounts payable of \$229,191.
- A decrease in taxes receivable of \$616,090.

The net assets of our business-type activities decreased by \$681,314 or 11.75 percent in 2008. The City generally can only use these net assets to finance the continuing operations of the sewer system.

**City of Willowick**  
*Management's Discussion and Analysis (Unaudited)*  
For The Fiscal Year Ended December 31, 2008

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

Table 2  
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program revenues:						
Charges for services	\$ 943,975	\$ 860,101	\$ 1,424,665	\$ 1,583,177	\$ 2,368,640	\$ 2,443,278
Operating grants and contributions	128,529	91,849	-	-	128,529	91,849
Capital grants and contributions	128,731	136,139	331,220	78,559	459,951	214,698
Total program revenues	<u>1,201,235</u>	<u>1,088,089</u>	<u>1,755,885</u>	<u>1,661,736</u>	<u>2,957,120</u>	<u>2,749,825</u>
General revenues:						
Property and other local taxes	4,580,787	3,894,125	34,888	33,941	4,615,675	3,928,066
Municipal income tax	2,236,859	2,366,737	-	-	2,236,859	2,366,737
Grants and entitlements not restricted to specific programs	3,875,097	3,008,449	-	-	3,875,097	3,008,449
Investment income	284,755	449,699	-	-	284,755	449,699
Miscellaneous income	52,062	64,512	-	-	52,062	64,512
Total general revenues	<u>11,029,560</u>	<u>9,783,522</u>	<u>34,888</u>	<u>33,941</u>	<u>11,064,448</u>	<u>9,817,463</u>
Total revenues	<u>12,230,795</u>	<u>10,871,611</u>	<u>1,790,773</u>	<u>1,695,677</u>	<u>14,021,568</u>	<u>12,567,288</u>
Program expenses:						
General government	1,861,921	1,771,318	-	-	1,861,921	1,771,318
Security of persons and property	5,371,416	5,539,024	-	-	5,371,416	5,539,024
Public health and welfare	117,568	116,366	-	-	117,568	116,366
Transportation	2,398,206	1,209,849	-	-	2,398,206	1,209,849
Leisure time activities	1,107,299	1,152,161	-	-	1,107,299	1,152,161
Community development	496,885	556,073	-	-	496,885	556,073
Basic utility service	1,144,721	897,757	-	-	1,144,721	897,757
Interest and fiscal charges	107,227	5,832	-	-	107,227	5,832
Sewer	-	-	<u>2,472,087</u>	<u>2,080,774</u>	<u>2,472,087</u>	<u>2,080,774</u>
Total program expenses	<u>12,605,243</u>	<u>11,248,380</u>	<u>2,472,087</u>	<u>2,080,774</u>	<u>15,077,330</u>	<u>13,329,154</u>
Change in net assets before transfers	(374,448)	(391,031)	(681,314)	(337,746)	(1,055,762)	(761,866)
Transfers	-	(14,262)	-	<u>14,262</u>	-	-
Change in net assets	(374,448)	(391,031)	(681,314)	(370,835)	(1,055,762)	(761,866)
Net assets beginning of year	<u>37,330,949</u>	<u>37,721,980</u>	<u>5,798,160</u>	<u>6,168,995</u>	<u>43,129,109</u>	<u>43,890,975</u>
Net assets end of year	<u>\$ 36,956,501</u>	<u>\$ 37,330,949</u>	<u>\$ 5,116,846</u>	<u>\$ 5,798,160</u>	<u>\$ 42,073,347</u>	<u>\$ 43,129,109</u>

#### *Governmental Activities*

Governmental activities decreased the City's net assets by \$374,448 during 2008. Several revenue sources fund our governmental activities with the City property tax being the largest contributor. The property tax revenue for 2008 was \$4,580,787 representing an increase of \$686,662, or 17.63 percent, from 2007. In 2008 collections commenced for the voter-approved 10 year, 3 mill Street Improvement Levy. The levy generates approximately \$865,000 annually. Of the City's six voter-approved levies, three have been approved as Charter millage. Charter millage is not subject to HB 920 reductions; consequently, revenues increase and decrease with increases and decreases in property valuations.

**City of Willowick**  
*Management's Discussion and Analysis (Unaudited)*  
*For The Fiscal Year Ended December 31, 2008*

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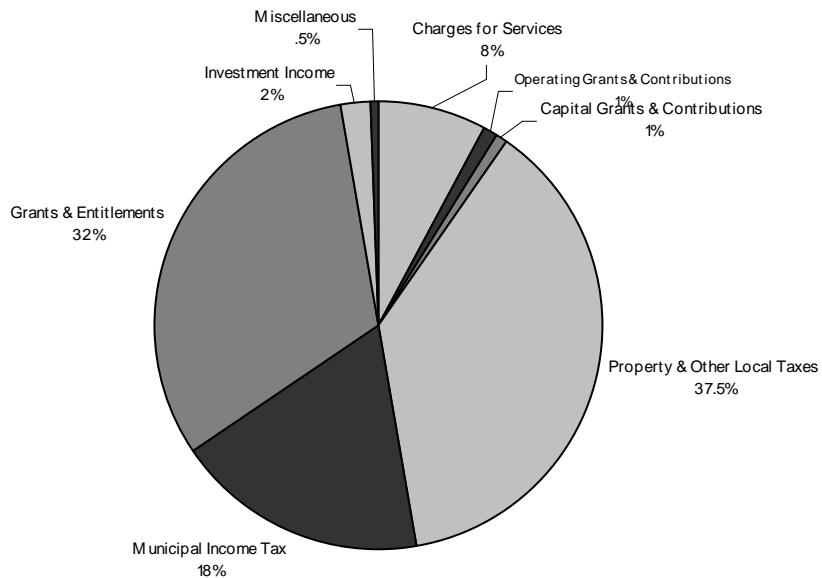
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Grants and entitlements, which include local governmental funds, accounted for \$3,875,097 or 31.68 percent of the governmental revenue in 2008.

The City's income tax revenue source is the third largest contributor with a rate of two percent on gross income which has not changed since 1997. Residents of the City who work in another community and pay the withholding tax for that community receive an 87.5 percent tax credit not to exceed 87.5 percent of the tax due the City of Willowick before credit. During 2008, the revenue generated from this tax amounted to \$2,236,859, representing a decrease of \$129,878 or 5.49 percent. The City continues to enforce the delinquent letter program and the subpoena program on a biennial basis to ensure compliance with the local tax laws. The program was last conducted in 2007.

Investment income decreased \$164,944 in 2008, due a significant decline in interest rates.

**Revenues by Source-Governmental Activities**



**City of Willowick**  
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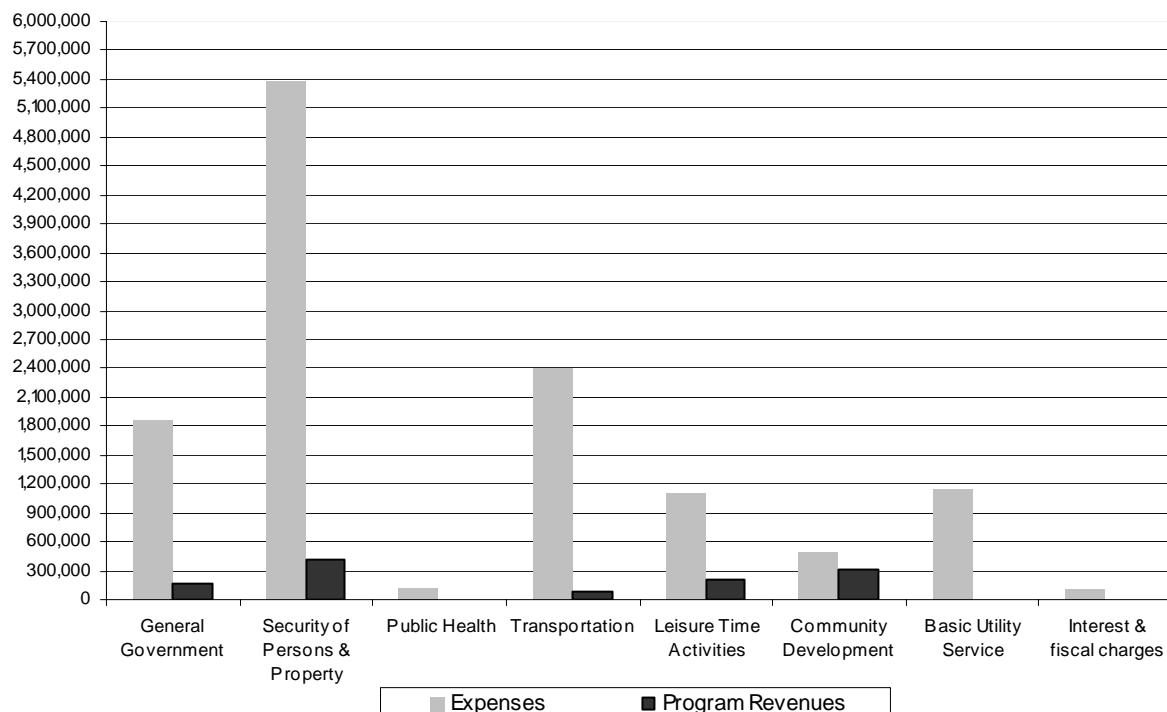
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Security of Persons and Property represented 42.61 percent of the governmental expenses. During 2008, \$5,371,416 was spent for this program, representing an increase of \$167,608 or 3.03 percent from the previous period. Currently, there are 25 full-time and 1 part-time sworn officers in the Police Department. The Department continues to place strong emphasis on the training of its employees to keep up with the rapidly changing laws, practices and technology. The majority of the cost of operating the Department comes from the General Fund. In addition to the Departments' operational costs, capital equipment and improvements are funded from the Police and Fire Capital Improvement Levy.

