



**CITY OF WILLOUGHBY HILLS
LAKE COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2003 & 2002



**Auditor of State
Betty Montgomery**

**CITY OF WILLOUGHBY HILLS
LAKE COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report	1
Combined Balance Sheet – All Fund Types and Account Groups - 2003	4
Combined Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Fund Types – 2003	8
Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual – All Governmental Fund Types – 2003	10
Statement of Revenues, Expenses and Changes in Fund Equity - Proprietary Fund Type – 2003	14
Statement of Cash Flows – Proprietary Fund Type – 2003	15
Statement of Revenues, Expenses and Changes in Fund Equity - Budget (Non-GAAP Basis) and Actual – Proprietary Fund Type – 2003	16
Notes to the General Purpose Financial Statements – 2003	17
Combined Balance Sheet – All Fund Types and Account Groups - 2002	40
Combined Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Fund Types – 2002	44
Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual – All Governmental Fund Types – 2002	46
Statement of Revenues, Expenses and Changes in Fund Equity - Proprietary Fund Type – 2002	50
Statement of Cash Flows – Proprietary Fund Type – 2002	51
Statement of Revenues, Expenses and Changes in Fund Equity - Budget (Non-GAAP Basis) and Actual – Proprietary Fund Type – 2002	52
Notes to the General Purpose Financial Statements – 2002	53
Independent Accountants' Report on Compliance on Internal Control Required by <i>Government Auditing Standards</i>	75
Schedule of Findings	77
Schedule of Prior Year Findings	78

This page intentionally left blank.



**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

We have audited the accompanying general-purpose financial statements of the City of Willoughby Hills, Lake County, Ohio, (the City) as of and for the years ended December 31, 2003 and December 31, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our 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 misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Willoughby Hills, Lake County, Ohio, as of December 31, 2003 and December 31, 2002, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3 of the December 31, 2002 general-purpose financial statements, the City restated the Special Revenue Fund balance and the Enterprise Fund retained earnings.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 19, 2004 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in cursive script that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

May 19, 2004

This page intentionally left blank.

This page intentionally left blank.

City of Willoughby Hills, Ohio
Combined Balance Sheet
All Fund Types and Account Groups
December 31, 2003

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Assets and Other Debits				
Assets				
Equity in Pooled Cash and Cash Equivalents	\$338,179	\$254,265	\$135,345	\$847,188
Cash and Cash Equivalents In Segregated Accounts	0	0	0	0
Receivables:				
Taxes	1,337,802	1,002,830	80,217	0
Accounts	14,325	0	0	0
Interfund	19,144	0	0	0
Special Assessments	0	0	257,258	0
Accrued Interest	3,474	0	0	0
Intergovernmental	610,198	249,328	4,692	156,250
Materials and Supplies Inventory	51,147	30,733	0	0
Advances To Other Funds	0	0	0	164,983
Prepaid Items	14,536	0	0	0
Fixed Assets (Net, where applicable, of Accumulated Depreciation)	0	0	0	0
Other Debits				
Amount Available in Debt Service Fund for Retirement of General Obligation Bonds	0	0	0	0
Amount Available in Debt Service Fund for Retirement of Special Assessment Bonds	0	0	0	0
Amount to be Provided from General Government Resources	0	0	0	0
Amount to be Provided from Special Assessments	0	0	0	0
Total Assets and Other Debits	\$2,388,805	\$1,537,156	\$477,512	\$1,168,421

See accompanying notes to the general purpose financial statements

Proprietary Fund Type	Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Agency			
\$377,178	\$207,560	\$0	\$0	\$2,159,715
0	5,923	0	0	5,923
0	0	0	0	2,420,849
0	0	0	0	14,325
0	0	0	0	19,144
0	0	0	0	257,258
0	0	0	0	3,474
0	0	0	0	1,020,468
0	0	0	0	81,880
0	0	0	0	164,983
0	0	0	0	14,536
5,591,256	0	10,526,541	0	16,117,797
0	0	0	59,139	59,139
0	0	0	76,206	76,206
0	0	0	2,081,855	2,081,855
0	0	0	125,374	125,374
<u>\$5,968,434</u>	<u>\$213,483</u>	<u>\$10,526,541</u>	<u>\$2,342,574</u>	<u>\$24,622,926</u>

See accompanying notes to the general purpose financial statements

(continued)

City of Willoughby Hills, Ohio
Combined Balance Sheet
All Fund Types and Account Groups (continued)
December 31, 2003

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Liabilities, Fund Equity and Other Credits				
Liabilities				
Accounts Payable	\$83,279	\$38,500	\$0	\$64,859
Interfund Payable	0	0	0	19,144
Accrued Wages and Benefits	81,724	33,231	0	0
Compensated Absences Payable	5,563	879	0	0
Advances From Other Funds	45,000	119,983	0	0
Intergovernmental Payable	114,393	482	0	0
Deferred Revenue	1,616,763	1,226,881	342,167	156,250
Deposits Held and Due to Others	0	0	0	0
Accrued Interest Payable	0	0	0	19,253
Notes Payable	0	0	0	1,200,000
Capital Leases Payable	0	0	0	0
OPWC Loan Payable	0	0	0	0
OWDA Loan Payable	0	0	0	0
General Obligation Bonds Payable	0	0	0	0
Special Assessment Debt with Governmental Commitment	0	0	0	0
<i>Total Liabilities</i>	1,946,722	1,419,956	342,167	1,459,506
Fund Equity and Other Credits				
Investment in General Fixed Assets	0	0	0	0
Contributed Capital	0	0	0	0
Retained Earnings:				
Unreserved	0	0	0	0
Fund Balances:				
Reserved for Encumbrances	38,897	22,393	0	44,204
Reserved for Inventory	51,147	30,733	0	0
Reserved for Advances	0	0	0	164,983
Unreserved, Undesignated (Deficit)	352,039	64,074	135,345	(500,272)
<i>Total Fund Equity (Deficit) and Other Credits</i>	442,083	117,200	135,345	(291,085)
<i>Total Liabilities, Fund Equity and Other Credits</i>	\$2,388,805	\$1,537,156	\$477,512	\$1,168,421

See accompanying notes to the general purpose financial statements

Proprietary Fund Type	Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Agency			
\$0	\$0	\$0	\$0	\$186,638
0	0	0	0	19,144
0	0	0	0	114,955
0	0	0	531,424	537,866
0	0	0	0	164,983
0	0	0	158,066	272,941
0	0	0	0	3,342,061
0	213,483	0	0	213,483
4,143	0	0	0	23,396
0	0	0	0	1,200,000
0	0	0	175,684	175,684
292,273	0	0	0	292,273
3,793,247	0	0	0	3,793,247
0	0	0	1,275,820	1,275,820
0	0	0	201,580	201,580
<u>4,089,663</u>	<u>213,483</u>	<u>0</u>	<u>2,342,574</u>	<u>11,814,071</u>
0	0	10,526,541	0	10,526,541
453,044	0	0	0	453,044
1,425,727	0	0	0	1,425,727
0	0	0	0	105,494
0	0	0	0	81,880
0	0	0	0	164,983
0	0	0	0	51,186
<u>1,878,771</u>	<u>0</u>	<u>10,526,541</u>	<u>0</u>	<u>12,808,855</u>
<u>\$5,968,434</u>	<u>\$213,483</u>	<u>\$10,526,541</u>	<u>\$2,342,574</u>	<u>\$24,622,926</u>

City of Willoughby Hills, Ohio
*Combined Statement of Revenues, Expenditures
and Changes in Fund Balances
All Governmental Fund Types
For the Year Ended December 31, 2003*

	Governmental	
	General	Special Revenue
Revenues		
Municipal Income Taxes	\$2,923,302	\$0
Property and Other Taxes	540,186	999,707
Charges for Services	20,579	142,241
Fines, Fees and Permits	517,965	0
Intergovernmental	1,123,891	527,813
Special Assessments	0	0
Rentals	30,176	42,029
Interest	10,694	1,624
Contributions and Donations	692	7,155
Other	29,477	11,493
<i>Total Revenues</i>	<u>5,196,962</u>	<u>1,732,062</u>
Expenditures		
Current:		
General Government	1,141,320	45,015
Security of Persons and Property	3,146,065	762,567
Transportation	0	1,277,462
Community Environment	132,899	0
Leisure Time Activities	65,997	80,257
Capital Outlay	0	0
Debt Service:		
Principal Retirement	49,382	12,148
Interest and Fiscal Charges	9,326	2,642
<i>Total Expenditures</i>	<u>4,544,989</u>	<u>2,180,091</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>651,973</u>	<u>(448,029)</u>
Other Financing Sources (Uses)		
Sale of Fixed Assets	778	0
Operating Transfers In	84,329	555,674
Operating Transfers Out	(553,202)	(200,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(468,095)</u>	<u>355,674</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	183,878	(92,355)
<i>Fund Balances Beginning of Year</i>	226,031	224,362
Increase (Decrease) in Reserve for Inventory	<u>32,174</u>	<u>(14,807)</u>
<i>Fund Balances (Deficit) End of Year</i>	<u><u>\$442,083</u></u>	<u><u>\$117,200</u></u>

See accompanying notes to the general purpose financial statements

<u>Fund Types</u>		Totals
<u>Debt Service</u>	<u>Capital Projects</u>	<u>(Memorandum Only)</u>
\$0	\$0	\$2,923,302
80,581	37,468	1,657,942
0	118,432	281,252
0	8,000	525,965
9,385	338,616	1,999,705
36,910	0	36,910
0	260,781	332,986
0	20,909	33,227
0	55,356	63,203
0	0	40,970
<u>126,876</u>	<u>839,562</u>	<u>7,895,462</u>
10,161	0	1,196,496
0	0	3,908,632
0	0	1,277,462
0	0	132,899
0	0	146,254
0	2,270,219	2,270,219
92,000	55,700	209,230
31,394	65,393	108,755
<u>133,555</u>	<u>2,391,312</u>	<u>9,249,947</u>
<u>(6,679)</u>	<u>(1,551,750)</u>	<u>(1,354,485)</u>
0	0	778
0	200,000	840,003
0	(87,417)	(840,619)
<u>0</u>	<u>112,583</u>	<u>162</u>
(6,679)	(1,439,167)	(1,354,323)
142,024	1,148,082	1,740,499
<u>0</u>	<u>0</u>	<u>17,367</u>
<u>\$135,345</u>	<u>(\$291,085)</u>	<u>\$403,543</u>

City of Willoughby Hills, Ohio
*Combined Statement of Revenues, Expenditures and Changes
 In Fund Balances - Budget (Non-GAAP Basis) and Actual
 All Governmental Fund Types
 For the Year Ended December 31, 2003*

	General Fund			
	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Revenues				
Municipal Income Taxes	\$2,783,119	\$2,850,947	\$2,925,504	\$74,557
Property and Other Taxes	520,785	534,542	538,354	3,812
Charges for Services	20,752	21,300	18,147	(3,153)
Fines, Fees and Permits	516,237	529,874	585,576	55,702
Intergovernmental	1,020,841	1,047,653	1,050,417	2,764
Special Assessments	0	0	0	0
Rentals	24,454	25,100	30,881	5,781
Interest	20,773	21,322	13,542	(7,780)
Contributions and Donations	1,969	2,021	692	(1,329)
Other	27,017	27,731	16,471	(11,260)
<i>Total Revenues</i>	<u>4,935,947</u>	<u>5,060,490</u>	<u>5,179,584</u>	<u>119,094</u>
Expenditures				
Current:				
General Government	1,112,485	1,155,509	1,139,041	16,468
Security of Persons and Property	3,164,682	3,285,160	3,261,736	23,424
Transportation	0	0	0	0
Community Environment	131,031	136,091	133,746	2,345
Basic Utility Services	96	100	100	0
Leisure Time Activities	64,691	67,190	66,271	919
Capital Outlay	0	0	0	0
Debt Service:				
Principal Retirement	0	0	0	0
Interest and Fiscal Charges	0	0	0	0
<i>Total Expenditures</i>	<u>4,472,985</u>	<u>4,644,050</u>	<u>4,600,894</u>	<u>43,156</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>462,962</u>	<u>416,440</u>	<u>578,690</u>	<u>162,250</u>
Other Financing Sources (Uses)				
Proceeds of Notes	0	0	0	0
Sale of Fixed Assets	1,949	2,000	778	(1,222)
Advances In	45,000	45,000	45,000	
Advances Out	0	0	0	
Operating Transfers In	81,564	81,564	84,329	2,765
Operating Transfers Out	(533,288)	(553,882)	(553,202)	680
<i>Total Other Financing Sources (Uses)</i>	<u>(404,775)</u>	<u>(425,318)</u>	<u>(423,095)</u>	<u>2,223</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	58,187	(8,878)	155,595	164,473
<i>Fund Balances Beginning of Year</i>	39,730	39,730	39,730	0
Prior Year Encumbrances Appropriated	39,327	39,327	39,327	0
<i>Fund Balances End of Year</i>	<u>\$137,244</u>	<u>\$70,179</u>	<u>\$234,652</u>	<u>\$164,473</u>

