

City of Willowick

**Basic Financial Statements
December 31, 2009**



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditors' Report* of the City of Willowick, Lake County, prepared by Ciuni & Panichi, Inc., for the audit period January 1, 2009 through December 31, 2009. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

July 13, 2010

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City of Willowick, Ohio

For The Year Ended December 31, 2009

| Table of Contents | Page |
|---|-------------|
| Independent Auditors' Report..... | 1 |
| Management's Discussion and Analysis..... | 3 |
| Basic Financial Statements: | |
| Government-Wide Financial Statements: | |
| Statement of Net Assets..... | 15 |
| Statement of Activities | 16 |
| Fund Financial Statements: | |
| Balance Sheet – Governmental Funds..... | 18 |
| Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities | 21 |
| Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds..... | 22 |
| Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities | 24 |
| Statement of Revenues, Expenditures and Changes in Fund Balances – Budget (Non-GAAP Budgetary Basis) and Actual – General Fund..... | 25 |
| Statement of Revenues, Expenditures and Changes in Fund Balances – Budget (Non-GAAP Budgetary Basis) and Actual - Fire Emergency Fund Special Revenue | 26 |
| Statement of Fund Net Assets – Proprietary Funds..... | 27 |
| Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds | 28 |
| Statement of Cash Flows – Proprietary Funds..... | 29 |
| Statement of Fiduciary Net Assets – Fiduciary Funds | 30 |
| Notes to Basic Financial Statements | 31 |
| Report on Internal Control Over Financial Reporting and on Compliance and Other Matters based on an Audit Performed in Accordance with <i>Government Auditing Standards</i> | 58 |

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Independent Auditors' Report

Members of the City Council
Willowick, Ohio

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Willowick, Ohio (the "City") as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2009, and the respective changes in financial position, and cash flows, where applicable, thereof and the respective budgetary comparison for the General and Fire Emergency Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended December 31, 2009, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*; No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*; and No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2010 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Members of the City Council
Willowick, Ohio

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Cini & Parichi, Inc.

Cleveland, Ohio
June 24, 2010

City of Willowick
Management's Discussion and Analysis (Unaudited)
For The Fiscal Year Ended December 31, 2009

The discussion and analysis of the City of Willowick's financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2009. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers are encouraged to consider the information presented here in conjunction with the additional information contained in the financial statements and the notes thereof.

Financial Highlights

Key financial highlights for 2009 are as follows:

- ◆ The assets of the City of Willowick exceeded its liabilities at the close of the most recent fiscal year by \$42,656,745. Of this amount, \$6,193,961 may be used to meet the City's ongoing obligations to citizens and creditors.
- ◆ Total assets increased by \$68,452, which represents an increase of one-tenth of one percent over 2008. The most significant increases were to intergovernmental receivable of \$451,919 and accounts receivable of \$238,187. These increases were offset by a decrease in cash of \$596,998, or 7.78 percent.
- ◆ Total liabilities decreased by \$514,946, which represents a decrease of 4.62 percent over 2008. The main factors contributing to this decrease were reductions of \$857,194 and \$276,618 in long-term liabilities and deferred revenue, respectively. These decreases were offset by an increase in notes payable of \$605,000.
- ◆ In total, net assets in governmental activities increased by \$351,785 during 2009, which represents a 1 percent increase from 2008. Net assets in business-type activities increased \$231,613, or 4.53 percent from 2008.

Using this Annual Financial Report

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

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

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

Statement of Net Assets and the Statement of Activities

The Statement of Net Assets presents information on all the City of Willowick's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Willowick is improving or deteriorating. However, in evaluating the overall position of the City, nonfinancial factors such as the City's

City of Willowick
Management's Discussion and Analysis (Unaudited)
For The Fiscal Year Ended December 31, 2009

tax base, change in property and income tax laws, and the condition of the capital assets should also be considered.

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

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

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

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

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

Fund Financial Statements

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

Governmental Funds

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

City of Willowick
Management's Discussion and Analysis (Unaudited)
For The Fiscal Year Ended December 31, 2009

The City of Willowick maintains 31 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances, for the General fund, Fire Emergency Special Revenue fund, and the Capital Improvement Capital Projects fund, all of which are considered to be major funds.

Proprietary Funds

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

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

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

Fiduciary Funds

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

Notes to the Financial Statements

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

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

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

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

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

City of Willowick
Management's Discussion and Analysis (Unaudited)
For The Fiscal Year Ended December 31, 2009

Table 1 provides a summary of the City's net assets for 2009 as compared to 2008.