The Fire Department consists of 1 full-time Chief, 1 full-time Fire Marshall and 62 part-time firefighters, of which 44 are full-trained paramedics. Again, training plays a crucial role in the day-to-day operation of the Fire Department. The Department handled 1,815 calls for assistance of which approximately 1,464 were for EMS and 351 were for fire and fire-related incidents. This constituted a decrease of 2.16 percent as compared to 2007. The total cost of operating the Fire and EMS Department were split equally between the General Fund and the EMS Levy Fund. In addition to the operational costs, capital equipment and improvements are funded from the Police and Fire Capital Improvement Levy and the EMS Levy Funds.

Transportation costs accounted for program expenses totaling 19.03 percent of the 2008 governmental expenses. In 2008, transportation costs were \$2,398,206 representing an increase of \$1,188,357 as compared to 2007. In 2008, the City completed the major reconstruction of Shoreland Crossings and Royalview Drive. General Government accounted for \$1,861,921 or 14.77 percent of the 2008 governmental expenses. Expenses for this program increased by \$90,603 or 5.12 percent from 2007. In 2008, leisure time activities accounted for \$1,107,299 or 8.78 percent of the governmental expenses. Expenses for this program decreased by \$44,862 or 3.89 percent as compared to 2007.

**Expenses & Program Revenues-Governmental Activities**



**City of Willowick**  
*Management's Discussion and Analysis (Unaudited)*  
*For The Fiscal Year Ended December 31, 2008*

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*Business-Type Activities*

The Business-Type activities of the City, which include the City's sewer operations, decreased the City's net assets by \$681,314.

**The City's Funds**

*Governmental Funds*

These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$18,184,833 and expenditures of \$18,554,022.

At the end of 2008, the City's governmental funds reported combined ending fund balances of \$6,944,827, a decrease of \$369,189. Of the total amount, \$5,693,457 constitutes unreserved fund balances. The remainder, \$1,251,370, is reserved to indicate that the funds have already been committed to liquidate purchase orders and contracts entered into during prior periods.

*General Fund Budgeting Highlights*

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

For the General Fund, actual revenues were \$27,392 more than the final budget estimates of \$8,401,363, including other financing sources. The final appropriations of \$9,055,880, including other financing uses was sufficient to meet the expenditures for the year, which ended up at \$8,892,049 or \$163,831 less than anticipated due to conservative spending.

The City's ending unobligated General Fund balance was \$1,433,158.

*Business-Type Funds*

The City's major Enterprise fund consists of the Sewer Fund. The basic financial statements for the major fund is included in this report.

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

**City of Willowick**  
*Management's Discussion and Analysis (Unaudited)*  
*For The Fiscal Year Ended December 31, 2008*

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## **Capital Assets and Debt Administration**

### *Capital Assets*

At the end of fiscal 2008, the City of Willowick had \$37,650,165 invested in land, buildings, equipment and infrastructure. Capital assets for governmental activities account for \$32,124,158 and business-type activities account for \$5,526,007 of the City's total capital assets (net of accumulated depreciation).

Governmental activities reported an increase of \$74,053 in capital assets. Capital asset additions for governmental activities totaling \$1,153,690 were offset by \$18,979 in net deletions and \$1,060,658 of depreciation expense. Capital assets for business-type activities increased \$182,609. Capital asset additions for business type activities totaling \$331,220 were offset by 148,611 of depreciation expense.

Table 3 shows fiscal 2008 balances of Capital Assets as compared to 2007:

Table 3  
Capital Assets at December 31

	Governmental Activities		Business-Type Activities		Totals	
	2008	2007	2008	2007	2008	2007
Construction in progress	\$ 474,027	\$ 2,219,877	\$ -	\$ -	\$ 474,027	\$ 2,219,877
Land and land improvements	1,766,064	1,766,064	-	-	1,766,064	1,766,064
Buildings and improvements	9,451,264	9,451,264	-	-	9,451,264	9,451,264
Machinery and equipment	5,242,326	5,045,007	563,836	563,836	5,806,162	5,608,843
Infrastructure	27,744,471	25,155,332	9,507,416	9,176,196	37,251,887	34,331,528
Less: Accumulated depreciation	(12,553,994)	(11,587,439)	(4,545,245)	(4,396,634)	(17,099,239)	(15,984,073)
Total capital assets	\$ 32,124,158	\$ 32,050,105	\$ 5,526,007	\$ 5,343,398	\$ 37,650,165	\$ 37,393,503

The City's largest capital asset category is infrastructure which includes roads, bridges, curbs and gutters, sidewalks, traffic signals and storm sewers.

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

Major capital asset events for 2008 include the following:

- The major reconstruction of Royalview Drive was completed.
- Engineering and construction for the E. 322<sup>nd</sup> Street Outfall continued this year.
- In-car video systems for police cruisers were completed.
- A leaf collecting machine was purchased for the Service Department.

**City of Willowick**  
*Management's Discussion and Analysis (Unaudited)*  
*For The Fiscal Year Ended December 31, 2008*

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## **Debt**

At December 31, 2008, the City of Willowick had \$5,399,841 in outstanding debt and compensated absences, of which \$3,820,000 was in Notes Payable. Table 4 summarizes the outstanding obligations of the City.

**Table 4**  
**Outstanding Debt at Year End**

	Governmental Activities		Business-Type Activities		Totals	
	2008	2007	2008	2007	2008	2007
Notes payable	\$ 3,210,000	\$ 2,715,000	\$ 610,000	\$ 550,000	\$ 3,820,000	\$ 3,265,000
OPWC Loan payable	208,307	220,210	-	-	208,307	220,210
Capital Lease payable	36,202	-	-	-	36,202	-
Compensated absences	1,306,547	1,206,927	28,785	22,235	1,335,332	1,229,162
Total	\$ 4,761,056	\$ 4,142,137	\$ 638,785	\$ 572,235	\$ 5,399,841	\$ 4,714,372

State Law limits the amount of debt a City can issue in general obligation bonds to 10.5 percent of tax valuation. The City had a tax valuation of \$288,895,830 at the end of 2008. The City has borrowed less than 13 percent of our debt limitation. The OPWC and compensated absences balances included in the above total are not subject to the limitation.

At December 31, 2008, the City had outstanding notes of \$3,820,000. This represented an increase of \$555,000 over 2007. The notes consisted of \$2,300,000 for Shoreland Crossings infrastructure, \$850,000 for the E. 322<sup>nd</sup> Outfall project, \$60,000 for Dudley Pool improvements and \$610,000 for sanitary sewer improvements.

There were no outstanding general obligation bonds at year-end. Other obligations include accrued vacation pay and sick leave. More detailed information about the City's long-term liabilities is presented in the notes to the basic financial statements.

## **Current Related Financial Activities**

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

The City works extremely hard at living within our means and keeping our debt low. The Mayor, Council, and the Department Heads do an outstanding job in monitoring and adjusting the work force to be fiscally responsible while providing the level of benefits that are essential for our residents.

Due to the current economy, the City has made some staffing reductions in 2009. Additionally, we are funding 33 percent of Fire Department's operational costs from the General Fund and 67 percent from the Emergency Rescue Fund. These costs were previously funded equally from the General Fund and the Emergency Rescue Levy Fund.