See accompanying notes to the general purpose financial statements

Special Revenue Funds				Debt Service Funds			
Budgeted Amounts		Actual	Variance Favorable (Unfavorable)	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
Original	Final			Original	Final		
\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
980,228	981,558	999,707	18,149	77,961	77,961	80,581	2,620
97,561	93,275	153,661	60,386	0	0	0	0
0	0	0	0	0	0	0	0
521,232	530,229	523,939	(6,290)	9,500	9,500	9,385	(115)
0	0	0	0	42,114	42,000	36,910	(5,090)
39,789	39,789	42,029	2,240	0	0	0	0
4,421	4,571	1,633	(2,938)	0	0	0	0
6,200	6,500	7,470	970	0	0	0	0
2,829	21,750	11,178	(10,572)	0	0	0	0
<u>1,652,260</u>	<u>1,677,672</u>	<u>1,739,617</u>	<u>61,945</u>	<u>129,575</u>	<u>129,461</u>	<u>126,876</u>	<u>(2,585)</u>
54,459	54,459	45,015	9,444	10,570	10,570	10,161	409
760,033	760,033	759,579	454	0	0	0	0
1,279,279	1,338,884	1,311,455	27,429	0	0	0	0
0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0
94,962	94,962	80,257	14,705	0	0	0	0
0	0	0	0	0	0	0	0
0	0	0	0	92,000	92,000	92,000	0
0	0	0	0	38,264	38,264	31,394	6,870
<u>2,188,733</u>	<u>2,248,338</u>	<u>2,196,306</u>	<u>52,032</u>	<u>140,834</u>	<u>140,834</u>	<u>133,555</u>	<u>7,279</u>
<u>(536,473)</u>	<u>(570,666)</u>	<u>(456,689)</u>	<u>113,977</u>	<u>(11,259)</u>	<u>(11,373)</u>	<u>(6,679)</u>	<u>4,694</u>
0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0
119,983	119,983	119,983	0	0	0	0	0
0	0	0	0	0	0	0	0
553,700	585,000	555,674	(29,326)	0	0	0	0
(151,800)	(200,000)	(200,000)	0	0	0	0	0
<u>521,883</u>	<u>504,983</u>	<u>475,657</u>	<u>(29,326)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
(14,590)	(65,683)	18,968	84,651	(11,259)	(11,373)	(6,679)	4,694
124,710	124,710	124,710	0	142,024	142,024	142,024	0
51,761	51,761	51,761	0	0	0	0	0
<u>\$161,881</u>	<u>\$110,788</u>	<u>\$195,439</u>	<u>\$84,651</u>	<u>\$130,765</u>	<u>\$130,651</u>	<u>\$135,345</u>	<u>\$4,694</u>

See accompanying notes to the general purpose financial statements

(continued)

City of Willoughby Hills, Ohio
*Combined Statement of Revenues, Expenditures and Changes
 In Fund Balances - Budget (Non-GAAP Basis) and Actual
 All Governmental Fund Types (continued)
 For the Year Ended December 31, 2003*

	Capital Projects Funds			
	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Revenues				
Municipal Income Taxes	\$0	\$0	\$0	\$0
Property and Other Taxes	27,000	40,000	37,468	(2,532)
Charges for Services	105,000	105,000	118,432	13,432
Fines, Fees and Permits	0	2,000	8,000	6,000
Intergovernmental	55,000	40,000	338,616	298,616
Special Assessments	0	0	0	0
Rentals	247,000	247,986	260,781	12,795
Interest	30,000	31,000	21,458	(9,542)
Contributions and Donations	50,000	50,000	55,356	5,356
Other	0	0	0	0
<i>Total Revenues</i>	<u>514,000</u>	<u>515,986</u>	<u>840,111</u>	<u>324,125</u>
Expenditures				
Current:				
General Government	0	0	0	0
Security of Persons and Property	0	0	0	0
Transportation	0	0	0	0
Community Environment	0	0	0	0
Basic Utility Services	0	0	0	0
Leisure Time Activities	0	0	0	0
Capital Outlay	2,224,981	2,878,429	2,879,219	(790)
Debt Service:				
Principal Retirement	1,255,700	1,255,700	1,255,700	0
Interest and Fiscal Charges	67,074	67,074	67,056	18
<i>Total Expenditures</i>	<u>3,547,755</u>	<u>4,201,203</u>	<u>4,201,975</u>	<u>(772)</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(3,033,755)</u>	<u>(3,685,217)</u>	<u>(3,361,864)</u>	<u>323,353</u>
Other Financing Sources (Uses)				
Proceeds of Notes	1,200,000	1,200,000	1,200,000	0
Sale of Fixed Assets	0	0	0	0
Advances In	0	0	0	0
Advances Out	(163,448)	(164,983)	(164,983)	0
Operating Transfers In	216,000	235,000	200,000	(35,000)
Operating Transfers Out	(87,417)	(87,417)	(87,417)	0
<i>Total Other Financing Sources (Uses)</i>	<u>1,165,135</u>	<u>1,182,600</u>	<u>1,147,600</u>	<u>(35,000)</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	<u>(1,868,620)</u>	<u>(2,502,617)</u>	<u>(2,214,264)</u>	<u>288,353</u>
<i>Fund Balances Beginning of Year</i>	1,124,514	1,124,514	1,124,514	0
Prior Year Encumbrances Appropriated	<u>1,808,044</u>	<u>1,808,044</u>	<u>1,808,044</u>	<u>0</u>
<i>Fund Balances End of Year</i>	<u>\$1,063,938</u>	<u>\$429,941</u>	<u>\$718,294</u>	<u>\$288,353</u>

See accompanying notes to the general purpose financial statements

Totals (Memorandum Only)

Budgeted Amounts		Actual	Variance
Original	Final		Favorable (Unfavorable)
\$2,783,119	\$2,850,947	\$2,925,504	\$74,557
1,605,974	1,634,061	1,656,110	22,049
223,313	219,575	290,240	70,665
516,237	531,874	593,576	61,702
1,606,573	1,627,382	1,922,357	294,975
42,114	42,000	36,910	(5,090)
311,243	312,875	333,691	20,816
55,194	56,893	36,633	(20,260)
58,169	58,521	63,518	4,997
29,846	49,481	27,649	(21,832)
<u>7,231,782</u>	<u>7,383,609</u>	<u>7,886,188</u>	<u>502,579</u>
1,177,514	1,220,538	1,194,217	26,321
3,924,715	4,045,193	4,021,315	23,878
1,279,279	1,338,884	1,311,455	27,429
131,031	136,091	133,746	2,345
96	100	100	0
159,653	162,152	146,528	15,624
2,224,981	2,878,429	2,879,219	(790)
1,347,700	1,347,700	1,347,700	0
105,338	105,338	98,450	6,888
<u>10,350,307</u>	<u>11,234,425</u>	<u>11,132,730</u>	<u>101,695</u>
<u>(3,118,525)</u>	<u>(3,850,816)</u>	<u>(3,246,542)</u>	<u>604,274</u>
1,200,000	1,200,000	1,200,000	0
1,949	2,000	778	(1,222)
164,983	164,983	164,983	0
(163,448)	(164,983)	(164,983)	0
851,264	901,564	840,003	(61,561)
(772,505)	(841,299)	(840,619)	680
<u>1,282,243</u>	<u>1,262,265</u>	<u>1,200,162</u>	<u>(62,103)</u>
(1,836,282)	(2,588,551)	(2,046,380)	542,171
1,430,978	1,430,978	1,430,978	0
1,899,132	1,899,132	1,899,132	0
<u>\$1,493,828</u>	<u>\$741,559</u>	<u>\$1,283,730</u>	<u>\$542,171</u>

See accompanying notes to the general purpose financial statements

City of Willoughby Hills, Ohio
*Statement of Revenues, Expenses
and Changes in Fund Equity
Proprietary Fund Type
For the Year Ended December 31, 2003*

	Enterprise
Operating Revenues	
Charges for Services	\$899,587
Other	9,947
	909,534
<i>Total Operating Revenues</i>	
Operating Expenses	
Personal Services	64,300
Contractual Services	340,725
Depreciation	36,502
Other	59,369
	500,896
<i>Total Operating Expenses</i>	
<i>Operating Income</i>	408,638
Non-Operating Revenue (Expenses)	
Interest	2,978
Grants	250,000
Interest and Fiscal Charges	(8,070)
	244,908
<i>Total Non-Operating Revenues (Expenses)</i>	
<i>Income Before Operating Transfers</i>	653,546
Operating Transfers - In	616
	654,162
<i>Net Income</i>	
<i>Retained Earnings Beginning of Year</i>	771,565
<i>Retained Earnings End of Year</i>	1,425,727
<i>Contributed Capital Beginning and End of Year</i>	453,044
<i>Total Fund Equity End of Year</i>	\$1,878,771

See accompanying notes to the general purpose financial statements

City of Willoughby Hills, Ohio
Statement of Cash Flows
Proprietary Fund Type
For the Year Ended December 31, 2003

	Enterprise
<i>Increase (Decrease) in Cash and Cash Equivalents</i>	
Cash Flows from Operating Activities	
Cash Received from Customers	\$907,373
Cash Received from Other Sources	9,947
Cash Payments for Goods and Services	(340,725)
Cash Payments to Employees for Services and Benefits	(64,300)
Cash Payments for Other Operating Expenses	(59,369)
	452,926
Cash Flows from Noncapital Financing Activities	
Transfer In	616
Cash Flows from Capital and Related Financing Activities	
Related Financing Activities	
Capital Grants	250,000
Acquisition of Capital Assets	(3,674,134)
OPWC Loan Proceeds	292,273
OWDA Loan Proceeds	2,890,770
Principal Paid on OWDA Loans	(4,072)
Interest Paid on OWDA Loans	(3,927)
	(249,090)
Cash Flows from Investing Activities	
Interest	2,978
	207,430
<i>Net Increase in Cash and Cash Equivalents</i>	207,430
<i>Cash and Cash Equivalents Beginning of Year</i>	169,748
	\$377,178
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
<i>Operating Income</i>	\$408,638
Adjustments:	
Depreciation	36,502
Decrease in Accounts Receivable	7,786
	44,288
<i>Total Adjustments</i>	44,288
<i>Net Cash Provided by Operating Activities</i>	\$452,926

See accompanying notes to the general purpose financial statements

City of Willoughby Hills, Ohio
Statement of Revenues, Expenses and Changes
In Fund Equity - Budget (Non-GAAP Basis) and Actual
Proprietary Fund Type
For the Year Ended December 31, 2003

	Enterprise Fund			
	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Revenues				
Charges for Services	\$1,305,725	\$1,005,725	\$907,373	(\$98,352)
Interest	3,000	3,000	2,982	(18)
Grants	0	0	250,000	250,000
Other	0	0	9,947	9,947
OPWC Loan Proceeds	0	0	292,273	292,273
OWDA Loan Proceeds	640,275	330,875	2,890,770	2,559,895
<i>Total Revenues</i>	<u>1,949,000</u>	<u>1,339,600</u>	<u>4,353,345</u>	<u>3,013,745</u>
Expenses				
Personal Services	64,318	64,318	64,300	18
Contractual Services	233,644	364,644	363,646	998
Materials and Supplies	2,668	2,668	2,500	168
Capital Outlay	922,987	922,987	3,684,830	(2,761,843)
Other	64,807	64,807	62,343	2,464
Debt Service				
Principal Retirement	4,072	4,072	4,072	0
Interest and Fiscal Charges	3,927	3,927	3,927	0
<i>Total Expenses</i>	<u>1,296,423</u>	<u>1,427,423</u>	<u>4,185,618</u>	<u>(2,758,195)</u>
<i>Excess of Revenues Over (Under) Expenses</i>	652,577	(87,823)	167,727	255,550
Operating Transfers In	<u>1,000</u>	<u>1,000</u>	<u>616</u>	<u>(384)</u>
<i>Excess of Revenues Over (Under) Expenses and Operating Transfers</i>	653,577	(86,823)	168,343	255,166
<i>Fund Equity Beginning of Year</i>	160,222	160,222	160,222	0
Prior Year Encumbrances Appropriated	<u>9,454</u>	<u>9,454</u>	<u>9,454</u>	<u>0</u>
<i>Fund Equity End of Year</i>	<u><u>\$823,253</u></u>	<u><u>\$82,853</u></u>	<u><u>\$338,019</u></u>	<u><u>\$255,166</u></u>

See accompanying notes to the general purpose financial statements

City of Willoughby Hills, Ohio
Notes to the General Purpose Financial Statements
For Year Ended December 31, 2003

Note 1 - Reporting Entity

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

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

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

The City participates in the Northeast Ohio Public Energy Council, a jointly governed organization. This organization is discussed in Note 16 of the General Purpose Financial Statements.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the City's accounting policies are described below.

A. Basis Of Presentation - Fund Accounting

The City uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain City functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

City of Willoughby Hills, Ohio
Notes to the General Purpose Financial Statements
For Year Ended December 31, 2003

For financial statement presentation purposes, the various funds of the City are grouped into the following generic fund types under the broad fund categories governmental, proprietary and fiduciary.

Governmental Fund Types Governmental funds are those through which most governmental functions of the City are financed. The acquisition, use and balances of the City's expendable financial resources and the related current liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The following are the City's governmental fund types:

General Fund This fund is the operating fund of the City and 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.

Special Revenue Funds These funds are established to account for the proceeds of specific revenue sources (other than amounts relating to major capital projects) that are legally restricted to expenditure for specified purposes.

Debt Service Funds These funds are used to account for the accumulation of resources for, and the payment of general and special assessment long-term debt principal, interest and related costs.