Table 1
Net Assets

| | Governmental Activities | | Business-Type Activities | | Total | |
|--|-------------------------|----------------------|--------------------------|---------------------|----------------------|----------------------|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Assets: | | | | | | |
| Current and other assets | \$ 14,736,290 | \$ 15,148,599 | \$ 739,033 | \$ 414,616 | \$ 15,475,323 | \$ 15,563,215 |
| Capital assets, net | <u>32,062,209</u> | <u>32,124,158</u> | <u>5,744,300</u> | <u>5,526,007</u> | <u>37,806,509</u> | <u>37,650,165</u> |
| <i>Total assets</i> | <u>46,798,499</u> | <u>47,272,757</u> | <u>6,483,333</u> | <u>5,940,623</u> | <u>53,281,832</u> | <u>53,213,380</u> |
| Liabilities: | | | | | | |
| Current liabilities | 5,705,201 | 5,620,200 | 447,239 | 189,992 | 6,152,440 | 5,810,192 |
| Long-term liabilities: | | | | | | |
| Due within one year | 708,465 | 3,652,657 | 54,263 | 614,381 | 762,728 | 4,267,038 |
| Due in more than one year | <u>3,076,547</u> | <u>1,043,399</u> | <u>633,372</u> | <u>19,404</u> | <u>3,709,919</u> | <u>1,062,803</u> |
| <i>Total liabilities</i> | <u>9,490,213</u> | <u>10,316,256</u> | <u>1,134,874</u> | <u>823,777</u> | <u>10,625,087</u> | <u>11,140,033</u> |
| Net assets: | | | | | | |
| Invested in capital assets, net of related debt | 28,868,000 | 28,669,649 | 5,094,300 | 4,916,007 | 33,962,300 | 33,585,656 |
| Restricted for: | | | | | | |
| Capital projects | - | 139,066 | - | - | - | 139,066 |
| Debt Service | 22,968 | 3,356 | - | - | 22,968 | 3,356 |
| Other purposes | 2,477,516 | 2,568,576 | - | - | 2,477,516 | 2,568,576 |
| Unrestricted | <u>5,939,802</u> | <u>5,575,854</u> | <u>254,159</u> | <u>200,839</u> | <u>6,193,961</u> | <u>5,776,693</u> |
| <i>Total net assets</i> | <u>\$ 37,308,286</u> | <u>\$ 36,956,501</u> | <u>\$ 5,348,459</u> | <u>\$ 5,116,846</u> | <u>\$ 42,656,745</u> | <u>\$ 42,073,347</u> |

The largest portion (79.6 percent) of the City's net assets reflects its invested in capital assets, net of related debt. Capital assets include land, land improvements, buildings and improvements, machinery and equipment, vehicles and infrastructure. The City uses those capital assets to provide services to its citizens; consequently, they are not available for future spending. Capital assets, net of the related debt to acquire the assets, as of December 31, 2009, were \$33,962,300. Although the City's investment is reported net of related debt, it should be noted that resources to repay the debt must be provided from other sources since capital assets may not be used to liquidate these liabilities.

An additional portion of the City's net assets (5.86 percent) represents resources that have been restricted on how they may be used. The remaining balance of unrestricted net assets \$6,193,961 may be used to meet the government's ongoing obligations to citizens and creditors.

The total net assets of the City increased by \$583,398 or by 1.39 percent. The following factors were responsible for this increase:

- A decrease in cash and cash equivalents of \$596,998.
- An increase in accounts receivable of \$238,187.
- An increase in intergovernmental receivable of \$451,919.
- A decrease in deferred revenue of \$276,618.
- An increase in short-term notes payable of \$605,000.
- A decrease in long-term liabilities of \$857,194.

The business-type activities net assets increased by \$231,613, or 4.53 percent in 2009. The City generally can only use these net assets to finance the continuing operations of the sewer system.