**City of Willowick**  
*Management's Discussion and Analysis (Unaudited)*  
*For The Fiscal Year Ended December 31, 2008*

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

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

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

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# City of Willowick, Ohio

## Statement of Net Assets

**December 31, 2008**

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	Governmental Activities	Business-Type Activities	Total
<b>Assets:</b>			
Equity in pooled cash and cash equivalents	\$ 7,371,847	\$ 298,362	\$ 7,670,209
Materials and supplies inventory	39,780	-	39,780
Accrued interest receivable	53,779	-	53,779
Accounts receivable	143,027	316,254	459,281
Intergovernmental receivable	2,048,671	-	2,048,671
Internal balances	200,000	(200,000)	-
Taxes receivable	5,287,103	-	5,287,103
Special assessments receivable	4,392	-	4,392
Nondepreciable capital assets	1,430,869	-	1,430,869
Depreciable capital assets, net	<u>30,693,289</u>	<u>5,526,007</u>	<u>36,219,296</u>
Total assets	<u>47,272,757</u>	<u>5,940,623</u>	<u>53,213,380</u>
<b>Liabilities:</b>			
Accounts payable	637,235	47,673	684,908
Accrued wages and benefits	293,319	9,090	302,409
Intergovernmental payable	187,342	113,538	300,880
Accrued interest payable	63,617	14,691	78,308
Notes payable	65,000	5,000	70,000
Deferred revenue	4,373,687	-	4,373,687
<b>Long-term liabilities:</b>			
Due within one year	3,652,657	614,381	4,267,038
Due in more than one year	<u>1,043,399</u>	<u>19,404</u>	<u>1,062,803</u>
Total liabilities	<u>10,316,256</u>	<u>823,777</u>	<u>11,140,033</u>
<b>Net assets:</b>			
Invested in capital assets, net of related debt	28,669,649	4,916,007	33,585,656
Restricted for:			
Capital projects	139,066	-	139,066
Debt service	3,356	-	3,356
Other purposes	2,568,576	-	2,568,576
Unrestricted	<u>5,575,854</u>	<u>200,839</u>	<u>5,776,693</u>
Total net assets	<u>\$ 36,956,501</u>	<u>\$ 5,116,846</u>	<u>\$ 42,073,347</u>

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

# City of Willowick, Ohio

## Statement of Activities

**For The Year Ended December 31, 2008**

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	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Government activities:				
General government	\$ 1,861,921	\$ 163,986	\$ 3,202	\$ -
Security of persons and property	5,371,416	383,178	4,910	36,868
Public health and welfare	117,568	-	-	-
Transportation	2,398,206	-	-	91,863
Leisure time activities	1,107,299	208,763	-	-
Community development	496,885	188,048	120,417	-
Basic utility service	1,144,721	-	-	-
Interest and fiscal charges	107,227	-	-	-
Total governmental activities	<u>12,605,243</u>	<u>943,975</u>	<u>128,529</u>	<u>128,731</u>
Business-type activities:				
Sewer	<u>2,472,087</u>	<u>1,424,665</u>	<u>-</u>	<u>331,220</u>
Totals	<u>\$ 15,077,330</u>	<u>\$ 2,368,640</u>	<u>\$ 128,529</u>	<u>\$ 459,951</u>

### General revenues:

Property and other local taxes levied for:  
 General purposes  
 Municipal income taxes levied for:  
 General purposes  
 Grants and entitlements not restricted to  
 specific programs  
 Investment income  
 Miscellaneous income  
 Total general revenues

### Change in net assets

Net assets beginning of year

Net assets end of year

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

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**Net (Expense) Revenue  
and Changes in Net Assets**

<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
\$ (1,694,733)	\$ -	\$ (1,694,733)
(4,946,460)	-	(4,946,460)
(117,568)	-	(117,568)
(2,306,343)	-	(2,306,343)
(898,536)	-	(898,536)
(188,420)	-	(188,420)
(1,144,721)	-	(1,144,721)
(107,227)	-	(107,227)
<u>(11,404,008)</u>	<u>-</u>	<u>(11,404,008)</u>
<u>-</u>	<u>(716,202)</u>	<u>(716,202)</u>
<u>(11,404,008)</u>	<u>(716,202)</u>	<u>(12,120,210)</u>
4,580,787	34,888	4,615,675
2,236,859	-	2,236,859
3,875,097	-	3,875,097
284,755	-	284,755
<u>52,062</u>	<u>-</u>	<u>52,062</u>
<u>11,029,560</u>	<u>34,888</u>	<u>11,064,448</u>
(374,448)	(681,314)	(1,055,762)
<u>37,330,949</u>	<u>5,798,160</u>	<u>43,129,109</u>
\$ <u>36,956,501</u>	\$ <u>5,116,846</u>	\$ <u>42,073,347</u>

# City of Willowick, Ohio

## Balance Sheet Governmental Funds

**December 31, 2008**

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	<u>General</u>	<u>Fire Emergency</u>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents	\$ 1,433,158	\$ 1,342,319
Taxes receivable	3,320,625	623,443
Accounts receivable	44,374	98,653
Accrued interest receivable	53,779	-
Intergovernmental receivable	1,388,064	112,948
Special assessments receivable	4,392	-
Due from other funds	225,000	-
Materials and supplies inventory	22,464	-
Total assets	<u>\$ 6,491,856</u>	<u>\$ 2,177,363</u>
 <b>Liabilities and fund balances:</b>		
<b>Liabilities:</b>		
Accounts payable	\$ 274,389	\$ 6,977
Due to other funds	-	-
Accrued wages	146,753	37,254
Intergovernmental payable	152,860	21,451
Deferred revenue	4,381,020	736,391
Accrued interest payable	-	-
Notes payable	-	-
Total liabilities	<u>4,955,022</u>	<u>802,073</u>
 <b>Fund balances:</b>		
Reserve for encumbrances	42,935	21,465
Reserve for inventory	22,464	-
<b>Unreserved:</b>		
Undesignated, reported in:		
General fund	1,471,435	-
Special revenue funds	-	1,353,825
Debt service funds	-	-
Capital project fund	-	-
Total fund balances	<u>1,536,834</u>	<u>1,375,290</u>
 Total liabilities and fund balances	<u>\$ 6,491,856</u>	<u>\$ 2,177,363</u>

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

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<u>Capital Improvement</u>	<u>Debt Service</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
\$ 2,993,581	\$ 3,356	\$ 1,599,433	\$ 7,371,847
1,141,084	-	201,951	5,287,103
-	-	-	143,027
-	-	-	53,779
203,864	236	343,559	2,048,671
-	-	-	4,392
-	-	-	225,000
-	-	17,316	39,780
<u>\$ 4,338,529</u>	<u>\$ 3,592</u>	<u>\$ 2,162,259</u>	<u>\$ 15,173,599</u>

\$ 328,614	\$ -	\$ 27,255	\$ 637,235
-	-	25,000	25,000
-	-	109,312	293,319
-	-	13,031	187,342
1,344,948	236	494,664	6,957,259
63,617	-	-	63,617
65,000	-	-	65,000
<u>1,802,179</u>	<u>236</u>	<u>669,262</u>	<u>8,228,772</u>

1,116,000	-	31,190	1,211,590
-	-	17,316	39,780
-	-	-	1,471,435
-	-	1,444,491	2,798,316
-	3,356	-	3,356
1,420,350	-	-	1,420,350
<u>2,536,350</u>	<u>3,356</u>	<u>1,492,997</u>	<u>6,944,827</u>
<u>\$ 4,338,529</u>	<u>\$ 3,592</u>	<u>\$ 2,162,259</u>	<u>\$ 15,173,599</u>

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## **City of Willowick, Ohio**

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

**December 31, 2008**

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Total Governmental Funds Balances	\$ 6,944,827
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*Amounts reported for governmental activities in the statement  
of net assets are different because:*

Capital assets used in Governmental Activities are not financial resources and therefore are not reported in the funds.	32,124,158
--	------------

Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds.
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Property and other taxes	\$ 133,984
Municipal income taxes	610,925
Intergovernmental	1,834,271
Special assessments	<u>4,392</u>
 Total	 2,583,572

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

Notes payable	(3,145,000)
Loan payable	(208,307)
Capital lease payable	(36,202)
Compensated absences	<u>(1,306,547)</u>
 Total	 <u>(4,696,056)</u>

<i>Net assets of Governmental Activities</i>	\$ <u>36,956,501</u>
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The notes to the basic financial statements are an integral part of this statement