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

Proprietary Fund Type Proprietary funds are used to account for the City's ongoing activities which are similar to those found in the private sector. The following is the City's proprietary fund type:

Enterprise Fund This fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent 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 or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Fiduciary Fund Type Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. The City only utilizes the agency fund type. The City's agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations.

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

General Fixed Assets Account Group This account group accounts for all general fixed assets of the City other than those accounted for in proprietary funds.

General Long-Term Obligations Account Group This account group accounts for all unmatured long-term indebtedness of the City that is not a specific liability of proprietary funds, including special assessment debt for which the City is obligated in some manner.

City of Willoughby Hills, Ohio
Notes to the General Purpose Financial Statements
For Year Ended December 31, 2003

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The proprietary fund type are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund types operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for the governmental and agency funds. The full accrual basis of accounting is followed for the proprietary fund.

Revenues – Exchange and Nonexchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within thirty-one days of 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 year in which the income is earned. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 6) Revenue from grants, entitlements and donations is recognized in the fiscal 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 fiscal 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 fiscal year-end: income tax, state-levied locally shared taxes, interest, grants fees and rentals.

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, 2003, but which were levied to finance year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue. On the modified accrual basis, receivables that will not be collected within the available period have also been reported as deferred revenue.

City of Willoughby Hills, Ohio
Notes to the General Purpose Financial Statements
For Year Ended December 31, 2003

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.

C. 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 appropriations cannot exceed estimated resources, as certified. All funds, other than the agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control is at the object level within each department in the general fund and at the fund level for all other funds. Any budgetary modifications at this level may only be made by resolution of City Council.

Tax Budget At 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.

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 appropriation ordinance. On or about January 1, the certificate of estimated resources is amended to include unencumbered fund 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 as the original budgeted amounts in the budgetary statements reflect the amounts in the amended certificate when the original appropriations were adopted. The amounts reported in the budgetary statements as final budgeted amounts reflect the amounts in the amended certificate in effect at the time the final appropriations were passed.

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 for the general fund and at the fund level for all other funds. 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 the general fund and at the fund level for all other funds may be modified during the year only by an ordinance of Council. The Director of Finance is authorized to transfer appropriations between line items within an object of any department for the general fund and within the fund for all other funds. During the year, several supplemental appropriation measures were passed. The amounts reported as the original budgeted amounts in the budgetary statements reflect the first appropriated

City of Willoughby Hills, Ohio
Notes to the General Purpose Financial Statements
For Year Ended December 31, 2003

budget for that fund that covered the entire year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts in the statement of budgetary comparisons represent the final appropriation amounts, including all amendments and modifications passed by Council during the year.

Encumbrances As part of formal budgetary control, purchase orders, 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 and maintain legal compliance. The Ohio Revised Code prohibits expenditures plus encumbrances from exceeding appropriations at the legal level of control. On the GAAP basis, encumbrances outstanding at year end are reported as reservations of fund balances for subsequent-year expenditures for governmental funds and reported in the notes to the financial statements for proprietary funds.

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. The encumbered appropriation balance is carried forward to the succeeding year and is not reappropriated.

D. Cash and Cash Equivalents

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

The general fund made an advance to the recreation development capital projects fund to eliminate the fund's negative cash balance. The capital projects fund has an interfund payable for the amount of the advance received from the general fund and the general fund has an interfund receivable for the same amount on the combined balance sheet.

The City has segregated bank accounts for monies held separate from the City's central bank account. These depository accounts are presented in the Combined Balance Sheet as "cash and cash equivalents in segregated accounts."

During 2003, investments were limited to repurchase agreements, certificates of deposit and STAROhio.

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

STAROhio is an investment pool managed by the State Treasurers Office which allows governments within the State to pool their funds for investment purposes. STAROhio 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 STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on December 31, 2003.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2003 amounted to \$10,694, which includes \$5,505 assigned from other City funds.

City of Willoughby Hills, Ohio
Notes to the General Purpose Financial Statements
For Year Ended December 31, 2003

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the City are considered to be cash equivalents. Investments with an original maturity of more than three months not purchased from the pool are reported as investments.

E. Inventory

Inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental fund types when purchased and as expenses in the proprietary fund types when used. Reported materials and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

F. Prepaids

Payments made to vendors for services that will benefit periods beyond December 31, 2003, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure in the year in which it was consumed.

G. Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. Fixed assets utilized in the proprietary fund are capitalized in the fund.

All purchased fixed assets are valued at cost when historical records are available and at an estimated historical cost when no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received.

Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Interest incurred during the construction of general fixed assets is also not capitalized.

Public domain ("infrastructure") general fixed assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems are not capitalized, as these assets are immovable and of value only to the City.

Assets in the general fixed assets account group are not depreciated. Depreciation of sewer lines, equipment and vehicles in the proprietary fund type is computed using the straight-line method over an estimated useful life. Improvements to fund fixed assets are depreciated over the remaining useful lives of the related fund fixed assets. The lives used are as follows:

Buildings	15 - 25 years
Improvements other than buildings	25 - 50 years
Machinery, equipment, furniture and fixtures	3 - 10 years

City of Willoughby Hills, Ohio
Notes to the General Purpose Financial Statements
For Year Ended December 31, 2003

Interest is capitalized on proprietary fund fixed assets acquired with tax-exempt debt. The City's policy is to capitalize net interest on construction projects until substantial completion of the project. The amount of capitalized interest equals the difference between the interest cost associated with the tax-exempt borrowing used to finance the project from the date of borrowing until completion of the project and the interest earned from temporary investment of the debt proceeds over the same period. Capitalized interest is amortized on the straight-line basis over the estimated useful life of the asset.

H. Interfund Assets and Liabilities

Receivables and payables resulting from transactions between funds for services provided or goods received are classified as "due from other funds" or "due to other funds" on the balance sheet. Short-term interfund loans are classified as "interfund receivables/payables."

Long-term interfund loans, reported as "advances to/from other funds", are equally offset by a fund balance reserve account which indicate that they do not constitute "available expendable resources" even though it is a component of net current assets. Repayment is expected to be made within a reasonable time.

I. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability is based upon the sick leave accumulated at December 31, 2003, by those employees who are eligible to receive termination benefits and those who are expected to become eligible in the future. The amount is based on accumulated sick leave and employee wage rates at fiscal year end, taking into consideration any limits specified in the City's termination policy.

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 remainder is reported in the general long-term obligations account group. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

J. Contributed Capital

Contributed capital in the proprietary fund represents resources provided prior to 2001, to the enterprise funds from other funds, other governments and private sources that are not subject to repayment. Capital contributions received during 2003 are reported as revenue on the operating statement and included in the retained earnings.

K. Fund Equity

Reservations of fund balances are established to identify the existence of assets that, because of their nonmonetary nature or lack of liquidity, represent financial resources not available for current appropriation or expenditures, including amounts legally segregated for a specific future use. Fund balances are reserved for encumbrances, inventories of supplies and materials and long-term advances.

City of Willoughby Hills, Ohio
Notes to the General Purpose Financial Statements
For Year Ended December 31, 2003

L. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

M. Accrued Liabilities and Long-term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, claims and judgements, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current expendable available financial resources. Payments made more than thirty days after year end are generally considered not to have been paid with current available financial resources. Bonds, long term loans and capital leases are recognized as a liability of the general long-term obligations account group until due.

Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate proprietary funds.

N. Estimates

The preparation of 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.

O. Total Columns on General Purpose Financial Statements

Total columns on the General Purpose Financial Statements are captioned memorandum only to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

Note 3 - Budgetary Basis of Accounting

While reporting financial position, results of operations, and changes in fund balance/retained earnings 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 (Non-GAAP Basis) and Actual - All Governmental Fund Types and the Combined Statement of Revenues, Expenses and Changes in Fund Equity - Budget (Non-GAAP Basis) and Actual - Proprietary Fund Type are presented on the budgetary basis to provide a relevant comparison of actual results with the budget and to demonstrate compliance with State statute. The major differences between the budget basis and the GAAP basis are:

City of Willoughby Hills, Ohio
Notes to the General Purpose Financial Statements
For Year Ended December 31, 2003

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Outstanding year end encumbrances are treated as expenditures/expenses (budget) rather than as a reservation of fund balance for governmental fund types and as note disclosure in the proprietary fund type (GAAP).
4. Unrecorded cash, which consists of unrecorded interest, is not reported by the City on the budgetary statements, but is reported on the operating statements prepared using GAAP.
5. Investments reported at cost (budget) rather than fair value (GAAP).
6. Advances-In and Advances-Out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).
7. For the proprietary fund, the acquisition and construction of capital assets are reported on the operating statement (budget) rather than as balance sheet transactions (GAAP).

The following tables summarize the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements on a fund type basis.

Excess of Revenues and Other Financing Sources
Over (Under) Expenditures and Other Financing Uses
All Governmental Fund Types

	General	Special Revenue	Debt Service	Capital Projects
GAAP Basis	\$183,878	(\$92,355)	(\$6,679)	(\$1,439,167)
Net Adjustment for Revenue Accruals	(19,006)	7,287	0	(1,419)
Beginning Unrecorded Cash	2,360	326	0	2,656
Ending Unrecorded Cash	(766)	(58)	0	(688)
Beginning Fair Market Value Adjustment	34	0	0	0
Note Proceeds	0	0	0	1,200,000
Advances In	45,000	119,983	0	0
Net Adjustment for Expenditure Accruals	66,000	44,578	0	(501,601)
Advances Out	0	0	0	(164,983)
Principal Retirement	0	0	0	(1,200,000)
Encumbrances	(121,905)	(60,793)	0	(109,062)
Budget Basis	<u>\$155,595</u>	<u>\$18,968</u>	<u>(\$6,679)</u>	<u>(\$2,214,264)</u>

City of Willoughby Hills, Ohio
Notes to the General Purpose Financial Statements
For Year Ended December 31, 2003

Net Income/Excess of Revenues Over Expenses
Proprietary Fund Type

	<u>Enterprise</u>
GAAP Basis	\$654,162
Net Adjustment for Revenue Accruals	7,858
Beginning Unrecorded Cash	(72)
Ending Unrecorded Cash	4
OWDA Loan Proceeds	2,890,770
OPWC Loan Proceeds	292,273
Net Adjustment for Expenditure Accruals	4,143
Principal Retirement	(4,072)
Capital Acquisitions	(3,674,134)
Depreciation Expense	36,502
Encumbrances	(39,091)
Budget Basis	<u>\$168,343</u>

Note 4 - Accountability and Compliance

A. Accountability

Fund balance at December 31, 2003, included the following individual fund deficits:

<i>Special Revenue Fund</i>	
Fire Levy	\$45,249
<i>Capital Projects Fund</i>	
Recreation Development	1,238,397

The fire levy special revenue fund deficit is due to adjustments for accrued liabilities. The general fund is liable for any deficit in these funds and provides operating transfers when cash is required, not when accruals occur.

Capital projects fund's deficit is the result of the issuance of short-term bond anticipation notes which are used to finance the project until bonds are issued. Once the notes are retired or bonds are issued, these deficits will be eliminated.

City of Willoughby Hills, Ohio
Notes to the General Purpose Financial Statements
For Year Ended December 31, 2003

B. Legal Compliance

The following funds had expenditures plus encumbrances in excess of final appropriations in violation of Section 5705.41 (B) and (D), Ohio Revised Code:

	Expenditures Plus Encumbrances	Appropriations	Excess
<i>Capital Projects Fund</i>			
Recreation Development	\$3,380,213	\$3,223,482	\$156,731
<i>Enterprise Fund</i>			
Sewer	4,185,618	1,427,423	2,758,195

Contrary to Ohio Revised Code Section 5705.10, the City had a negative fund balance of \$155,568 in the recreation development capital projects fund indicating that revenues from other sources were used to pay obligations of this fund.

Note 5 - Deposits and Investments

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

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

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

Interim monies can be deposited or invested in the following:

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

City of Willoughby Hills, Ohio
Notes to the General Purpose Financial Statements
For Year Ended December 31, 2003

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 exceeds the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
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).

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

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

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

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

GASB Statement 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements, requires disclosures to help assess actual and potential future deposit and investment market and credit risks. The following information regarding deposits and investments is presented using the categories of risk identified in GASB Statement 3.

Cash on Hand: At year end, the City had \$700 in undeposited cash on hand which is included on the balance sheet of the City as part of equity in pooled cash and cash equivalents.

City of Willoughby Hills, Ohio
Notes to the General Purpose Financial Statements
For Year Ended December 31, 2003

Deposits. At year-end, the carrying amount of the City's deposits was \$744,555 and the bank balance was \$948,728. Of the bank balance:

1. \$625,690 was covered by federal depository insurance.
2. \$323,038 was uncollateralized and uninsured. Although the securities were held by the pledging financial institutions trust department or agent in the City's name and all State statutory requirements for the investment of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

Investments. Investments are classified under the guidelines of GASB Statement No. 3 into three categories. Category 1 includes investments that are insured or registered or are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments which are held by the counterparty, or by its trust department or agent but not in the City's name. STAROhio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

	Category 3	Carrying Value	Fair Value
Repurchase Agreement	\$520,209	\$520,209	\$520,209
Investment in State Treasurer's Investment Pool		900,174	900,174
Total Investments	\$520,209	\$1,420,383	\$1,420,383

The classification of cash and cash equivalents, and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting.