City of Willowick
Management's Discussion and Analysis (Unaudited)
For The Fiscal Year Ended December 31, 2009

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

Table 2
Changes in Net Assets

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|-------------------------|----------------------|--------------------------|---------------------|----------------------|----------------------|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 982,084 | \$ 943,049 | \$ 2,033,571 | \$ 1,424,665 | \$ 3,015,655 | \$ 2,367,714 |
| Operating grants and contributions | 226,802 | 128,529 | - | - | 226,802 | 128,529 |
| Capital grants and contributions | <u>1,055,048</u> | <u>128,731</u> | <u>26,318</u> | <u>331,220</u> | <u>1,081,366</u> | <u>459,951</u> |
| Total program revenues | <u>2,263,934</u> | <u>1,200,309</u> | <u>2,059,889</u> | <u>1,755,885</u> | <u>4,323,823</u> | <u>2,956,194</u> |
| General revenues: | | | | | | |
| Property and other local taxes | 4,730,548 | 4,580,787 | 35,102 | 34,888 | 4,765,650 | 4,615,675 |
| Municipal income tax | 2,440,693 | 2,236,859 | - | - | 2,440,693 | 2,236,859 |
| Grants and entitlements not restricted to specific programs | 2,952,777 | 3,879,958 | - | - | 2,952,777 | 3,879,958 |
| Investment income | 115,156 | 284,755 | 114 | - | 115,270 | 284,755 |
| Miscellaneous income | <u>68,525</u> | <u>48,127</u> | <u>-</u> | <u>-</u> | <u>68,525</u> | <u>48,127</u> |
| Total general revenues | <u>10,307,699</u> | <u>11,030,486</u> | <u>35,216</u> | <u>34,888</u> | <u>10,342,915</u> | <u>11,065,374</u> |
| Total revenues | <u>12,571,633</u> | <u>12,230,795</u> | <u>2,095,105</u> | <u>1,790,773</u> | <u>14,666,738</u> | <u>14,021,568</u> |
| Program expenses: | | | | | | |
| General government | 1,884,478 | 1,861,921 | - | - | 1,884,478 | 1,861,921 |
| Security of persons and property | 5,220,142 | 5,371,416 | - | - | 5,220,142 | 5,371,416 |
| Public health and welfare | 115,592 | 117,568 | - | - | 115,592 | 117,568 |
| Transportation | 2,272,806 | 2,398,206 | - | - | 2,272,806 | 2,398,206 |
| Leisure time activities | 1,036,581 | 1,107,299 | - | - | 1,036,581 | 1,107,299 |
| Community development | 558,029 | 496,885 | - | - | 558,029 | 496,885 |
| Basic utility service | 998,716 | 1,144,721 | - | - | 998,716 | 1,144,721 |
| Interest and fiscal charges | 133,504 | 107,227 | - | - | 133,504 | 107,227 |
| Sewer | - | - | <u>1,863,492</u> | <u>2,472,087</u> | <u>1,863,492</u> | <u>2,472,087</u> |
| Total program expenses | <u>12,219,848</u> | <u>12,605,243</u> | <u>1,863,492</u> | <u>2,472,087</u> | <u>14,083,340</u> | <u>15,077,330</u> |
| Change in net assets | 351,785 | (374,448) | 231,613 | (681,314) | 583,398 | (1,055,762) |
| Net assets beginning of year | <u>36,956,501</u> | <u>37,330,949</u> | <u>5,116,846</u> | <u>5,798,160</u> | <u>42,073,347</u> | <u>43,129,109</u> |
| Net assets end of year | \$ <u>37,308,286</u> | \$ <u>36,956,501</u> | \$ <u>5,348,459</u> | \$ <u>5,116,846</u> | \$ <u>42,656,745</u> | \$ <u>42,073,347</u> |

Governmental Activities

Governmental activities increased the City's net assets by \$351,785 during 2009. Several revenue sources fund our governmental activities with the City property tax being the largest contributor. The property tax and other local tax revenue for 2009 was \$4,730,548 representing an increase of \$149,761, or 3.27 percent, from 2008.

City of Willowick
Management's Discussion and Analysis (Unaudited)
For The Fiscal Year Ended December 31, 2009

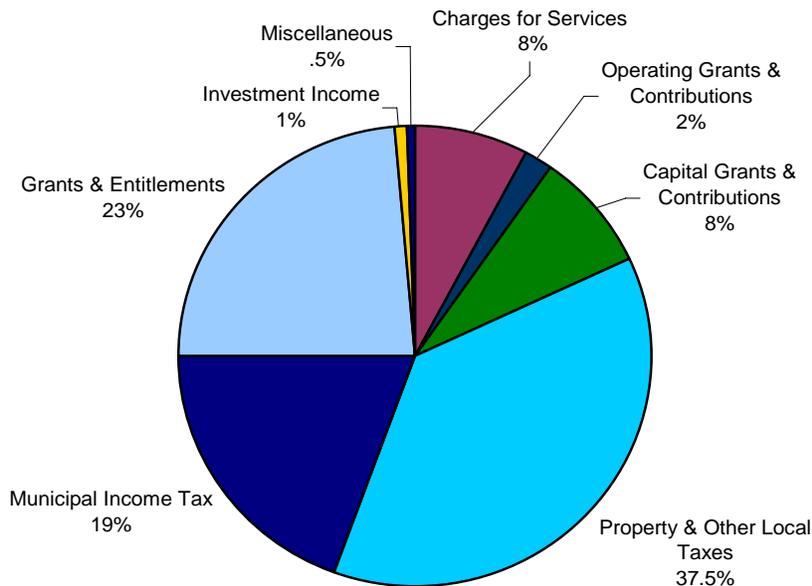
Grants and entitlements, which include local government funds, accounted for \$2,952,777 or 23.49 percent of the governmental revenue in 2009.