# City of Willowick, Ohio

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

### For The Year Ended December 31, 2008

	General	Fire Emergency
<b>Revenues:</b>		
Property and other taxes	\$ 2,488,929	\$ 609,998
Municipal income tax	2,368,452	-
Other local taxes	121,262	-
Intergovernmental	2,344,204	124,234
Charges for services	365,610	269,704
License and permits	210,285	-
Fines and forfeitures	93,869	-
Investment income	264,074	-
Miscellaneous income	<u>35,607</u>	<u>82</u>
Total revenues	<u>8,292,292</u>	<u>1,004,018</u>
<b>Expenditures:</b>		
Current operations and maintenance:		
Security of persons and property	3,960,541	826,277
Public health	117,568	-
Leisure time activities	958,170	-
Community development	324,305	-
Basic utility service	754,299	-
Transportation	249,093	-
General government	1,738,261	-
Capital outlay	-	-
Debt service:		
Principal retirement	2,584	-
Interest and fiscal charges	-	-
Total expenditures	<u>8,104,821</u>	<u>826,277</u>
Excess of revenues over (under) expenditures	<u>187,471</u>	<u>177,741</u>
<b>Other financing sources (uses):</b>		
Sale of assets	4,340	-
Inception of capital lease	38,786	-
Debt proceeds	-	-
Transfers – in	-	-
Transfers – out	<u>(540,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>(496,874)</u>	<u>-</u>
Net change in fund balance	(309,403)	177,741
Fund balance at beginning of year	<u>1,846,237</u>	<u>1,197,549</u>
Fund balance at end of year	<u>\$ 1,536,834</u>	<u>\$ 1,375,290</u>

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

<u>Capital Improvement</u>	<u>Debt Service</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
\$ 1,116,635	\$ -	\$ 195,198	\$ 4,410,760
-	-	-	2,368,452
-	-	-	121,262
221,336	-	819,671	3,509,445
-	-	-	635,314
-	-	-	210,285
-	-	4,507	98,376
10,686	-	9,995	284,755
<u>18,309</u>	<u>3,356</u>	<u>9,824</u>	<u>67,178</u>
<u>1,366,966</u>	<u>3,356</u>	<u>1,039,195</u>	<u>11,705,827</u>
6,887	-	361,922	5,155,627
-	-	-	117,568
-	-	-	958,170
-	-	146,692	470,997
-	-	167,851	922,150
8,158	(11,903)	802,942	1,048,290
-	-	-	1,738,261
2,080,365	-	-	2,080,365
-	2,661,903	-	2,664,487
<u>6,347</u>	<u>100,880</u>	<u>-</u>	<u>107,227</u>
<u>2,101,757</u>	<u>2,750,880</u>	<u>1,479,407</u>	<u>15,263,142</u>
<u>(734,791)</u>	<u>(2,747,524)</u>	<u>(440,212)</u>	<u>(3,557,315)</u>
-	-	-	4,340
-	-	-	38,786
3,145,000	-	-	3,145,000
145,000	2,750,880	395,000	3,290,880
<u>(2,750,880)</u>	<u>-</u>	<u>-</u>	<u>(3,290,880)</u>
<u>539,120</u>	<u>2,750,880</u>	<u>395,000</u>	<u>3,188,126</u>
<u>(195,671)</u>	<u>3,356</u>	<u>(45,212)</u>	<u>(369,189)</u>
<u>2,732,021</u>	<u>-</u>	<u>1,538,209</u>	<u>7,314,016</u>
\$ <u>2,536,350</u>	\$ <u>3,356</u>	\$ <u>1,492,997</u>	\$ <u>6,944,827</u>

## **City of Willowick, Ohio**

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

### **For The Year Ended December 31, 2008**

Net Change in Fund Balances - Total Governmental Funds	\$ (369,189)
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*Amounts reported for Governmental Activities in the Statement of Activities are different because:*

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

Capital outlay	\$ 1,153,690
Depreciation	<u>(1,060,658)</u>
Total	93,032

In the Statement of Activities, only the loss on the disposal of property and equipment is reported, whereas, in the Governmental Funds, the proceed from the disposal increase financial resources. Thus, the change in net assets differs form the change in fund balance by the cost of the property and equipment. (18,979)

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

Property and other taxes	48,765
Municipal income taxes	(131,593)
Intergovernmental	627,296
Special assessments	<u>(4,861)</u>
Total	539,607

Repayment of bond, note, and loan principal are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 2,664,487

Other financing sources in the governmental funds increase long-term liabilities in the Statement of Net Assets. (3,183,786)

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

Compensated absences	<u>(99,620)</u>
----------------------	-----------------

*Change in Net Assets of Governmental Activities* \$ (374,448)

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

# City of Willowick, Ohio

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

### General Fund

#### **For The Year Ended December 31, 2008**

---

	<b>Budget</b>		<b>Variance with Final Budget</b>	
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Positive (Negative)</u>
<b>Revenues:</b>				
Property taxes	\$ 2,416,500	\$ 2,486,350	\$ 2,488,929	\$ 2,579
Municipal income taxes	2,330,000	2,350,000	2,350,901	901
Other local taxes	90,775	105,775	105,541	(234)
Intergovernmental	2,318,513	2,342,663	2,346,448	3,785
Charges for services	181,000	293,000	365,610	72,610
Licenses and permits	201,150	207,650	210,285	2,635
Fines and forfeitures	133,050	153,050	93,869	(59,181)
Investment income	300,000	280,000	281,225	1,225
Other	<u>14,375</u>	<u>31,875</u>	<u>35,607</u>	<u>3,732</u>
Total revenues	<u><u>7,985,363</u></u>	<u><u>8,250,363</u></u>	<u><u>8,278,415</u></u>	<u><u>28,052</u></u>
<b>Expenditures:</b>				
Current operations and maintenance:				
Security of persons and property	3,950,503	3,946,973	3,918,124	28,849
Public health	125,000	125,000	117,568	7,432
Leisure time activities	1,053,759	1,002,544	970,650	31,894
Community development	338,172	350,279	346,461	3,818
Basic utility services	821,432	814,432	812,803	1,629
Transportation	254,033	252,033	250,441	1,592
General government	<u>1,806,847</u>	<u>1,765,319</u>	<u>1,711,002</u>	<u>54,317</u>
Total expenditures	<u><u>8,349,746</u></u>	<u><u>8,256,580</u></u>	<u><u>8,127,049</u></u>	<u><u>129,531</u></u>
Excess of revenue over (under) expenditures	<u>(364,383)</u>	<u>(6,217)</u>	<u>151,366</u>	<u>157,583</u>
<b>Other financing sources (uses):</b>				
Sale of Assets	5,000	5,000	4,340	(660)
Advances-In	-	146,000	146,000	-
Advances-Out	-	(225,000)	(225,000)	-
Transfers-out	<u>(559,800)</u>	<u>(574,300)</u>	<u>(540,000)</u>	<u>34,300</u>
Total other financing sources (uses)	<u><u>(554,800)</u></u>	<u><u>(648,300)</u></u>	<u><u>(614,660)</u></u>	<u><u>33,640</u></u>
Net change in fund balance	(919,183)	(654,517)	(463,294)	191,223
Fund balance at beginning of year	1,737,590	1,737,590	1,737,590	-
Outstanding encumbrances	<u>158,862</u>	<u>158,862</u>	<u>158,862</u>	<u>-</u>
Fund balance at end of year	<u>\$ 977,269</u>	<u>\$ 1,241,935</u>	<u>\$ 1,433,158</u>	<u>\$ 191,223</u>

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

## **City of Willowick, Ohio**

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

Fire Emergency Fund Special Revenue

**For The Year Ended December 31, 2008**

---

	<b>Budget</b>		Variance with Final Budget	
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Positive (Negative)</u>
<b>Revenues:</b>				
Property taxes	\$ 592,750	\$ 608,650	\$ 609,998	\$ 1348
Other local taxes	185	185	-	(185)
Intergovernmental	125,860	122,960	124,234	1,274
Charges for services	280,000	215,000	228,708	13,708
Other	-	-	82	82
Total revenues	<u>998,795</u>	<u>946,795</u>	<u>963,022</u>	<u>16,227</u>
<b>Expenditures:</b>				
Current operations and maintenance:				
Security of persons and property	<u>874,631</u>	<u>867,081</u>	<u>837,191</u>	<u>29,890</u>
Total expenditures	<u>874,631</u>	<u>867,081</u>	<u>837,191</u>	<u>29,890</u>
Net change in fund balance	124,164	79,714	125,831	46,117
Fund balance at beginning of year	1,192,595	1,192,595	1,192,595	-
Outstanding encumbrances	<u>23,893</u>	<u>23,893</u>	<u>23,893</u>	<u>-</u>
Fund balance at end of year	\$ <u>1,340,652</u>	\$ <u>1,296,202</u>	\$ <u>1,342,319</u>	\$ <u>46,117</u>