A reconciliation between the classifications of cash and investments on the combined financial statements and the classification of deposits and investments presented above per GASB Statement No. 3, is as follows:

	Cash and Cash Equivalents	Investments
GASB Statement No. 9	\$2,165,638	\$0
Cash on Hand	(700)	0
Investments of Cash		
Management Pool:		
Repurchase Agreement	(520,209)	520,209
STAROhio	(900,174)	900,174
GASB Statement No. 3	\$744,555	\$1,420,383

City of Willoughby Hills, Ohio
Notes to the General Purpose Financial Statements
For Year Ended December 31, 2003

Note 6 - Receivables

Receivables at December 31, 2003, consisted of taxes, accounts (billings for user charged services), special assessments, interest, and intergovernmental receivables arising from grants, entitlements, and shared revenues. All receivables are considered fully collectible.

A. Property Taxes

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2003 for real and public utility property taxes represents collections of the 2002 taxes. Property tax payments received during 2003 for tangible personal property (other than public utility property) are for 2003 taxes.

2003 real property taxes are levied after October 1, 2003 on the assessed value as of January 1, 2003, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2003 real property taxes are collected in and intended to finance 2004.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2003 public utility property taxes became a lien December 31, 2002, are levied after October 1, 2003, and are collected in 2004 with real property taxes.

2003 tangible personal property taxes are levied after October 1, 2002, on the value as of December 31, 2002. Collections are made in 2003. Tangible personal property assessments are 25 percent of true value for capital assets and 23 percent for inventory.

The full tax rate for all City operations for the year ended December 31, 2003, was \$7.40 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2002 property tax receipts were based are as follows:

<u>Category</u>	<u>Assessed Value</u>
Real Property	\$264,754,200
Public Utility Tangible	4,921,980
Tangible Personal	<u>16,769,735</u>
Total	<u><u>\$286,445,915</u></u>

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

Taxable personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30; with the remainder payable by September 20.

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City of Willoughby Hills. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represent real, tangible personal property taxes and public utility taxes which are measurable as of December 31, 2003 and for which there is an enforceable legal claim. Although property tax collections for

City of Willoughby Hills, Ohio
Notes to the General Purpose Financial Statements
For Year Ended December 31, 2003

the next year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31, nor are they intended to finance 2003 operations. The receivable is offset by deferred revenue.

B. Income Tax

The City levies a municipal income tax of one and a half percent on substantially all income earned within the City; in addition, residents are required to pay tax on income earned outside of the City. The City allows a credit of one hundred percent for income tax paid to another municipality up to a limit of one percent of the total amount owed. Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. Income tax proceeds are to be used for the purposes of general municipal operations, maintenance, new equipment, extension and enlargement of municipal services and facilities and capital improvements of the City of Willoughby Hills. In 2003, the proceeds were allocated one hundred percent to the general fund.

C. Intergovernmental Receivable

A summary of the principal items of intergovernmental receivables follows:

	Amount
<i>General Fund</i>	
Local Government	\$476,557
Estate Tax	97,965
Homestead and Rollback	30,499
Radio Dispatch	2,546
Willoughby Court	1,848
Liquor Permits	783
Total General Fund	610,198
<i>Special Revenue Funds</i>	
Street Construction, Maintenance and Repair	176,563
State Highway	14,678
Fire Levy	23,461
Road Levy	30,716
Police Pension	3,910
Total Special Revenue Funds	249,328
Bond Retirement Debt Service Fund	4,692
Capital Improvements Capital Projects Fund	156,250
<i>Total Intergovernmental Receivable</i>	\$1,020,468

City of Willoughby Hills, Ohio
Notes to the General Purpose Financial Statements
For Year Ended December 31, 2003

Note 7 - Fixed Assets

A summary of the enterprise fund fixed assets at December 31, 2003, follows:

Buildings	\$233,000
Improvements	1,824,558
Construction in Progress	4,111,260
Total	6,168,818
Accumulated Depreciation	(577,562)
Net Fixed Assets	\$5,591,256

A summary of changes in general fixed assets follows:

	Balance 12/31/02	Additions	Deletions	Balance 12/31/03
Land	\$340,820	\$0	\$0	\$340,820
Building and Improvements	2,427,332	2,143,016	0	4,570,348
Machinery and Equipment	3,717,744	383,420	(562)	4,100,602
Construction in Progress	1,514,771	0	0	1,514,771
Total	\$8,000,667	\$2,526,436	(\$562)	\$10,526,541

Note 8 - 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 2003, the City participated in the Ohio Government Risk Management Plan which contracted with Love Insurance Company for the following types of insurance:

Type of Coverage	Coverage
Property	\$7,609,111
Inland Marine	1,351,632
Vehicle	
Comprehensive	5,000,000 per occurrence
Collision	5,000,000 per occurrence
Law Enforcement Liability	7,000,000 aggregate
Public Officials Liability	7,000,000 aggregate

Settled claims have not exceeded this coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

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

City of Willoughby Hills, Ohio
Notes to the General Purpose Financial Statements
For Year Ended December 31, 2003

Note 9 - Defined Benefit Pension Plans

A. Ohio Public Employees Retirement System

The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, 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) 222-6705.

For the year ended December 31, 2003, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The City's contribution rate for pension benefits for 2003 was 8.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 11.7 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2003, 2002, and 2001 were \$132,348, \$139,498, and \$148,501 respectively; 72.83 percent has been contributed for 2003 and 100 percent for 2002 and 2001. Contributions to the member-directed plan for 2003 were \$235 made by the City and \$148 made by the plan members.

B. Ohio Police and Fire Pension Fund

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

City of Willoughby Hills, Ohio
Notes to the General Purpose Financial Statements
For Year Ended December 31, 2003

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations while the City is required to contribute 11.75 percent for police officers and 16.25 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the Fund for police and firefighters were \$127,676 and \$110,310 for the year ended December 31, 2003, \$131,953 and \$107,193 for the year ended December 31, 2002, and \$125,379 and \$104,943 for the year ended December 31, 2001. The full amount has been contributed for 2002 and 2001. 69.95 percent for police and 77.03 percent for firefighters has been contributed for 2003 with the remainder being reported as a liability.

Note 10 - Postemployment Benefits

A. Ohio Public Employees Retirement System (OPERS)

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2003 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 5.00 percent of covered payroll 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, 2002, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.00 percent annually.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional and combined plans was 364,881. Actual employer contributions for 2003 which were used to fund postemployment benefits were \$77,396. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2002, (the latest information available) were \$10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$18.7 billion and \$8.7 billion, respectively.

In December 2001, the Board adopted the Health Care "Choices" Plan. The Choices Plan will be offered to all persons newly hired in an OPERS covered position after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices will incorporate a cafeteria approach, offering a broader range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present Plan.

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The Plan will also offer a spending account feature, enabling the benefit recipient to apply their allowance toward specific medical expenses, much like a Medical Spending Account.

City of Willoughby Hills, Ohio
Notes to the General Purpose Financial Statements
For Year Ended December 31, 2003

B. Ohio Police and Fire Pension Fund

The Ohio Police and Fire Pension Fund (OP&F) provides postretirement health care coverage to 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 2/3 basis.

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in *GASB Statement No. 12*. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F 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 rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2003. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2003 that were used to fund postemployment benefits were \$84,212 for police and \$52,609 for firefighters. The OP&F's total health care expense for the year ended December 31, 2002, (the latest information available) was \$141,028,006, which was net of member contributions of \$12,623,875. The number of OP&F participants eligible to receive health care benefits as of December 31, 2002, was 13,527 for police and 10,396 for firefighters.

Note 11 - Other Employee Benefits

A. Compensated Absences

Employees earn vacation at different rates which are affected by length of service. In general, vacation earned in any one year must be used within the following year and cannot be carried over except with the written approval of the Mayor. At the time of separation the employee is entitled to payment for any earned but unused vacation.

Sick leave is accrued at the rate of 4.6 hours for each 80 hours of completed service, including paid holidays and paid vacation, with a maximum accumulation of 960 work days. Upon retirement, employees are paid for all the sick days they have accumulated.

As of December 31, 2003, the liability for unpaid compensated absences was \$537,866 for the entire City.

B. Health Insurance

The City has contracted with Anthem Blue Cross of Ohio to provide employee health care coverage.

City of Willoughby Hills, Ohio
Notes to the General Purpose Financial Statements
For Year Ended December 31, 2003

Note 12 - Long-Term Obligations

The changes in long-term obligations during the year were as follows:

	Outstanding 12/31/2002	Additions	(Reductions)	Outstanding 12/31/2003
Enterprise Fund Obligations				
<i>OWDA Loans</i>				
Euclid Interceptor	\$678,217	\$2,636,635	\$0	\$3,314,852
Euclid Sewer 2002 3.640%	0	254,135	0	254,135
Oak Street	228,332	0	(4,072)	224,260
<i>Total OWDA Loans</i>	906,549	2,890,770	(4,072)	3,793,247
<i>OPWC Loan</i>				
Euclid Interceptor	0	292,273	0	292,273
<i>Total Enterprise Fund Obligations</i>	906,549	3,183,043	(4,072)	4,085,520
General Long-Term Obligations				
<i>General Obligation Bonds</i>				
1986 7.38%				
City Hall Addition	160,000	0	(40,000)	120,000
1993 2.65 - 5.30%				
Service Garage Addition	90,000	0	(5,000)	85,000
1993 2.65 - 5.30%				
Fire Truck Acquisition	20,000	0	(20,000)	0
1993 2.65 - 5.30%				
Sanitary Sewer Improvement	29,062	0	(2,642)	26,420
2001 5.05%				
Fire Station Improvement	1,100,100	0	(55,700)	1,044,400
<i>Total General Obligation Bonds</i>	1,399,162	0	(123,342)	1,275,820
<i>Special Assessment Bonds</i>				
1987 7.88%				
Chardon Sewer System Improvement	35,000	0	(7,000)	28,000
1993 2.65 - 5.30%				
Sanitary Sewer Improvement	190,938	0	(17,358)	173,580
<i>Total Special Assesment Bonds</i>	225,938	0	(24,358)	201,580
Capital Leases	237,214	0	(61,530)	175,684
Compensated Absences	568,894	70,557	(108,027)	531,424
Intergovernmental Payable	146,924	(146,924)	158,066	158,066
<i>Total General Long-Term Obligations</i>	2,578,132	(76,367)	(159,191)	2,342,574
<i>Total</i>	<u>\$3,484,681</u>	<u>\$3,106,676</u>	<u>(\$163,263)</u>	<u>\$6,428,094</u>

City of Willoughby Hills, Ohio
Notes to the General Purpose Financial Statements
For Year Ended December 31, 2003

A line of credit has been established with the Ohio Water Development Authority in the amount of \$5,941,582 and the Ohio Public Works Commission in the amount of \$450,000 for the Euclid Creek Interceptor Sewer project and the Euclid Creek Sewer Project; however, since these loans have not been finalized, repayment schedules are not included in the schedule of debt service requirements.

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

The capital lease obligation is paid from the general fund and street maintenance and repair special revenue fund. Compensated absences will be paid from the fund from which the employees' salaries are paid. The intergovernmental payable represents contractually required pension contributions paid outside the available period and will be paid from the fund from which the employees' salaries are paid.

The City's overall legal debt margin was \$28,936,346 with an unvoted debt margin of \$14,614,050 at December 31, 2003. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2003 are as follows:

	General Obligation Bonds	Special Assessment Bonds	OWDA Loan	Totals
2004	\$172,807	\$35,528	\$16,702	\$225,037
2005	169,501	34,153	16,702	220,356
2006	166,137	32,760	16,702	215,599
2007	127,904	31,349	16,702	175,955
2008	127,257	22,878	16,702	166,837
2009 - 2013	626,117	100,590	83,510	810,217
2014 - 2016	331,642	0	83,510	415,152
2017 - 2022	0	0	63,428	63,428
Total Principal and Interest	1,721,365	257,258	313,958	2,292,581
Less: Interest	(445,545)	(55,678)	(89,698)	(590,921)
Total Principal	<u>\$1,275,820</u>	<u>\$201,580</u>	<u>\$224,260</u>	<u>\$1,701,660</u>

Note 13 - Capital Leases

The City has entered into capital leases for the acquisition of a telephone system, a loader and police radios. The leases are payable from the general fund and the street maintenance and repair special revenue fund. The leases meet the criteria of a capital lease as defined by 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. General fixed assets acquired by lease have been capitalized in the general fixed asset account group in the amount of \$690,646 which represents the present value of the lease payments at the time of the acquisition. A corresponding liability was recorded in the general long-term obligations account group.

City of Willoughby Hills, Ohio
Notes to the General Purpose Financial Statements
For Year Ended December 31, 2003

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments.

Year	Total
2004	\$73,498
2005	59,161
2006	59,161
Total minimum lease payments	191,820
Less: Amount representing interest	(16,136)
Present value of minimum lease payments	\$175,684

Note 14 – Notes Payable

Changes in the City’s note activity for the year ended December 31, 2003, were as follows:

	Outstanding 12/31/02	Additions	(Reductions)	Outstanding 12/31/03
Recreation Development Fund				
2002 - 2.06%	\$1,200,000	\$0	(\$1,200,000)	\$0
2003 - 1.90%	0	1,200,000	0	1,200,000
Total	\$1,200,000	\$1,200,000	(\$1,200,000)	\$1,200,000

The note is backed by the full faith and credit of the City of Willoughby Hills and matures within one year. The note liability is reflected in the fund which received the proceeds. The notes are generally issued in anticipation of long-term bond financing and are refinanced until such bonds are issued.