The City's income tax revenue source is the third largest contributor with a rate of 2 percent on gross income, which has not changed since 1997. Residents of the City who work in another community and pay the withholding tax for that community receive an 87.5 percent tax credit up to a maximum of 1.75 percent. During 2009, the revenue generated from this tax amounted to \$2,440,693, representing an increase of \$203,834 or 9.11 percent. The City continues to enforce the delinquent letter program and the subpoena program on a biennial basis to ensure compliance with the local tax laws. The program was last conducted in 2009.

The revenue received from capital grants and contributions in 2009 was \$1,055,048 and represented an increase of \$926,317 over 2008. The increased revenue was attributable to funding received from the Lake County Stormwater Management Program for improvements to the E. 222nd Street Outfall.

Investment income decreased \$169,599 in 2009, due to a decrease in interest rates.

Revenues by Source-Governmental Activities



Total program expenses for governmental activities were \$12,219,848 in 2009, representing a decrease of \$385,395 or 3.06 percent from 2008. The decreases reflect the City's efforts to control expenses during these challenging economic times.

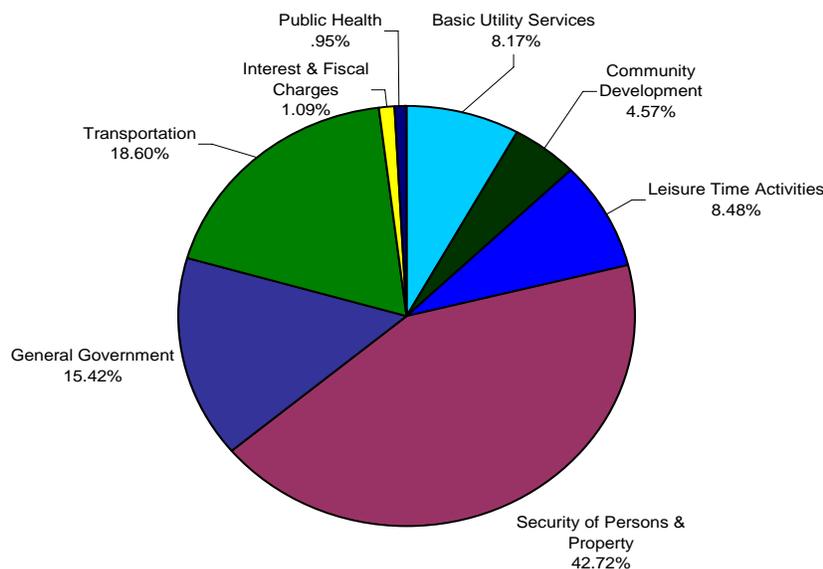
City of Willowick
Management's Discussion and Analysis (Unaudited)
For The Fiscal Year Ended December 31, 2009

Security of Persons and Property represented 42.72 percent of the governmental expenses. During 2009, \$5,220,142 was spent for this program, representing a decrease of \$151,274 or 2.82 percent from the previous period. Currently, there are 24 full-time sworn officers in the Police Department. The Department continues to place a strong emphasis on the training of its employees to keep up with the rapidly changing laws, practices and technology. The majority of the cost of operating the Department comes from the General Fund. In addition to the Department's operational costs, capital equipment and improvements are funded from the Police and Fire Capital Improvement Levy. The Fire Department consists of 1 full-time Chief, 1 full-time Fire Marshall and 63 part-time firefighters, of which 44 are full-trained paramedics. Again, training plays a crucial role in the day-to-day operation of the Fire Department. The Department handled 1,785 calls for assistance of which approximately 1,474 were for EMS and 311 were for fire and fire-related incidents. This constituted a decrease of 3.77 percent from 2008. The total cost of operating the Fire and EMS Department was split between the General Fund (33 percent) and the EMS Levy Fund (67 percent). In addition to the operational costs, capital equipment and improvements are funded from the Police and Fire Capital Improvement Levy and the EMS Levy Funds.