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

# **City of Willowick, Ohio**

## Statement of Fund Net Assets Proprietary Funds

**December 31, 2008**

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	<u>Business-Type Activities</u>
	<u>Sewer</u>
Assets:	
Current assets:	
Equity in pooled cash and cash equivalents	\$ 298,362
Accounts receivable	<u>316,254</u>
Total current assets	<u>614,616</u>
Non-current assets:	
Depreciable capital assets, net	<u>5,526,007</u>
Total assets	<u>6,140,623</u>
Liabilities:	
Current liabilities:	
Accounts payable	47,673
Accrued wages and benefits	9,090
Intergovernmental payable	113,538
Internal payable	200,000
Accrued interest payable	14,691
Notes payable	5,000
Due in one year	<u>614,381</u>
Total current liabilities	<u>1,004,373</u>
Long-term liabilities (net of current portion):	
Compensated absences	<u>19,404</u>
Total liabilities	<u>1,023,777</u>
Net assets:	
Invested in capital assets, net of related debt	4,916,007
Unrestricted	<u>200,839</u>
Total net assets	<u>\$ 5,116,846</u>

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

# **City of Willowick, Ohio**

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

**For The Year Ended December 31, 2008**

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	<u>Business-Type Activities</u>
	<u>Sewer</u>
Operating revenues:	
Charges for services	\$ <u>1,424,665</u>
Operating expenses:	
Personal services	300,931
Contractual services	2,003,254
Depreciation	<u>148,611</u>
Total operating expenses	<u>2,452,796</u>
Operating loss	<u>(1,028,131)</u>
Non-operating revenue (expenses):	
Property taxes	34,888
Interest and fiscal charges	(19,291)
Contributed Capital	<u>331,220</u>
Total non-operating revenues (expenses)	<u>346,817</u>
Change in net assets	(681,314)
Net assets beginning of year	<u>5,798,160</u>
Net assets end of year	\$ <u>5,116,846</u>

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

# City of Willowick, Ohio

## Statement of Cash Flows Proprietary Funds

**For The Year Ended December 31, 2008**

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**Increase (Decrease) in Cash and Cash Equivalents:**

**Cash Flows from Operating Activities**

	<u>Sewer</u>
Cash received from customers	\$ 1,409,391
Cash payments for goods and services	(1,995,588)
Cash payments to employees for services	<u>(295,451)</u>
Net cash used in operating activities	<u>(881,648)</u>

**Cash Flows from Non-Capital Financing Activities**

Property taxes	34,888
Advances from other funds	<u>200,000</u>
Net cash provided by non-capital financing activities	<u>234,888</u>

**Cash Flows from Capital and Related Financing Activities**

Proceeds from debt	610,000
Principal paid on debt	(550,000)
Interest paid	<u>(17,940)</u>
Net cash provided by capital and related financing activities	<u>42,060</u>

Net decrease in cash and cash equivalents (604,700)

Cash and cash equivalents, beginning of year 903,062

Cash and cash equivalents, end of year \$ 298,362

**Reconciliation of Operating Loss to Net Cash  
From Operating Activities:**

Operating loss \$ (1,028,131)

Adjustments:  
Depreciation 148,611

Changes in assets/liabilities:  
(Increase) decrease in accounts receivable (15,274)  
Increase (decrease) in accounts payable 43,440  
Increase (decrease) in accrued wages and benefits 1,863  
Increase (decrease) in compensated absences payable 6,550  
Increase (decrease) in intergovernmental payable (38,707)  
Total adjustments 146,483

Net cash used in operating activities \$ (881,648)

**Schedule of non-cash investing, capital, and financing activities:**

As of December 31, 2008, the Sewer Fund received \$331,220 as contributions to capital assets from governmental activities.

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

## **City of Willowick, Ohio**

### Statement of Fiduciary Net Assets Fiduciary Funds

**December 31, 2008**

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	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ <u>80,134</u>
Liabilities	
Deposits held	\$ <u>80,134</u>

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

# **City of Willowick, Ohio**

## Notes To Basic Financial Statements

### **For The Year Ended December 31, 2008**

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

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

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

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

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

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

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

#### **Jointly Governed Organization**

*Lake County General Health District* – The Lake County General Health District, a jointly governed organization, provides health services to the citizens within the County. The Board of Health, which consists of a representative from each of the participating governments, oversees the operation of the District. The members are elected to staggered five year terms. Two members are elected by the City of Mentor. The remaining 13 members are elected by the various mayors of cities, villages, chairmen of the township trustees, and the County Commissioners. Five townships, nine villages, and nine cities, including the City of Willowick, participate in the District. The City contributed \$117,568 during 2008 for the operation of the District.

# **City of Willowick, Ohio**

Notes To Basic Financial Statements (continued)

## **For The Year Ended December 31, 2008**

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### **Note 1: The Reporting Entity (continued)**

*Northeast Ohio Public Energy Council* – The City is a member of the Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of energy. NOPEC is currently comprised of 115 communities who have been authorized by ballot to purchase energy on behalf of their citizens. The intent of NOPEC is to provide energy at the lowest possible rates while at the same time ensuring stability in prices by entering into long-term contracts with suppliers to provide energy to the citizens of its member communities.

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each county then elect one person to serve on the eight-member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. The City of Willowick did not contribute to NOPEC during 2008. Financial information can be obtained by contacting Joseph Migliorini, Board Chairman, 175 South Main Street, Akron, Ohio 44308.

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

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

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

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

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

The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid doubling up revenues and expenses. The City does not have an internal service fund. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

# **City of Willowick, Ohio**

Notes To Basic Financial Statements (continued)

## **For The Year Ended December 31, 2008**

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

#### **A. Basis of Presentation (continued)**

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

#### *Fund Financial Statements*

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

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

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

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

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

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

# **City of Willowick, Ohio**

Notes To Basic Financial Statements (continued)

## **For The Year Ended December 31, 2008**

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

#### **B. Fund Accounting (continued)**

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

*Debt Service Fund* – This fund is used to account for debt payment activity.

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

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

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

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

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

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

##### *Fund Financial Statements*

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

# **City of Willowick, Ohio**

Notes To Basic Financial Statements (continued)

## **For The Year Ended December 31, 2008**

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

#### **C. Measurement Focus and Basis of Accounting (continued)**

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

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

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

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

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

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

Revenue from property taxes is recognized in the year for which the taxes are levied (see Note 6).

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

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

# **City of Willowick, Ohio**

Notes To Basic Financial Statements (continued)

## **For The Year Ended December 31, 2008**

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

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

##### *Deferred Revenue*

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

Property taxes for which there is an enforceable legal claim as of December 31, 2008, but which were levied to finance year 2009 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

##### *Expenses/Expenditures*

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

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

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

##### *Tax Budget*

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

# **City of Willowick, Ohio**

Notes To Basic Financial Statements (continued)

## **For The Year Ended December 31, 2008**

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

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

##### *Estimated Resources*

The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include unencumbered cash balances at December 31 of the preceding year. The certificate may be further amended during the year if the Finance Director determines, and the Budget Commission agrees, that an estimate needs to be either increased or decreased. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 2008.

##### *Appropriations*

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

##### *Lapsing of Appropriations*

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

##### *Encumbrances*

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

# **City of Willowick, Ohio**

Notes To Basic Financial Statements (continued)

## **For The Year Ended December 31, 2008**

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

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

Cash received by the City is deposited into several bank accounts. Monies for all funds, including the enterprise fund, are maintained in these accounts or temporarily used to purchase short-term investments. Individual fund integrity is maintained through the City's records. Each fund's interest in the pooled bank accounts is presented as "equity in pooled cash and cash equivalents" on the combined balance sheet. During fiscal year 2008, investments were limited to STAR Ohio.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts and nonnegotiable certificates of deposit are reported at cost.

STAR Ohio is an investment pool managed by the State Treasurer's office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 2008. All investment earnings accrue to the general fund except those funds specifically required to earn interest by Ohio law.

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

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2008 amounted to \$264,074, which includes \$201,433 assigned from other City funds.

For purposes of the statement of cash flows and for presentation on the combined balance sheet, investments purchased by the cash management pool or with an original maturity of three months or less are considered to be cash equivalents.