Note 15 - Contingencies

A. Grants

The City receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or any other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2003.

B. Litigation

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

City of Willoughby Hills, Ohio
Notes to the General Purpose Financial Statements
For Year Ended December 31, 2003

Note 16 - Jointly Governed Organization

The City is a member of The Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of electricity. NOPEC is currently comprised of over 100 communities who have been authorized by ballot to purchase electricity on behalf of their citizens. The intent of NOPEC is to provide electricity at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity to the citizens of its member communities.

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives on the governing board 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 Willoughby Hills did not contribute to NOPEC during 2003. Financial information can be obtained by contacting NOPEC at 1615 Clark Avenue, Cleveland, Ohio 44109.

Note 17 – Subsequent Events

In February 2004, the City converted the short-term construction note of \$1,200,000 to a 18 year bond at an interest rate of 4.1 percent.

City of Willoughby Hills, Ohio
Combined Balance Sheet
All Fund Types and Account Groups
December 31, 2002

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Assets and Other Debits				
Assets				
Equity in Pooled Cash and Cash Equivalents	\$81,294	\$174,513	\$142,024	\$2,933,794
Cash and Cash Equivalents In Segregated Accounts	0	0	0	0
Receivables:				
Taxes	1,344,731	977,880	78,782	0
Accounts	1,895	11,957	0	6,940
Special Assessments	0	0	294,136	0
Accrued Interest	4,851	0	0	0
Intergovernmental	589,119	211,849	4,792	0
Materials and Supplies Inventory	18,973	45,540	0	0
Prepaid Items	14,536	0	0	0
Fixed Assets (Net, where applicable, of Accumulated Depreciation)	0	0	0	0
Other Debits				
Amount Available in Debt Service Fund for Retirement of General Obligation Bonds	0	0	0	0
Amount Available in Debt Service Fund for Retirement of Special Assessment Bonds	0	0	0	0
Amount to be Provided from General Government Resources	0	0	0	0
Amount to be Provided from Special Assessments	0	0	0	0
	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Assets and Other Debits	<u>\$2,055,399</u>	<u>\$1,421,739</u>	<u>\$519,734</u>	<u>\$2,940,734</u>

See accompanying notes to the general purpose financial statements

Proprietary Fund Type	Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Agency			
\$169,748	\$153,996	\$0	\$0	\$3,655,369
0	4,675	0	0	4,675
0	0	0	0	2,401,393
7,786	0	0	0	28,578
0	0	0	0	294,136
0	0	0	0	4,851
0	0	0	0	805,760
0	0	0	0	64,513
0	0	0	0	14,536
1,953,624	0	8,000,667	0	9,954,291
0	0	0	59,435	59,435
0	0	0	82,589	82,589
0	0	0	2,292,759	2,292,759
0	0	0	143,349	143,349
<u>\$2,131,158</u>	<u>\$158,671</u>	<u>\$8,000,667</u>	<u>\$2,578,132</u>	<u>\$19,806,234</u>

See accompanying notes to the general purpose financial statements

(continued)

City of Willoughby Hills, Ohio
Combined Balance Sheet
All Fund Types and Account Groups (continued)
December 31, 2002

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Liabilities, Fund Equity and Other Credits				
Liabilities				
Accounts Payable	\$70,206	\$0	\$0	\$53,994
Contracts Payable	0	0	0	517,783
Accrued Wages and Benefits	75,387	26,086	0	0
Compensated Absences Payable	4,820	2,105	0	0
Intergovernmental Payable	68,546	323	0	0
Deferred Revenue	1,610,409	1,168,863	377,710	0
Deposits Held and Due to Others	0	0	0	0
Accrued Interest Payable	0	0	0	20,875
Notes Payable	0	0	0	1,200,000
Capital Leases Payable	0	0	0	0
OWDA Loan Payable	0	0	0	0
General Obligation Bonds Payable	0	0	0	0
Special Assessment Debt with Governmental Commitment	0	0	0	0
<i>Total Liabilities</i>	<i>1,829,368</i>	<i>1,197,377</i>	<i>377,710</i>	<i>1,792,652</i>
Fund Equity and Other Credits				
Investment in General Fixed Assets	0	0	0	0
Contributed Capital	0	0	0	0
Retained Earnings:				
Unreserved	0	0	0	0
Fund Balances:				
Reserved for Encumbrances	27,486	49,736	0	1,236,267
Reserved for Inventory	18,973	45,540	0	0
Unreserved, Undesignated (Deficit)	179,572	129,086	142,024	(88,185)
<i>Total Fund Equity and Other Credits</i>	<i>226,031</i>	<i>224,362</i>	<i>142,024</i>	<i>1,148,082</i>
<i>Total Liabilities, Fund Equity and Other Credits</i>	<i>\$2,055,399</i>	<i>\$1,421,739</i>	<i>\$519,734</i>	<i>\$2,940,734</i>

See accompanying notes to the general purpose financial statements

Proprietary Fund Type	Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Agency			
\$0	\$0	\$0	\$0	\$124,200
0	0	0	0	517,783
0	0	0	0	101,473
0	0	0	568,894	575,819
0	0	0	146,924	215,793
0	0	0	0	3,156,982
0	158,671	0	0	158,671
0	0	0	0	20,875
0	0	0	0	1,200,000
0	0	0	237,214	237,214
906,549	0	0	0	906,549
0	0	0	1,399,162	1,399,162
0	0	0	225,938	225,938
<u>906,549</u>	<u>158,671</u>	<u>0</u>	<u>2,578,132</u>	<u>8,840,459</u>
0	0	8,000,667	0	8,000,667
453,044	0	0	0	453,044
771,565	0	0	0	771,565
0	0	0	0	1,313,489
0	0	0	0	64,513
0	0	0	0	362,497
<u>1,224,609</u>	<u>0</u>	<u>8,000,667</u>	<u>0</u>	<u>10,965,775</u>
<u>\$2,131,158</u>	<u>\$158,671</u>	<u>\$8,000,667</u>	<u>\$2,578,132</u>	<u>\$19,806,234</u>

City of Willoughby Hills, Ohio
*Combined Statement of Revenues, Expenditures
and Changes in Fund Balances
All Governmental Fund Types
For the Year Ended December 31, 2002*

	Governmental	
	General	Special Revenue
Revenues		
Municipal Income Taxes	\$2,768,844	\$0
Property and Other Taxes	575,604	988,380
Charges for Services	29,248	61,324
Fines, Fees and Permits	553,510	1,400
Intergovernmental	921,541	471,465
Special Assessments	0	0
Rentals	13,505	41,133
Interest	22,740	5,156
Contributions and Donations	1,835	6,846
Other	780	14,669
	4,887,607	1,590,373
<i>Total Revenues</i>		
Expenditures		
Current:		
General Government	1,176,618	65,015
Security of Persons and Property	3,213,480	499,480
Transportation	0	1,774,651
Community Environment	182,782	0
Leisure Time Activities	68,102	94,681
Capital Outlay	0	0
Debt Service:		
Principal Retirement	122,604	11,526
Interest and Fiscal Charges	15,522	3,264
	4,779,108	2,448,617
<i>Total Expenditures</i>		
<i>Excess of Revenues Over (Under) Expenditures</i>	108,499	(858,244)
Other Financing Sources (Uses)		
Sale of Fixed Assets	1,495	0
Operating Transfers In	0	534,472
Operating Transfers Out	(534,472)	(72,590)
	(532,977)	461,882
<i>Total Other Financing Sources (Uses)</i>		
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	(424,478)	(396,362)
<i>Fund Balances Beginning of Year - Restated (See Note 3)</i>	654,595	612,140
Increase (Decrease) in Reserve for Inventory	(4,086)	8,584
<i>Fund Balances End of Year</i>	\$226,031	\$224,362

See accompanying notes to the general purpose financial statements

<u>Fund Types</u>		
<u>Debt Service</u>	<u>Capital Projects</u>	<u>Totals (Memorandum Only)</u>
\$0	\$0	\$2,768,844
81,373	33,383	1,678,740
0	0	90,572
0	103,273	658,183
10,724	122,497	1,526,227
42,113	0	42,113
0	212,446	267,084
0	44,448	72,344
0	11,933	20,614
0	0	15,449
<u>134,210</u>	<u>527,980</u>	<u>7,140,170</u>
2,118	0	1,243,751
0	0	3,712,960
0	0	1,774,651
0	0	182,782
0	0	162,783
0	2,521,617	2,521,617
92,000	52,900	279,030
36,920	78,402	134,108
<u>131,038</u>	<u>2,652,919</u>	<u>10,011,682</u>
<u>3,172</u>	<u>(2,124,939)</u>	<u>(2,871,512)</u>
0	867	2,362
0	267,590	802,062
0	(195,000)	(802,062)
<u>0</u>	<u>73,457</u>	<u>2,362</u>
3,172	(2,051,482)	(2,869,150)
138,852	3,199,564	4,605,151
<u>0</u>	<u>0</u>	<u>4,498</u>
<u>\$142,024</u>	<u>\$1,148,082</u>	<u>\$1,740,499</u>

City of Willoughby Hills, Ohio
*Combined Statement of Revenues, Expenditures and Changes
 In Fund Balances - Budget (Non-GAAP Basis) and Actual
 All Governmental Fund Types
 For the Year Ended December 31, 2002*

	General Fund			
	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Revenues				
Municipal Income Taxes	\$3,172,381	\$3,000,000	\$2,823,989	(\$176,011)
Property and Other Taxes	542,160	512,700	530,665	17,965
Charges for Services	36,615	34,625	31,443	(3,182)
Fines, Fees and Permits	550,752	520,825	591,298	70,473
Intergovernmental	996,516	942,057	918,017	(24,040)
Special Assessments	0	0	0	0
Rentals	1,586	1,500	12,530	11,030
Interest	89,884	85,000	27,722	(57,278)
Contributions and Donations	3,172	3,000	1,835	(1,165)
Other	456	431	780	349
<i>Total Revenues</i>	<u>5,393,522</u>	<u>5,100,138</u>	<u>4,938,279</u>	<u>(161,859)</u>
Expenditures				
Current:				
General Government	1,082,732	1,130,962	1,114,254	16,708
Security of Persons and Property	3,415,525	3,417,249	3,335,975	81,274
Transportation	0	0	0	0
Community Environment	190,301	190,301	185,644	4,657
Basic Utility Services	100	100	100	0
Leisure Time Activities	69,562	69,562	68,484	1,078
Capital Outlay	0	0	0	0
Debt Service:				
Principal Retirement	0	0	0	0
Interest and Fiscal Charges	0	0	0	0
<i>Total Expenditures</i>	<u>4,758,220</u>	<u>4,808,174</u>	<u>4,704,457</u>	<u>103,717</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>635,302</u>	<u>291,964</u>	<u>233,822</u>	<u>(58,142)</u>
Other Financing Sources (Uses)				
Proceeds of Notes	0	0	0	0
Sale of Fixed Assets	5,525	5,225	1,495	(3,730)
Operating Transfers In	0	0	0	0
Operating Transfers Out	(543,259)	(543,259)	(534,472)	8,787
<i>Total Other Financing Sources (Uses)</i>	<u>(537,734)</u>	<u>(538,034)</u>	<u>(532,977)</u>	<u>5,057</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	97,568	(246,070)	(299,155)	(53,085)
<i>Fund Balances Beginning of Year</i>	234,216	234,216	234,216	0
Prior Year Encumbrances Appropriated	104,669	104,669	104,669	0
<i>Fund Balances End of Year</i>	<u>\$436,453</u>	<u>\$92,815</u>	<u>\$39,730</u>	<u>(\$53,085)</u>

See accompanying notes to the general purpose financial statements

Special Revenue Funds				Debt Service Funds			
Budgeted Amounts		Actual	Variance Favorable (Unfavorable)	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
Original	Final			Original	Final		
\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
996,177	976,069	988,380	12,311	77,016	77,630	81,373	3,743
45,709	42,685	49,367	6,682	0	0	0	0
2,203	2,000	1,400	(600)	0	0	0	0
489,748	475,654	471,714	(3,940)	10,215	10,297	10,724	427
0	0	0	0	44,000	44,000	42,113	(1,887)
50,819	46,140	41,133	(5,007)	0	0	0	0
12,256	12,502	5,376	(7,126)	0	0	0	0
7,108	6,500	6,846	346	0	0	0	0
7,812	8,325	14,669	6,344	0	0	0	0
<u>1,611,832</u>	<u>1,569,875</u>	<u>1,578,885</u>	<u>9,010</u>	<u>131,231</u>	<u>131,927</u>	<u>134,210</u>	<u>2,283</u>
52,435	65,935	65,015	920	2,700	2,700	2,118	582
519,173	541,456	536,484	4,972	0	0	0	0
1,833,355	1,885,345	1,787,985	97,360	0	0	0	0
0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0
105,726	105,726	97,781	7,945	0	0	0	0
0	0	0	0	0	0	0	0
0	0	0	0	92,000	92,000	92,000	0
0	0	0	0	40,643	40,643	36,920	3,723
<u>2,510,689</u>	<u>2,598,462</u>	<u>2,487,265</u>	<u>111,197</u>	<u>135,343</u>	<u>135,343</u>	<u>131,038</u>	<u>4,305</u>
<u>(898,857)</u>	<u>(1,028,587)</u>	<u>(908,380)</u>	<u>120,207</u>	<u>(4,112)</u>	<u>(3,416)</u>	<u>3,172</u>	<u>6,588</u>
0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0
696,791	645,675	534,472	(111,203)	0	0	0	0
<u>(78,000)</u>	<u>(78,000)</u>	<u>(72,590)</u>	<u>5,410</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>618,791</u>	<u>567,675</u>	<u>461,882</u>	<u>(105,793)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>(280,066)</u>	<u>(460,912)</u>	<u>(446,498)</u>	<u>14,414</u>	<u>(4,112)</u>	<u>(3,416)</u>	<u>3,172</u>	<u>6,588</u>
333,257	333,257	333,257	0	138,852	138,852	138,852	0
<u>237,951</u>	<u>237,951</u>	<u>237,951</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>\$291,142</u>	<u>\$110,296</u>	<u>\$124,710</u>	<u>\$14,414</u>	<u>\$134,740</u>	<u>\$135,436</u>	<u>\$142,024</u>	<u>\$6,588</u>

See accompanying notes to the general purpose financial statements

(continued)

City of Willoughby Hills, Ohio
*Combined Statement of Revenues, Expenditures and Changes
 In Fund Balances - Budget (Non-GAAP Basis) and Actual
 All Governmental Fund Types (continued)
 For the Year Ended December 31, 2002*

	Capital Projects Funds			
	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Revenues				
Municipal Income Taxes	\$0	\$0	\$0	\$0
Property and Other Taxes	35,000	35,000	33,319	(1,681)
Charges for Services	0	0	0	0
Fines, Fees and Permits	81,420	129,073	122,077	(6,996)
Intergovernmental	170,009	125,009	122,497	(2,512)
Special Assessments	0	0	0	0
Rentals	500,000	500,000	212,446	(287,554)
Interest	106,725	92,710	45,866	(46,844)
Contributions and Donations	11,190	15,000	11,933	(3,067)
Other	0	0	0	0
<i>Total Revenues</i>	<u>904,344</u>	<u>896,792</u>	<u>548,138</u>	<u>(348,654)</u>
Expenditures				
Current:				
General Government	0	0	0	0
Security of Persons and Property	0	0	0	0
Transportation	0	0	0	0
Community Environment	0	0	0	0
Basic Utility Services	0	0	0	0
Leisure Time Activities	0	0	0	0
Capital Outlay	4,061,355	4,172,855	3,759,711	413,144
Debt Service:				
Principal Retirement	52,923	52,923	52,900	23
Interest and Fiscal Charges	57,527	57,527	57,527	0
<i>Total Expenditures</i>	<u>4,171,805</u>	<u>4,283,305</u>	<u>3,870,138</u>	<u>413,167</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(3,267,461)</u>	<u>(3,386,513)</u>	<u>(3,322,000)</u>	<u>64,513</u>
Other Financing Sources (Uses)				
Proceeds of Notes	1,200,000	1,200,000	1,200,000	0
Sale of Fixed Assets	0	0	867	867
Operating Transfers In	259,665	273,000	267,590	(5,410)
Operating Transfers Out	(195,000)	(195,000)	(195,000)	0
<i>Total Other Financing Sources (Uses)</i>	<u>1,264,665</u>	<u>1,278,000</u>	<u>1,273,457</u>	<u>(4,543)</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	<u>(2,002,796)</u>	<u>(2,108,513)</u>	<u>(2,048,543)</u>	<u>59,970</u>
<i>Fund Balances Beginning of Year</i>	1,961,602	1,961,602	1,961,602	0
Prior Year Encumbrances Appropriated	1,211,455	1,211,455	1,211,455	0
<i>Fund Balances End of Year</i>	<u>\$1,170,261</u>	<u>\$1,064,544</u>	<u>\$1,124,514</u>	<u>\$59,970</u>

See accompanying notes to the general purpose financial statements

Totals (Memorandum Only)

Budgeted Amounts			Variance
Original	Final	Actual	Favorable (Unfavorable)
\$3,172,381	\$3,000,000	\$2,823,989	(\$176,011)
1,650,353	1,601,399	1,633,737	32,338
82,324	77,310	80,810	3,500
634,375	651,898	714,775	62,877
1,666,488	1,553,017	1,522,952	(30,065)
44,000	44,000	42,113	(1,887)
552,405	547,640	266,109	(281,531)
208,865	190,212	78,964	(111,248)
21,470	24,500	20,614	(3,886)
8,268	8,756	15,449	6,693
<u>8,040,929</u>	<u>7,698,732</u>	<u>7,199,512</u>	<u>(499,220)</u>
1,137,867	1,199,597	1,181,387	18,210
3,934,698	3,958,705	3,872,459	86,246
1,833,355	1,885,345	1,787,985	97,360
190,301	190,301	185,644	4,657
100	100	100	0
175,288	175,288	166,265	9,023
4,061,355	4,172,855	3,759,711	413,144
144,923	144,923	144,900	23
98,170	98,170	94,447	3,723
<u>11,576,057</u>	<u>11,825,284</u>	<u>11,192,898</u>	<u>632,386</u>
<u>(3,535,128)</u>	<u>(4,126,552)</u>	<u>(3,993,386)</u>	<u>133,166</u>
1,200,000	1,200,000	1,200,000	0
5,525	5,225	2,362	(2,863)
956,456	918,675	802,062	(116,613)
<u>(816,259)</u>	<u>(816,259)</u>	<u>(802,062)</u>	<u>14,197</u>
<u>1,345,722</u>	<u>1,307,641</u>	<u>1,202,362</u>	<u>(105,279)</u>
(2,189,406)	(2,818,911)	(2,791,024)	27,887
2,667,927	2,667,927	2,667,927	0
1,554,075	1,554,075	1,554,075	0
<u>\$2,032,596</u>	<u>\$1,403,091</u>	<u>\$1,430,978</u>	<u>\$27,887</u>

City of Willoughby Hills, Ohio
*Statement of Revenues, Expenses
and Changes in Fund Equity
Proprietary Fund Type
For the Year Ended December 31, 2002*

	Enterprise
Operating Revenues	
Charges for Services	\$692,744
Special Assessments	20,148
	712,892
Operating Expenses	
Personal Services	45,761
Contractual Services	1,176,688
Depreciation	36,502
Other	68,676
	1,327,627
<i>Operating Loss</i>	(614,735)
Non-Operating Revenue	
Interest	1,408
	(613,327)
<i>Retained Earnings Beginning of Year - Restated (See Note 3)</i>	1,384,892
	771,565
<i>Retained Earnings End of Year</i>	771,565
<i>Contributed Capital Beginning and End of Year</i>	453,044
	\$1,224,609

See accompanying notes to the general purpose financial statements

City of Willoughby Hills, Ohio
Statement of Cash Flows
Proprietary Fund Type
For the Year Ended December 31, 2002

	Enterprise
<i>Increase (Decrease) in Cash and Cash Equivalents</i>	
Cash Flows from Operating Activities	
Cash Received from Customers	\$691,678
Cash Received from Special Assessments	20,148
Cash Payments for Goods and Services	(1,185,265)
Cash Payments to Employees for Services and Benefits	(45,761)
Cash Payments for Other Operating Expenses	(68,676)
<i>Net Cash Used for Operating Activities</i>	(587,876)
Cash Flows from Capital and Related Financing Activities	
OWDA Loan Proceeds	554,372
Cash Flows from Investing Activities	
Interest	1,408
<i>Net Decrease in Cash and Cash Equivalents</i>	(32,096)
<i>Cash and Cash Equivalents Beginning of Year</i>	201,844
<i>Cash and Cash Equivalents End of Year</i>	\$169,748
Reconciliation of Operating Loss to Net Cash Used for Operating Activities	
<i>Operating Loss</i>	(\$614,735)
Adjustments:	
Depreciation	36,502
(Increase)/Decrease in Assets	
Accounts Receivable	(7,686)
Intergovernmental Receivables	6,620
Increase in Accounts Payable	(8,577)
<i>Total Adjustments</i>	26,859
<i>Net Cash Used for Operating Activities</i>	(\$587,876)

See accompanying notes to the general purpose financial statements

City of Willoughby Hills, Ohio
Statement of Revenues, Expenses and Changes
In Fund Equity - Budget (Non-GAAP Basis) and Actual
Proprietary Fund Type
For the Year Ended December 31, 2002

	Enterprise Funds			
	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Revenues				
Charges for Services	\$657,786	\$594,000	\$691,678	\$97,678
Special Assessments	0	0	20,148	20,148
Interest	5,496	6,000	1,447	(4,553)
OWDA Loan Proceeds	526,718	575,000	554,372	(20,628)
<i>Total Revenues</i>	<u>1,190,000</u>	<u>1,175,000</u>	<u>1,267,645</u>	<u>92,645</u>
Expenses				
Personal Services	42,331	45,820	45,761	59
Contractual Services	1,173,399	1,209,384	1,192,207	17,177
Other	67,056	72,582	71,188	1,394
<i>Total Expenses</i>	<u>1,282,786</u>	<u>1,327,786</u>	<u>1,309,156</u>	<u>18,630</u>
<i>Excess of Revenues Under Expenses</i>	(92,786)	(152,786)	(41,511)	111,275
<i>Fund Equity Beginning of Year</i>	160,247	160,247	160,247	0
Prior Year Encumbrances Appropriated	41,486	41,486	41,486	0
<i>Fund Equity End of Year</i>	<u>\$108,947</u>	<u>\$48,947</u>	<u>\$160,222</u>	<u>\$111,275</u>

See accompanying notes to the general purpose financial statements

City of Willoughby Hills, Ohio
Notes to the General Purpose Financial Statements
For Year Ended December 31, 2002

Note 1 - Reporting Entity

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

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

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

The City participates in the Northeast Ohio Public Energy Council, a jointly governed organization. This organization is discussed in Note 16 of the General Purpose Financial Statements.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the City's accounting policies are described below.

A. Basis of Presentation - Fund Accounting

The City uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain City functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

City of Willoughby Hills, Ohio
Notes to the General Purpose Financial Statements
For Year Ended December 31, 2002

For financial statement presentation purposes, the various funds of the City are grouped into the following generic fund types under the broad fund categories governmental, proprietary and fiduciary.

Governmental Fund Types Governmental funds are those through which most governmental functions of the City are financed. The acquisition, use and balances of the City's expendable financial resources and the related current liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The following are the City's governmental fund types:

General Fund This fund is the operating fund of the City and 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.

Special Revenue Funds These funds are established to account for the proceeds of specific revenue sources (other than amounts relating to major capital projects) that are legally restricted to expenditure for specified purposes.

Debt Service Funds These funds are used to account for the accumulation of resources for, and the payment of general and special assessment long-term debt principal, interest and related costs.

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

Proprietary Fund Type Proprietary funds are used to account for the City's ongoing activities which are similar to those found in the private sector. The following is the City's proprietary fund type:

Enterprise Fund This fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent 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 or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Fiduciary Fund Type Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. The City only utilizes the agency fund type. The City's agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations.

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

General Fixed Assets Account Group This account group accounts for all general fixed assets of the City other than those accounted for in proprietary funds.

General Long-Term Obligations Account Group This account group accounts for all unmatured long-term indebtedness of the City that is not a specific liability of proprietary funds, including special assessment debt for which the City is obligated in some manner.

City of Willoughby Hills, Ohio
Notes to the General Purpose Financial Statements
For Year Ended December 31, 2002

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The proprietary fund type are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund types operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for the governmental and agency funds. The full accrual basis of accounting is followed for the proprietary fund.

Revenues – Exchange and Nonexchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within thirty-one days of 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 exchange on which the tax is imposed takes place. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 6) Revenue from grants, entitlements and donations is recognized in the fiscal 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 fiscal 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 fiscal year-end: income tax, state-levied locally shared taxes, interest, grants fees and rentals.

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, 2002, but which were levied to finance year 2003 operations, have been recorded as deferred revenue. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue. On the modified accrual basis, receivables that will not be collected within the available period have also been reported as deferred revenue.

City of Willoughby Hills, Ohio
Notes to the General Purpose Financial Statements
For Year Ended December 31, 2002

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.

C. 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 appropriations cannot exceed estimated resources, as certified. All funds, other than the agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control is at the object level within each department in the general fund and at the fund level for all other funds. Any budgetary modifications at this level may only be made by resolution of City Council.

Tax Budget At 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.

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 appropriation ordinance. On or about January 1, the certificate of estimated resources is amended to include unencumbered fund 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 as the original budgeted amounts in the budgetary statements reflect the amounts in the amended certificate when the original appropriations were adopted. The amounts reported in the budgetary statements as final budgeted amounts reflect the amounts in the amended certificate in effect at the time the final appropriations were passed.

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 for the general fund and at the fund level for all other funds. 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 the general fund and at the fund level for all other funds may be modified during the year only by an ordinance of Council. The Director of Finance is authorized to transfer appropriations between line items within an object of any department for the general fund and within the fund for all other funds. During the year, several supplemental appropriation measures were passed. None of these supplemental appropriations had any significant affect on the original appropriations. The amounts

City of Willoughby Hills, Ohio
Notes to the General Purpose Financial Statements
For Year Ended December 31, 2002

reported as the original budgeted amounts in the budgetary statements reflect the first appropriated budget for that fund that covered the entire year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts in the statement of budgetary comparisons represent the final appropriation amounts, including all amendments and modifications passed by Council during the year.