#### **G. Inventory**

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

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

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

# **City of Willowick, Ohio**

Notes To Basic Financial Statements (continued)

## **For The Year Ended December 31, 2008**

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

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

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

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

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

<u>Description</u>	<u>Estimated Lives</u>
Land & Building Improvements	15-20 years
Machinery and equipment	5-30 years
Infrastructure	25-70 years

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

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

# **City of Willowick, Ohio**

Notes To Basic Financial Statements (continued)

## **For The Year Ended December 31, 2008**

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

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

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

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

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

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

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

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

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

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

## **City of Willowick, Ohio**

Notes To Basic Financial Statements (continued)

### **For The Year Ended December 31, 2008**

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

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

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

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

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

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

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

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

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

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

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2008.

##### **R. Estimates**

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

# **City of Willowick, Ohio**

Notes To Basic Financial Statements (continued)

## **For The Year Ended December 31, 2008**

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### **Note 3: Change in Accounting Principle**

For fiscal year 2008, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB)*, GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, and GASB Statement No. 50, *Pension Disclosures*.

Effective January 1, 2008, the City implemented FASB Statement No. 157 “Fair Value Measurements”. The required disclosures are included in Note 18 to the financial statements.

GASB Statement No. 45 improves the relevance and usefulness of financial reporting by requiring systematic, accrual-basis measurement and recognition of OPEB costs over a period that approximates employees’ years of service and providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan. The City has determined that the adoption of this statement did not have an impact on the City’s financial statements; however, note disclosures related to post-employment benefits have been modified. An OPEB liability at transition was determined in accordance with this Statement for both the OPERS and OP&F post-employment healthcare plans in the amount of \$13,535 and \$28,444, respectively, which are the same as the previously reported liabilities.

GASB Statement No. 49 provides guidance on how to calculate and report costs and obligations associated with pollution cleanup efforts.

GASB Statement No. 50 requires employers contributing to defined benefit pension plans to include the legal or contractual maximum contribution rates in the notes to the financial statements.

The implementation of GASB Statements No. 49 and No. 50 and SFAS 157 did not affect the presentation of the financial statements of the City.

### **Note 4: Budgetary Basis of Accounting**

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

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

- 1) Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
- 2) Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).

# **City of Willowick, Ohio**

Notes To Basic Financial Statements (continued)

## **For The Year Ended December 31, 2008**

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### **Note 4: Budgetary Basis of Accounting (continued)**

- 3) Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
- 4) Short-term note proceeds and note principal retirement for governmental funds are operating transactions (budget) as opposed to balance sheet transactions (GAAP).
- 5) State statute requires short-term note debt to be repaid from the debt service fund (budget) as opposed to the fund that received the proceeds (GAAP). Debt service fund resources used to pay both principal and interest have been allocated accordingly.

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

	<u>Net Change in Fund Balance</u>	
	<u>General</u>	<u>Fire Emergency</u>
GAAP basis	\$ (309,403)	\$ 177,741
Increase (decrease) due to:		
Revenue accruals	132,123	(40,996)
Expenditure accruals	(444,876)	(34,807)
Encumbrances outstanding	<u>158,862</u>	<u>23,893</u>
Budget basis	\$ <u>(463,294)</u>	\$ <u>125,831</u>

### **Note 5: Deposits and Investments**

State statutes classify monies held by the City into three categories.

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

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

Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim monies may be deposited or invested in the following securities:

# **City of Willowick, Ohio**

## Notes To Basic Financial Statements (continued)

### **For The Year Ended December 31, 2008**

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#### **Note 5: Deposits and Investments (continued)**

1. United States Treasury notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any 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 Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above 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;
4. Investment grade obligations of state and local governments, and public authorities;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and,
6. The State Treasurer's investment pool (STAROhio).

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

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

#### ***Deposits***

***Custodial credit risk*** is the risk that in the event of bank failure, the City's deposits may not be returned to it. Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution, by surety company bonds or by a single collateral pool established by the financial institution. In accordance with Chapter 135 of the Ohio Revised Code, any public depository receiving deposits pursuant to an award of City funds shall be required to pledge as security for repayment of all public moneys.

# **City of Willowick, Ohio**

## Notes To Basic Financial Statements (continued)

### **For The Year Ended December 31, 2008**

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#### **Note 5: Deposits and Investments (continued)**

At year-end, the carrying amount of the City's deposits was \$7,704,442 including petty cash and the bank balance was \$7,771,940. Of the bank balance, \$602,581 was covered by the federal depository insurance, and \$7,169,359 was uninsured. Of the remaining bank balance, \$7,393,154 was collateralized with securities held by the pledging institution's trust department, not in the City's name.

#### ***Investments***

Investments are reported at fair value. As of December 31, 2008, the city had the following investments:

	Fair Value	Weighted Average Maturity (Days)
STAROhio	\$ 45,901	N/A
Total Portfolio	<u>45,901</u>	N/A

***Interest rate risk*** arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The City's investment policy addresses interest rate risk requiring that the City's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments, thereby avoiding that need to sell securities on the open market prior to maturity and by investing operating funds primarily in short-term investments. The City investment policy also limits security purchases to those that mature five years unless specifically matched to a specific cash flow. To date, no investments have been purchased with a life greater than five years.

***Custodial risk*** for investments is the risk that, in the event of the failure of the counterparty to a transaction, the City will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. All financial institutions and broker/dealers who desire to become qualified for investment transactions with the City must meet a set of prescribed standards and be periodically reviewed.

***Credit risk*** is addressed by the City's investment policy by the requirements that all investments are authorized by Ohio Revised Code and that portfolio be diversified both by types of investment and issuer. All investments of the City are registered and carry a rating AAA by Standard & Poor's.

***Concentration of credit risk*** is defined by the Governmental Accounting Standards Board as five percent or more in the securities of a single issuer. The City's investment policy requires diversification of the portfolio but does not indicate specific percentage allocations. The following is the City's allocation as of December 31, 2008:

Investment Issuer	Percentage of Investments
STAROhio	100%

# **City of Willowick, Ohio**

## Notes To Basic Financial Statements (continued)

### **For The Year Ended December 31, 2008**

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#### **Note 6: Receivables**

##### **A. Property Taxes**

Property taxes include amounts levied against all real, public utility and tangible personal property located in the City. Taxes collected on real property (other than public utility) in one calendar year are levied in the preceding calendar year on assessed values as of January 1 of the preceding year, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be revalued every six years. The last update was completed in 2006. Real property taxes are payable annually or semi-annually. The first payment is due February 18, with the remainder payable by July 15.

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. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2006 is 18.75 percent. This will be reduced to 12.5 percent for 2007, 6.25 percent for 2008 and zero for 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30; with the remainder payable by September 20.

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

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

The full tax rate for all City operations for the year ended December 31, 2008 was \$19.50 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2008 property tax receipts were based are as follows:

Real property	\$ 284,966,070
Public utility property	2,161,920
Tangible personal property	<u>1,767,840</u>
Total valuation	\$ <u>288,895,830</u>

# **City of Willowick, Ohio**

Notes To Basic Financial Statements (continued)

## **For The Year Ended December 31, 2008**

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### **Note 6: Receivables (continued)**

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

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

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

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
Governmental activities:	
Local government	\$ 873,107
Local government – revenue assistance	20,314
Homestead and Rollback	802,294
Gasoline\motor vehicle license tax	260,466
Estate tax	34,343
Permissive tax	46,655
CAT Tax	11,492
Total	<u>\$ 2,048,671</u>