Encumbrances As part of formal budgetary control, purchase orders, 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 and maintain legal compliance. The Ohio Revised Code prohibits expenditures plus encumbrances from exceeding appropriations at the legal level of control. On the GAAP basis, encumbrances outstanding at year end are reported as reservations of fund balances for subsequent-year expenditures for governmental funds and reported in the notes to the financial statements for proprietary funds.

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. The encumbered appropriation balance is carried forward to the succeeding year and is not reappropriated.

D. Cash and Cash Equivalents

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

The City has segregated bank accounts for monies held separate from the City's central bank account. These depository accounts are presented in the Combined Balance Sheet as "cash and cash equivalents in segregated accounts."

During 2002, investments of the cash management pool were limited to federal national mortgage association bonds, repurchase agreements, certificates of deposit and STAROhio.

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

STAROhio is an investment pool managed by the State Treasurers Office which allows governments within the State to pool their funds for investment purposes. STAROhio 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 STAROhio are valued at STAROhios share price which is the price the investment could be sold for on December 31, 2002.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2002 amounted to \$22,740, which includes \$21,133 assigned from other City funds.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the City are considered to be cash equivalents. Investments with an original maturity of more than three months not purchased from the pool are reported as investments.

City of Willoughby Hills, Ohio
Notes to the General Purpose Financial Statements
For Year Ended December 31, 2002

E. Inventory

Inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental fund types when purchased and as expenses in the proprietary fund types when used. Reported materials and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

F. Prepaids

Payments made to vendors for services that will benefit periods beyond December 31, 2002, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure in the year in which it was consumed.

G. Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. Fixed assets utilized in the proprietary fund are capitalized in the fund.

All purchased fixed assets are valued at cost when historical records are available and at an estimated historical cost when no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received.

Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Interest incurred during the construction of general fixed assets is also not capitalized.

Public domain ("infrastructure") general fixed assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems are not capitalized, as these assets are immovable and of value only to the City.

Assets in the general fixed assets account group are not depreciated. Depreciation of sewer lines, equipment and vehicles in the proprietary fund type is computed using the straight-line method over an estimated useful life. Improvements to fund fixed assets are depreciated over the remaining useful lives of the related fund fixed assets. The lives used are as follows:

Buildings	15 - 25 years
Improvements other than buildings	25 - 50 years
Machinery, equipment, furniture and fixtures	3 - 10 years

Interest is capitalized on proprietary fund fixed assets acquired with tax-exempt debt. The City's policy is to capitalize net interest on construction projects until substantial completion of the project. The amount of capitalized interest equals the difference between the interest cost associated with the tax-exempt borrowing used to finance the project from the date of borrowing until completion of the project and the interest earned from

City of Willoughby Hills, Ohio
Notes to the General Purpose Financial Statements
For Year Ended December 31, 2002

temporary investment of the debt proceeds over the same period. Capitalized interest is amortized on the straight-line basis over the estimated useful life of the asset.

H. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability is based upon the sick leave accumulated at December 31, 2002, by those employees who are eligible to receive termination benefits and those who are expected to become eligible in the future. The amount is based on accumulated sick leave and employee wage rates at fiscal year end, taking into consideration any limits specified in the City's termination policy.

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 remainder is reported in the general long-term obligations account group. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

I. Contributed Capital

Contributed capital in the proprietary fund represents resources provided prior to 2001, to the enterprise funds from other funds, other governments and private sources that are not subject to repayment. Capital contributions received during 2002 are reported as revenue on the operating statement and included in the retained earnings.

J. Fund Equity

Reservations of fund balances are established to identify the existence of assets that, because of their nonmonetary nature or lack of liquidity, represent financial resources not available for current appropriation or expenditures, including amounts legally segregated for a specific future use. Fund balances are reserved for encumbrances and inventories of supplies and materials.

K. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

L. Accrued Liabilities and Long-term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, claims and judgements, compensated absences, and contractually required pension contributions that will be paid from governmental funds are

City of Willoughby Hills, Ohio
Notes to the General Purpose Financial Statements
For Year Ended December 31, 2002

reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current expendable available financial resources. Payments made more than thirty days after year end are generally considered not to have been paid with current available financial resources. Bonds, long term loans and capital leases are recognized as a liability of the general long-term obligations account group until due.

Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate proprietary funds.

M. Estimates

The preparation of 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.

N. Total Columns on General Purpose Financial Statements

Total columns on the General Purpose Financial Statements are captioned memorandum only to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

Note 3 – Restatement of Fund Balance/Retained Earnings

The special revenue fund balances decreased \$88,827 from \$700,967 to \$612,140 at December 31, 2001. This was due to the reclassification of the sewer planning fund.

The enterprise fund retained earnings increased \$414,867 from \$970,025 to \$1,384,892 at December 31, 2001. This was due to a fund reclassification and an understatement of OWDA loans payable and fixed assets.

	<u>Sanitary Sewer</u>
Retained Earnings as Previously Reported	\$970,025
Fixed Assets	678,217
Fund Reclassification	88,827
OWDA Loans Payable	(352,177)
Restated Balance December 31, 2001	\$1,384,892

The general long-term obligations account group assets and liabilities decreased \$148,181 from \$3,114,482 to \$2,966,301 at December 31, 2001. This was due to a misclassification of OWDA loans payable.

Note 4 - Budgetary Basis of Accounting

While reporting financial position, results of operations, and changes in fund balance/retained earnings 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.

City of Willoughby Hills, Ohio
Notes to the General Purpose Financial Statements
For Year Ended December 31, 2002

The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual - All Governmental Fund Types and the Combined Statement of Revenues, Expenses and Changes in Fund Equity - Budget (Non-GAAP Basis) and Actual - Proprietary Fund Type are presented on the budgetary basis to provide a relevant comparison of actual results with the budget and to demonstrate compliance with State statute. The major differences between the budget basis and the GAAP basis are:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Outstanding year end encumbrances are treated as expenditures/expenses (budget) rather than as a reservation of fund balance for governmental fund types and as note disclosure in the proprietary fund type (GAAP).
4. Unrecorded cash, which consists of unrecorded interest, is not reported by the City on the operating statements (budget), but is reported on the operating statements (GAAP).
5. Investments reported at cost (budget) rather than fair value (GAAP).

The following tables summarize the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements on a fund type basis.

Excess of Revenues and Other Financing Sources
Over (Under) Expenditures and Other Financing Uses
All Governmental Fund Types

	General	Special Revenue	Debt Service	Capital Projects
GAAP Basis	(\$424,478)	(\$396,362)	\$3,172	(\$2,051,482)
Net Adjustment for Revenue Accruals	50,863	(11,190)	0	21,577
Beginning Unrecorded Cash	2,203	28	0	1,237
Ending Unrecorded Cash	(2,360)	(326)	0	(2,656)
Fair Value Adjustment for Investments	(34)	0	0	0
Note Proceeds	0	0	0	1,200,000
Net Adjustment for Expenditure Accruals	113,978	11,088	0	590,824
Encumbrances	(39,327)	(49,736)	0	(1,808,043)
Budget Basis	(\$299,155)	(\$446,498)	\$3,172	(\$2,048,543)

City of Willoughby Hills, Ohio
Notes to the General Purpose Financial Statements
For Year Ended December 31, 2002

Net Loss/Excess of Revenues Under Expenses
Proprietary Fund Type

	Enterprise
GAAP Basis	(\$613,327)
Net Adjustment for Revenue Accruals	(1,066)
OWDA Loan Proceeds	554,372
Beginning Unrecorded Cash	111
Ending Unrecorded Cash	(72)
Net Adjustment for Expenditure Accruals	(8,577)
Depreciation Expense	36,502
Encumbrances	(9,454)
Budget Basis	(\$41,511)

Note 5 - Deposits and Investments

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

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

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

Interim monies can be deposited or invested in the following:

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

City of Willoughby Hills, Ohio
Notes to the General Purpose Financial Statements
For Year Ended December 31, 2002

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 exceeds the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
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).

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

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

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

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

GASB Statement 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements, requires disclosures to help assess actual and potential future deposit and investment market and credit risks. The following information regarding deposits and investments is presented using the categories of risk identified in GASB Statement 3.

Cash on Hand: At year end, the City had \$700 in undeposited cash on hand which is included on the balance sheet of the City as part of equity in pooled cash and cash equivalents.

City of Willoughby Hills, Ohio
Notes to the General Purpose Financial Statements
For Year Ended December 31, 2002

Deposits. At year-end, the carrying amount of the City's deposits was \$945,991 and the bank balance was \$1,066,602. Of the bank balance:

1. \$448,673 was covered by federal depository insurance.
2. \$617,929 was uncollateralized and uninsured. Although the securities were held by the pledging financial institutions trust department or agent in the City's name and all State statutory requirements for the investment of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

Investments. Investments are classified under the guidelines of GASB Statement No. 3 into three categories. Category 1 includes investments that are insured or registered or are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments which are held by the counterparty, or by its trust department or agent but not in the City's name. STAROhio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

	Category 3	Carrying Value	Fair Value
Federal National Mortgage Association Bonds	\$85,034	\$85,034	\$85,034
Repurchase Agreement	1,213,617	1,213,617	1,213,617
Investment in State Treasurer's Investment Pool		1,414,702	1,414,702
Total Investments	\$1,298,651	\$2,713,353	\$2,713,353

The classification of cash and cash equivalents, and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting.

A reconciliation between the classifications of cash and investments on the combined financial statements and the classification of deposits and investments presented above per GASB Statement No. 3, is as follows:

	Cash and Cash Equivalents	Investments
GASB Statement No. 9	\$3,660,044	\$0
Cash on Hand	(700)	0
Investments of Cash Management Pool:		
Federal National Mortgage Association Bonds	(85,034)	85,034
Repurchase Agreement	(1,213,617)	1,213,617
STAROhio	(1,414,702)	1,414,702
GASB Statement No. 3	\$945,991	\$2,713,353

City of Willoughby Hills, Ohio
Notes to the General Purpose Financial Statements
For Year Ended December 31, 2002

Note 6 - Receivables

Receivables at December 31, 2002, consisted of taxes, accounts (billings for user charged services), special assessments, interest, and intergovernmental receivables arising from grants, entitlements, and shared revenues. All receivables are considered fully collectible.

A. Property Taxes

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2002 for real and public utility property taxes represents collections of the 2001 taxes. Property tax payments received during 2002 for tangible personal property (other than public utility property) are for 2002 taxes.

2002 real property taxes are levied after October 1, 2002 on the assessed value as of January 1, 2002, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2002 real property taxes are collected in and intended to finance 2003.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2002 public utility property taxes became a lien December 31, 2001, are levied after October 1, 2002, and are collected in 2003 with real property taxes.

2002 tangible personal property taxes are levied after October 1, 2001, on the value as of December 31, 2001. Collections are made in 2002. Tangible personal property assessments are 25 percent of true value for capital assets and 24 percent for inventory.

The full tax rate for all City operations for the year ended December 31, 2002, was \$7.40 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2001 property tax receipts were based are as follows:

Category	Assessed Value
Real Property	\$226,570,660
Public Utility Tangible	5,163,280
Tangible Personal	16,759,658
Total	\$248,493,598

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

Taxable personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30; with the remainder payable by September 20.

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

City of Willoughby Hills, Ohio
Notes to the General Purpose Financial Statements
For Year Ended December 31, 2002

taxes receivable represent real, tangible personal property taxes and public utility taxes which are measurable as of December 31, 2002 and for which there is an enforceable legal claim. Although property tax collections for the next year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31, nor are they intended to finance 2002 operations. The receivable is offset by deferred revenue.

B. Income Tax

The City levies a municipal income tax of one and a half percent on substantially all income earned within the City; in addition, residents are required to pay tax on income earned outside of the City. The City allows a credit of one hundred percent for income tax paid to another municipality up to a limit of one percent of the total amount owed. Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. Income tax proceeds are to be used for the purposes of general municipal operations, maintenance, new equipment, extension and enlargement of municipal services and facilities and capital improvements of the City of Willoughby Hills. In 2002, the proceeds were allocated one hundred percent to the general fund.

C. Intergovernmental Receivable

A summary of the principal items of intergovernmental receivables follows:

	Amount
<i>General Fund</i>	
Local Government	\$468,162
Estate Tax	88,523
Homestead and Rollback	30,172
Liquor Permits	1,382
Willoughby Court	880
Total General Fund	589,119
<i>Special Revenue Funds</i>	
Street Construction, Maintenance and Repair	142,266
State Highway	11,598
Fire Levy	23,309
Road Levy	30,791
Police Pension	3,885
Total Special Revenue Funds	211,849
<i>Debt Service Fund</i>	
Bond Retirement	4,792
<i>Total Intergovernmental Receivable</i>	\$805,760

City of Willoughby Hills, Ohio
Notes to the General Purpose Financial Statements
For Year Ended December 31, 2002

Note 7 - Fixed Assets

A summary of the enterprise fund fixed assets at December 31, 2002, follows:

Buildings	\$233,000
Improvements	\$1,583,467
Construction in Progress	678,217
Total	2,494,684
Accumulated Depreciation	(541,060)
Net Fixed Assets	\$1,953,624

A summary of changes in general fixed assets follows:

	January 1, 2002	Additions	Deletions	December 31, 2002
Land	\$340,820	\$0	\$0	\$340,820
Building and Improvements	2,427,332	0	0	2,427,332
Machinery and Equipment	3,683,231	51,674	(17,161)	3,717,744
Construction in Progress	0	1,514,771	0	1,514,771
Total	\$6,451,383	\$1,566,445	(\$17,161)	\$8,000,667

Note 8 - 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 2002, the City participated in the Ohio Government Risk Management Plan which contracted with Love Insurance Company for the following types of insurance:

Type of Coverage	Coverage
Property	\$7,635,917
Inland Marine	1,432,385
Crime	27,000
Vehicle	
Comprehensive	5,000,000 per occurrence
Collision	5,000,000 per occurrence
Law Enforcement Liability	7,000,000 aggregate
Public Officials Liability	7,000,000 aggregate

Settled claims have not exceeded this coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

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

City of Willoughby Hills, Ohio
Notes to the General Purpose Financial Statements
For Year Ended December 31, 2002

Note 9 - Defined Benefit Pension Plans

A. Ohio Public Employees Retirement System

All full-time employees, other than non-administrative full-time police officers and firefighters, participate in the Ohio Public Employees Retirement System (OPERS), a cost-sharing multiple-employer public employee retirement system administered by the Public Employees Retirement Board. OPERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. The authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. The 2002 employer pension contribution rate for the City was 8.55 percent of covered payroll, decreased from 9.25 percent in 2001. Contributions are authorized by State statute. The City's required contributions to OPERS for the years ended December 31, 2002, 2001 and 2000, were \$139,498, \$148,501 and \$94,501 respectively. The full amount has been contributed for 2001 and 2000. 71.51 percent has been contributed for 2002 with the remainder being reported as a liability in the general long-term obligations account group.

B. Ohio Police and Fire Pension Fund

The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple employer public employee retirement system administered by the OP&F's Board of Trustees. 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. The OP&F issues a publicly available financial report that includes financial information and required supplementary information. That report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Police and firefighters are required to contribute 10 percent of their annual covered salary to fund pension obligations and the City is required to contribute 11.75 percent for police and 16.25 percent for firefighters. For 2001, the City contributions were 12 percent for police and 16.50 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the OP&F for police and firefighters were \$131,953 and \$107,193 for the year ended December 31, 2002, \$125,379 and \$104,943 for the year ended December 31, 2001 and \$126,906 and \$99,015 for the year ended December 31, 2000. The full amount has been contributed for 2001 and 2000. 75.10 and 77.56 percent, respectively, have been contributed for 2002 with the remainder being reported as a liability in the general long-term obligations account group.

Note 10 - Postemployment Benefits

A. Ohio Public Employees Retirement System (OPERS)

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement

City of Willoughby Hills, Ohio
Notes to the General Purpose Financial Statements
For Year Ended December 31, 2002

system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care based on authority granted by State statute. The 2002 employer contribution rate was 13.55 percent of covered payroll; 5.0 percent was the portion that was used to fund health care for 2002. For 2001, the contribution rate was 13.55 percent of covered payroll; 4.30 percent was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2001, include a rate of return on investments of 8.0 percent, an annual increase in active employee total payroll of 4.0 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .5 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.0 percent annually.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets.

The number of active contributing participants was 402,041. The City's actual contributions for 2002 which were used to fund postemployment benefits were \$81,578. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2002, were \$10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$18.7 billion and \$8.7 billion, respectively.

B. Ohio Police and Fire Pension Fund

The Ohio Police and Fire Pension Fund (OP&F) provides postretirement health care coverage to any person who receives or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22 if attending school full-time or on a 2/3 basis.

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the Ohio Police and Fire Pension Fund shall be included in the employers' contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2002. For 2001, the percent used to fund healthcare was 7.5 percent. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment.

The City's actual contributions for 2002 that were used to fund postemployment benefits were \$87,033 for police and \$51,123 for fire. The OP&F's total health care expenses for the year ended December 31, 2002 were \$141,028,006 which was net of member contributions of \$12,623,875. The number of OP&F participants eligible to receive health care benefits as of December 31, 2002 was 13,527 for police and 10,396 for firefighters.

City of Willoughby Hills, Ohio
Notes to the General Purpose Financial Statements
For Year Ended December 31, 2002

Note 11 - Other Employee Benefits

A. *Compensated Absences*

Employees earn vacation at different rates which are affected by length of service. In general, vacation earned in any one year must be used within the following year and cannot be carried over except with the written approval of the Mayor. At the time of separation the employee is entitled to payment for any earned but unused vacation.

Sick leave is accrued at the rate of 4.6 hours for each 80 hours of completed service, including paid holidays and paid vacation, with a maximum accumulation of 960 work days. Upon retirement, employees are paid for all the sick days they have accumulated.

As of December 31, 2002, the liability for unpaid compensated absences was \$575,819 for the entire City.

B. *Health Insurance*

The City has contracted with Anthem Blue Cross of Ohio to provide employee health care coverage.

Note 12 - Capital Leases

The City has entered into capital leases for the acquisition of a telephone system, a loader, police radios and equipment for the fire department. The leases are payable from the general fund and the street maintenance and repair special revenue fund. The leases meet the criteria of a capital lease as defined by 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. General fixed assets acquired by lease have been capitalized in the general fixed asset account group in the amount of \$690,646 which represents the present value of the lease payments at the time of the acquisition. A corresponding liability was recorded in the general long-term obligations account group.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments.

Year	Total
2003	\$73,498
2004	73,498
2005	59,161
2006	59,161
Total minimum lease payments	265,318
Less: Amount representing interest	(28,104)
Present value of minimum lease payments	\$237,214

City of Willoughby Hills, Ohio
Notes to the General Purpose Financial Statements
For Year Ended December 31, 2002

Note 13 - Long-Term Obligations

The changes in long-term obligations during the year were as follows:

	Outstanding 12/31/2001	Additions	(Reductions)	Outstanding 12/31/2002
Enterprise Fund Obligations				
OWDA Loans				
Euclid Interceptor	\$264,133	414,084	0	678,217
Euclid Sewer				
2002 3.640%				
Oak Street	88,044	140,288	0	228,332
<i>Total OWDA Loans</i>	<u>352,177</u>	<u>554,372</u>	<u>0</u>	<u>906,549</u>
General Long-Term Obligations				
General Obligation Bonds				
1986 7.38%				
City Hall Addition	200,000	0	(40,000)	160,000
1993 2.65 - 5.30%				
Service Garage Addition	95,000	0	(5,000)	90,000
1993 2.65 - 5.30%				
Fire Truck Acquisition	40,000	0	(20,000)	20,000
1993 2.65 - 5.30%				
Sanitary Sewer Improvement	31,704	0	(2,642)	29,062
2001 5.05%				
Fire Station Improvement	1,153,000	0	(52,900)	1,100,100
<i>Total General Obligation Bonds</i>	<u>1,519,704</u>	<u>0</u>	<u>(120,542)</u>	<u>1,399,162</u>
Special Assessment Bonds				
1987 7.88%				
Chardon Sewer System Improvement	42,000	0	(7,000)	35,000
1993 2.65 - 5.30%				
Sanitary Sewer Improvement	208,296	0	(17,358)	190,938
<i>Total Special Assessment Bonds</i>	<u>250,296</u>	<u>0</u>	<u>(24,358)</u>	<u>225,938</u>
Capital Leases	371,344	0	(134,130)	237,214
Compensated Absences	619,685	62,185	(112,976)	568,894
Intergovernmental Payable	205,272	146,924	(205,272)	146,924
<i>Total General Long-Term Obligations</i>	<u>2,966,301</u>	<u>209,109</u>	<u>(597,278)</u>	<u>2,578,132</u>
<i>Total</i>	<u>\$3,318,478</u>	<u>\$763,481</u>	<u>(\$597,278)</u>	<u>\$3,484,681</u>

A line of credit has been established with the Ohio Water Development Authority for the Euclid Creek Interceptor Sewer project; however, since the loan has not been finalized, repayment schedules are not included in the schedule of debt service requirements.

City of Willoughby Hills, Ohio
Notes to the General Purpose Financial Statements
For Year Ended December 31, 2002

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

The capital lease obligation is paid from the general fund and street maintenance and repair special revenue fund. Compensated absences will be paid from the fund from which the employees' salaries are paid. The intergovernmental payable represents contractually required pension contributions paid outside the available period and will be paid from the fund from which the employees' salaries are paid.

The City's overall legal debt margin was \$24,132,137 with an unvoted debt margin of \$11,707,457 at December 31, 2002. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2002 are as follows:

	General Obligation Bonds	Special Assessment Bonds	Totals
2003	\$197,076	\$36,878	\$233,954
2004	172,807	35,528	208,335
2005	169,501	34,153	203,654
2006	166,137	32,760	198,897
2007	127,904	31,349	159,253
2008 - 2012	629,513	105,189	734,702
2013 - 2016	455,503	18,278	473,781
Total Principal and Interest	1,918,441	294,135	2,212,576
Less: Interest	(519,279)	(68,197)	(587,476)
Total Principal	\$1,399,162	\$225,938	\$1,625,100

Note 14 – Notes Payable

Changes in the City's note activity for the year ended December 31, 2002, were as follows:

	Outstanding December 31, 2001	Additions	(Reductions)	Outstanding December 31, 2002
Recreation Development Fund 2002 - 2.06%	\$0	\$1,200,000	\$0	\$1,200,000

The note is backed by the full faith and credit of the City of Willoughby Hills and matures within one year. The note liability is reflected in the fund which received the proceeds. The notes are generally issued in anticipation of long-term bond financing and are refinanced until such bonds are issued.

City of Willoughby Hills, Ohio
Notes to the General Purpose Financial Statements
For Year Ended December 31, 2002

Note 15 - Contingencies

A. Grants

The City receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or any other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2002.

B. Litigation

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

Note 16 - Jointly Governed Organization

The City is a member of The Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of electricity. NOPEC is currently comprised of 92 communities who have been authorized by ballot to purchase electricity on behalf of their citizens. The intent of NOPEC is to provide electricity at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity to the citizens of its member communities.

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives on the governing board 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 Willoughby Hills did not contribute to NOPEC during 2002. Financial information can be obtained by contacting NOPEC at 1615 Clark Avenue, Cleveland, Ohio 44109.

Note 17 – Contractual Commitments

At December 31, 2002, the City's significant contractual commitments for the recreation complex center consisted of:

Contractor	Contract Amount	Amount Paid	Remaining on Contract
Dunlop and Johnson	\$1,093,418	\$344,270	\$749,148
Miller Plumbing & Heating Company	310,328	4,830	305,498
A. J. Misseri Electric Incorporated	193,649	22,803	170,846
John F. Gallagher Company	133,792	18,955	114,837
Total	<u>\$1,731,187</u>	<u>\$390,858</u>	<u>\$1,340,329</u>

This page intentionally left blank.



**Auditor of State
Betty Montgomery**

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

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

We have audited the financial statements of the City of Willoughby Hills, Lake County, Ohio, (the City), as of and for the years ended December 31, 2003 and December 31, 2002, and have issued our report thereon dated May 19, 2004, wherein we noted the City restated the Special Revenue and Enterprise Funds. 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.

Compliance

As part of obtaining reasonable assurance about whether City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2003-001. We also noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated May 19, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the City in a separate letter dated May 19, 2004.

City of Willoughby Hills
Lake County
Independent Accountants' Report on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

May 19, 2004

**CITY OF WILLOUGHBY HILLS
LAKE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2003 AND DECEMBER 31, 2002**

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

Finding Number	2003-001
-----------------------	-----------------

EXPENDITURES PLUS ENCUMBRANCES EXCEEDING APPROPRIATIONS

Ohio Rev. Code § 5705.41(B), prohibits a subdivision from making an expenditure unless it has been appropriated. Ohio Rev. Code § 5705.41(D), provides that no subdivision shall make any contract or order any expenditure of money unless the certificate of the fiscal officer is attached. The fiscal officer must certify that the amount required to meet such a commitment has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Further, contracts and orders for expenditure lacking prior certification shall be void. As disclosed in Note 4B to the City's 2003 general purpose financial statements, the following fund had expenses that exceeded appropriations:

<u>Enterprise Fund</u>	<u>Actual Expenses</u>	<u>Appropriations</u>	<u>Excess</u>	<u>Percent</u>
Sewer Fund	\$ 4,185,618	\$ 1,427,423	\$ 2,758,195	66%

This weakness could allow expenses in the above fund to exceed the total of the available fund balance and the current year revenues. This weakness could result in a negative fund balance.

We recommend the City compare appropriations to expenditures in all funds which are legally required to be budgeted, at the legal level of control, and make all necessary adjustments to the amounts appropriated to ensure compliance with the above requirements. This comparison, and amendment if necessary, should be completed on a monthly basis at a minimum.

**CITY OF WILLOUGHBY HILLS
LAKE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2003 AND DECEMBER 31, 2002**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2001-20843-001	ORC 5705.10 Negative Fund Balanced	Partially Corrected	See Management Letter
2001-20843-002	ORC 5705.41(B) (D) Expenditures exceeding Appropriations.	Not Corrected	Comment reissued as 2003-001
2001-20843-003	ORC 5705.36 Actual Revenue Exceeding Estimated Revenue	Corrected	Finding no longer valid



**Auditor of State
Betty Montgomery**

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

CITY OF WILLOUGHBY HILLS

LAKE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 6, 2004**