# City of Willowick, Ohio

## Notes To Basic Financial Statements (continued)

### **For The Year Ended December 31, 2008**

#### **Note 7: Capital Assets**

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

	<u>Balance</u>	<u>12/31/07</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u>	<u>12/31/08</u>
<b>Governmental Activities:</b>						
Capital assets not being depreciated:						
Construction in process	\$ 2,219,877	\$ 1,275,562	\$ (3,021,412)	\$ 474,027		
Land	<u>956,842</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>956,842</u>	
Total non-depreciable capital assets	<u>3,176,719</u>	<u>1,275,562</u>	<u>(3,021,412)</u>	<u>-</u>	<u>1,430,869</u>	
Capital assets being depreciated:						
Land improvements	809,222	-	-	-	809,222	
Building and improvements	9,451,264	-	-	-	9,451,264	
Machinery and equipment	5,045,007	310,401	(113,082)	-	5,242,326	
Infrastructure:						
Roadways	19,541,399	1,209,048	-	-	20,750,447	
Sidewalks	1,690,157	134,249	-	-	1,824,406	
Drive aprons	1,272,367	111,533	-	-	1,383,900	
Curbs	1,771,490	207,423	-	-	1,978,913	
Fencing/Masonry	-	324,440	-	-	324,440	
Vine street beautification	482,774	-	-	-	482,774	
Traffic signals	47,849	-	-	-	47,849	
Decorative street lights	349,296	198,194	-	-	547,490	
Storm Sewers	<u>-</u>	<u>404,252</u>	<u>-</u>	<u>-</u>	<u>404,252</u>	
Total capital assets being depreciated	<u>40,460,825</u>	<u>2,899,540</u>	<u>(113,082)</u>	<u>-</u>	<u>43,247,283</u>	
Less accumulated depreciation:						
Land improvements	239,791	49,058	-	-	288,849	
Building and improvements	3,001,932	222,971	-	-	3,224,903	
Machinery and equipment	2,851,605	267,924	(94,103)	-	3,025,426	
Infrastructure:						
Roadways	4,373,384	390,828	-	-	4,764,212	
Sidewalks	362,866	33,803	-	-	396,669	
Drive aprons	282,959	25,447	-	-	308,406	
Curbs	407,797	35,430	-	-	443,227	
Vine street beautification	38,622	19,311	-	-	57,933	
Traffic signals	1,022	1,914	-	-	2,936	
Decorative street light	<u>27,461</u>	<u>13,972</u>	<u>-</u>	<u>-</u>	<u>41,433</u>	
Total accumulated depreciation	<u>11,587,439</u>	<u>1,060,658</u>	<u>(94,103)</u>	<u>-</u>	<u>12,553,994</u>	
Net capital assets being depreciated	<u>28,873,386</u>	<u>1,838,882</u>	<u>(18,979)</u>	<u>-</u>	<u>30,693,289</u>	
Governmental activities capital assets, net	<u>\$ 32,050,105</u>	<u>\$ 3,114,444</u>	<u>\$ (3,040,391)</u>	<u>\$ 32,124,158</u>		

# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## **For The Year Ended December 31, 2008**

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### **Note 7: Capital Assets (continued)**

	<u>Balance</u>		<u>Additions</u>		<u>Disposals</u>		<u>Balance</u>
	<u>12/31/07</u>						<u>12/31/08</u>
<b>Business-type activities:</b>							
Capital assets being depreciated:							
Machinery and equipment	\$ 563,836	\$ -	\$ -	\$ -	\$ 563,836		
Infrastructure:							
Sanitary sewers	3,361,198	331,220	-	-	3,692,418		
Storm sewers	<u>5,814,998</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,814,998</u>		
Total capital assets being depreciated	<u>9,740,032</u>	<u>331,220</u>	<u>-</u>	<u>-</u>	<u>10,071,252</u>		
Less accumulated depreciation:							
Machinery and equipment	288,905	27,281	-	-	316,186		
Infrastructure:							
Sanitary sewers	2,450,939	35,779	-	-	2,486,718		
Storm sewers	<u>1,656,789</u>	<u>85,551</u>	<u>-</u>	<u>-</u>	<u>1,742,340</u>		
Total accumulated depreciation	<u>4,396,634</u>	<u>148,611</u>	<u>-</u>	<u>-</u>	<u>4,545,245</u>		
Net capital assets							
Being depreciated	<u>5,343,399</u>	<u>182,609</u>	<u>-</u>	<u>-</u>	<u>5,526,008</u>		
Business-type activities capital assets, net	<u>\$ 5,343,398</u>	<u>\$ 182,609</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,526,007</u>		

Depreciation expense was charged to governmental activities as follows:

	<u>Governmental</u>
Security of persons and property	\$ 171,278
Leisure time activities	146,457
Community development	36,820
Basic utility	2,349
Transportation	547,466
General government	<u>156,288</u>
Total depreciation expense	<u>\$ 1,060,658</u>

# City of Willowick, Ohio

## Notes To Basic Financial Statements (continued)

### **For The Year Ended December 31, 2008**

#### **Note 8: Long-Term Obligations**

Changes in long-term obligations during the year ended December 31, 2008, consisted of the following:

	Balance 12/31/07	Issued	Retired	Balance 12/31/08	Due Within One Year
<b>Governmental Activities:</b>					
Notes payable-Dudley Pool Impr.	\$ 60,000	\$ -	\$ (60,000)	\$ -	\$ -
Notes payable-Royalview Dr.	350,000	850,000	(350,000)	850,000	850,000
Notes payable-Shoreland Crossing	2,240,000	2,295,000	(2,240,000)	2,295,000	2,295,000
OPWC loan payable	124,819	-	(7,133)	117,686	7,133
OPWC loan payable-Sewer rehabilitation	95,391	-	(4,770)	90,621	4,770
Capital Lease payable	-	38,786	(2,584)	36,202	7,752
Compensated absences	<u>1,206,927</u>	<u>100,868</u>	<u>(1,248)</u>	<u>1,306,547</u>	<u>488,002</u>
Total governmental activities	<u>\$ 4,077,137</u>	<u>\$ 3,284,654</u>	<u>\$ (2,665,735)</u>	<u>\$ 4,696,056</u>	<u>\$ 3,652,657</u>
	Balance 12/31/07	Issued	Retired	Balance 12/31/08	Due Within One Year
<b>Business-Type Activities:</b>					
Notes payable-Sanitary Sewer	\$ 550,000	\$ 605,000	\$ (550,000)	\$ 605,000	\$ 605,000
Compensated absences	<u>22,235</u>	<u>6,550</u>	<u>-</u>	<u>28,785</u>	<u>9,381</u>
Total business-type activities	<u>\$ 572,235</u>	<u>\$ 611,550</u>	<u>\$ (550,000)</u>	<u>\$ 633,785</u>	<u>\$ 614,381</u>

General obligation bonds will be paid from the debt service fund. Compensated absences reported in the "compensated absences payable" account will be paid from the fund from which the employees' salaries are paid. Notes payable will be paid from the fund which received the original proceeds. These notes were reissued prior to the release of these financial statements and therefore have been reported as a long-term liability.

#### **Note 9: Note Debt**

The City's note activity for the year ended December 31, 2008 is as follows:

	Balance 12/31/07	Issued	Retired	Balance 12/31/08
<b>Governmental Activities:</b>				
3.00% Shoreland Crossing	\$ -	\$ 5,000	\$ -	\$ 5,000
3.00% Dudley pool improvement	<u>65,000</u>	<u>60,000</u>	<u>(65,000)</u>	<u>60,000</u>
Total governmental activities	<u>\$ 65,000</u>	<u>\$ 65,000</u>	<u>\$ (65,000)</u>	<u>\$ 65,000</u>
	Balance 12/31/07	Issued	Retired	Balance 12/31/08
<b>Business-Type Activities:</b>				
3.00% Sanitary sewer improvement	\$ -	\$ 5,000	\$ -	\$ 5,000

# **City of Willowick, Ohio**

## Notes To Basic Financial Statements (continued)

### **For The Year Ended December 31, 2008**

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#### **Note 9: Note Debt (continued)**

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

#### **Note 10: Leases Obligations**

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

In 2008, the City has entered into capital leases for the acquisition of telephone equipment. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No, 13 "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital assets acquired by lease have been capitalized as equipment in the amount of \$38,786 equal to the present value of the future minimum lease payments in the government-wide financial statements. Principal payments in the current year totaled \$2,586 in the Governmental Activities.

The following is a schedule of the future minimum lease payments required under the capital and operating leases and the present value of the minimum lease payments at year-end:

Year	Capital Lease		Operating Leases	
	Governmental	Lease Payments	Governmental	Lease Payments
2009	\$	9,072	\$	17,076
2010		9,072		17,076
2011		9,072		-
2012		9,072		-
2013		6,048		-
Total minimum lease payments		42,336		34,152
Less: amount representing interest		(6,134)		-
Present value of minimum lease payments	\$	<u>36,202</u>	\$	<u>34,152</u>

Rental expense related to operating leases for equipment totaled \$17,076 for governmental funds for the year ended December 31, 2008.

# **City of Willowick, Ohio**

## Notes To Basic Financial Statements (continued)

### **For The Year Ended December 31, 2008**

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#### **Note 11: Employee Benefits – Compensated Absences**

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

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

#### **Note 12: Pension Plans**

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

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

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

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

For the year ended December 31, 2008, the members of all three plans were required to contribute 10 percent of their annual covered salary to fund pension obligations. The City contributed 14 percent of covered payroll, of which 7 percent was used to fund health care coverage for retirees. The contribution rate is determined actuarially. The Ohio Revised Code provides statutory authority for member and employer contributions.

## **City of Willowick, Ohio**

Notes To Basic Financial Statements (continued)

### **For The Year Ended December 31, 2008**

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#### **Note 12: Pension Plans (continued)**

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

The City of Willowick's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2008, 2007, and 2006 were \$421,554, \$411,754, and \$260,869, respectively, equal to the required contributions for each year. The full amount has been contributed for 2007 and 2006. Ninety-three percent has been contributed for in 2008, with the remainder being reserved as "accrued wages and benefits" in the governmental activities column of the statement of net assets.

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

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

Plan members are required to contribute 10 percent of their annual covered salary to fund pension benefits, while employers are required to contribute 19.5 percent for police officers and 24 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the OP&F for police and firefighters for the years ended December 31, 2008, 2007, and 2006 were \$354,147, \$338,732, and \$202,644, respectively. The full amount has been contributed for 2007 and 2006. Seventy-seven percent, has been contributed for 2008 with the remainder being presented as "accrued wages and benefits" in the governmental activities column of the statement of net assets.

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

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

#### **Note 13: Postemployment Benefits**

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

The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the Traditional Plan (TP) – a cost-sharing multiple-employer defined benefit pension plan; the Member-Directed Plan (MD) – a defined contribution plan; and the Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

# **City of Willowick, Ohio**

## Notes To Basic Financial Statements (continued)

### **For The Year Ended December 31, 2008**

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#### **Note 13: Postemployment Benefits (continued)**

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

OPERS provides retirement, disability, survivor benefits as well as post-retirement health care benefits to qualifying members of both the Traditional and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-retirement health care coverage, age and service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 45. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority requiring employers to fund post-retirement health care through their contributions to OPERS. The 2008 employer contribution rate was 14 percent of covered payroll; 7 percent was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2007, include a rate of return on investments of 7 percent. An annual increase of 4.0 percent, compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0 percent base increase, were assumed to range from 0.50 percent to 6.3 percent. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 0.50 percent to 4 percent for the next seven years. In subsequent years (8 and beyond) health care costs were assumed to increase at 4 percent (the projected wage inflation rate).

All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12% corridor.

At December 31, 2008, the number of active contributing participants in the Traditional and Combined Plans totaled 363,503. The number of active contributing participants for both plans used in the December 31, 2007, actuarial valuation was 364,076. The City's actual contributions for 2008, which were used to fund postemployment benefits, were \$185,112. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2007, (the latest information available) were \$12.8 billion. The actuarially accrued liability and the unfunded actuarially accrued liability were \$29.8 billion and \$17 billion, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, is effective on January 1, 2007. In addition to the HCPP, OPERS has taken additional action to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2007, and January 1, 2008, which will allow additional funds to be allocated to the healthcare plan.

# **City of Willowick, Ohio**

## Notes To Basic Financial Statements (continued)

### **For The Year Ended December 31, 2008**

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#### **Note 13: Postemployment Benefits (continued)**

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

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

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 45. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to offer health care coverage and states that health care costs paid from the Ohio Police and Fire Pension Fund shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution is 19.50 percent of covered payroll, and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 6.75 percent of covered payroll was applied to the postemployment health care program during 2008 and 2007. In addition, since July 1, 1992, most retirees and survivors have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2008 that were used to fund postemployment benefits were \$122,589 for police. The OP&F's total health care expenses for the year ended December 31, 2007, (the latest information available) were \$93,205,319, which was net of member contributions of \$56,031,875. The number of Ohio Police and Fire Pension participants eligible to receive health benefits as of December 31, 2007 was 14,295 for police and 10,583 for firefighters.

#### **Note 14: Risk Management**

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2008, the City contracted with Wichert Insurance for various types of insurance as follows:

##### Type of Coverage:

Property	\$ 19,566,287
Boilers and machinery	19,566,287
Inland marine	936,372
Crime	100,000
Automobile liability	1,000,000
General liability	1,000,000
Law enforcement liability	1,000,000
Public officials liability	1,000,000
Umbrella liability	5,000,000

No settlements exceeded the insurance coverage in any of the prior three fiscal years.

# **City of Willowick, Ohio**

Notes To Basic Financial Statements (continued)

## **For The Year Ended December 31, 2008**

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### **Note 14: Risk Management (continued)**

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

### **Note 15: Transfers**

Interfund transfers for the year ended December 31, 2008, consisted of the following:

Transfer to	Transfer From		
	General Fund	Capital Improvement Fund	Total
Capital project fund	\$ 145,000	\$ -	\$ 145,000
Debt service fund	-	2,750,880	2,750,880
Nonmajor governmental funds	395,000	-	395,000
Total transfers	\$ 540,000	\$ 2,750,880	\$ 3,290,880

During 2008, the City made the following transfers between funds. A \$250,000 transfer from the General Fund to Police Pension Fund to pay the portion of the City's share of police pension not covered by the inside millage. A \$70,000 transfer was made from the General Fund to the State Highway Fund to pay for roadway salt. A \$75,000 transfer was made from the General Fund to the Senior Center Fund to pay the costs of operating the center that are not funded through the Lake County Levy and United Way funds. A \$145,000 transfer was made from the General Fund to the Stormwater Management Fund to accumulate resources for storm water improvements. A \$363,300 transfer was made from the Street Improvement Levy Fund to the Bond Retirement Fund to pay principal and interest on a maturing Royalview Drive note. A \$130,125 transfer was made from the Recreation Improvement Levy Fund to the Bond Retirement Fund to pay principal and interest on maturing Dudley Pool Improvement note. Of this amount \$67,665 was not renewed. A \$2,325,120 transfer was made from the Shoreland Crossing Capital Improvement Fund to the Bond Retirement Fund to pay principal and interest on a maturing Shoreland Crossing note.

### **Note 16: Contingencies/Pending Litigation**

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

# **City of Willowick, Ohio**

## Notes To Basic Financial Statements (continued)

### **For The Year Ended December 31, 2008**

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

During 2008, the City retired \$550,000 of the maturing bond anticipation notes for Sanitary Sewer Improvements and renewed \$610,000. As of June 30, 2009 the City increased the outstanding Sanitary Sewer Improvement notes by an additional \$45,000 and retired 5,000 leaving a remaining outstanding balance of \$650,000.

During 2008, the City retired \$125,000 of the maturing Dudley Pool Improvement Notes and issued an additional \$60,000 of bond anticipation notes. As of June 30, 2009 the City retired the remaining \$60,000 of these outstanding notes. The city also issued an additional \$100,000 for park improvement notes.

Also during 2008, the City retired \$2,240,000 of the maturing bond anticipation notes for the purpose of constructing new streets and renewed \$2,300,000. As of June 30, 2009 the City retired an additional \$5,000 of these outstanding notes and renewed the remaining \$2,295,000.

#### **Note 18: Fair Value Measurements**

SFAS 157 defines fair value as the exit price received to transfer an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS 157 establishes a framework for measuring fair value by creating a hierarchy of valuation inputs used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows: Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly; and Level 3 inputs are unobservable inputs in which little or no market data exists, therefore, requiring an entity to develop its own valuation assumptions. These inputs reflect management's judgment about the assumptions that a market participant would use in pricing the asset and are based on the best available information, which has been internally developed.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the City believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

In accordance with FASB Staff Position (FSP) 157-2 the City has elected to not apply the provisions of SFAS 157 to non-financial assets and liabilities, except for those items that are recognized or disclosed at fair value in an entity's financial statements on a recurring basis.

The proprietary fund financial assets were included within the entity consisted of the following:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>12/31/2008</u>
Certificates of deposit	\$ 5,350,000	\$ -	\$ -	\$ 5,350,000
STAROhio	45,901	-	-	45,901
Sweep/Money Market Accounts	<u>2,155,696</u>	<u>-</u>	<u>-</u>	<u>2,155,696</u>
	\$ <u>7,551,597</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>7,551,597</u>

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

Members of the City Council  
Willowick, Ohio

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Willowick, Ohio (the "City") as of and for the year ended December 31, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 30, 2009, wherein we noted the City adopted *GASB Statement Nos. 45, 49, 50* and *SFAS 157*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

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

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

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



Members of the City Council  
Willowick, Ohio

### **Compliance and Other Matters**

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City, in a separate letter dated June 30, 2009.

This report is intended solely for the information and use of management, the finance committee, City Council, others within the entity and the Auditor of State's Office and is not intended to be and should not be used by anyone other than these specified parties.

*Caini & Panichi, Inc.*

Cleveland, Ohio  
June 30, 2009





# Mary Taylor, CPA

Auditor of State

CITY OF WILLOWICK

LAKE COUNTY

#### CLERK'S CERTIFICATION

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

A handwritten signature in cursive script that reads "Susan Babbitt".

CLERK OF THE BUREAU

CERTIFIED  
AUGUST 25, 2009