Transportation costs accounted for program expenses totaling 18.6 percent of the 2009 governmental expenses. In 2009, transportation costs were \$2,272,806 representing a decrease of \$125,400 as compared to 2008.

General Government accounted for \$1,884,478, or 15.42 percent, of the 2009 governmental expenses. Expenses for this program increased \$22,557, or 1.21 percent, from 2008. In 2009, leisure time activities accounted for \$1,036,581, or 8.48 percent, of the governmental expenses. Expenses for this program decreased \$70,718, or 6.39 percent, as compared to 2008. The decrease was due to a reduction in capital improvements. Community Development expenses increased \$61,144, or 12.31 percent, from 2008. The increased expenses were attributable to a storefront renovation program and a housing rehabilitation program. The funding for both of the programs was provided through Community Development Block Grant funds.

Expenses by Function-Governmental Activities



City of Willowick
Management's Discussion and Analysis (Unaudited)
For The Fiscal Year Ended December 31, 2009

Business-Type Activities

The Business-Type activities of the City, which include the City's sewer operations, increased the City's net assets by \$231,613.

The City's Funds

Governmental Funds

These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$18,338,287 and expenditures of \$19,233,727.

At the end of 2009, the City's governmental funds reported combined ending fund balances of \$6,049,387, a decrease of \$895,440. Of the total amount, \$5,282,399 constitutes unreserved fund balances. The remainder, \$766,988, is reserved to indicate that the funds have already been committed to liquidate purchase orders and contracts entered into during prior periods.

General Fund Budgeting Highlights

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

For the General Fund, actual revenues were \$112,918 more than the final budget estimates of \$8,223,375, including other financing sources. The final appropriations of \$8,936,624, including other financing uses was sufficient to meet the expenditures for the year, which ended up at \$8,804,874 or \$131,750 less than anticipated due to conservative spending.

The City's ending unobligated General Fund balance was \$1,103,282.

Business-Type Funds

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

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

City of Willowick
Management's Discussion and Analysis (Unaudited)
For The Fiscal Year Ended December 31, 2009

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2009, the City of Willowick had \$37,806,509 invested in land, construction in progress, buildings, equipment and infrastructure. Capital assets for governmental activities account for \$32,062,209 and business-type activities account for \$5,744,300 of the City's total capital assets (net of accumulated depreciation).

Governmental activities reported a decrease of \$61,949 in capital assets. Capital asset additions for governmental activities totaling \$1,088,768 were offset by \$16,338 in net deletions and \$1,134,379 of depreciation expense. Capital assets for business-type activities increased \$218,293. Capital asset additions for business-type activities totaled \$372,887 and the net deletions were \$1,395. The City recorded \$153,199 of depreciation expense for business-type activities.

Table 3 shows fiscal 2009 balances of Capital Assets as compared to 2008:

Table 3
Capital Assets at December 31

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Totals</u> | |
|--------------------------------|--------------------------------|----------------------|---------------------------------|---------------------|----------------------|----------------------|
| | <u>2009</u> | <u>2008</u> | <u>2009</u> | <u>2008</u> | <u>2009</u> | <u>2008</u> |
| Construction in progress | \$ 158,187 | \$ 474,027 | \$ 372,887 | \$ - | \$ 531,074 | \$ 474,027 |
| Land and land improvements | 1,766,064 | 1,766,064 | - | - | 1,766,064 | 1,766,064 |
| Buildings and improvements | 9,564,632 | 9,451,264 | - | - | 9,564,632 | 9,451,264 |
| Machinery and equipment | 5,353,750 | 5,242,326 | 563,836 | 563,836 | 5,917,586 | 5,806,162 |
| Infrastructure | 28,751,352 | 27,744,471 | 9,505,916 | 9,507,416 | 38,257,268 | 37,251,887 |
| Less: Accumulated depreciation | <u>(13,531,776)</u> | <u>(12,553,994)</u> | <u>(4,698,339)</u> | <u>(4,545,245)</u> | <u>(18,230,115)</u> | <u>(17,099,239)</u> |
| Total capital assets | \$ <u>32,062,209</u> | \$ <u>32,124,158</u> | \$ <u>5,744,300</u> | \$ <u>5,526,007</u> | \$ <u>37,806,509</u> | \$ <u>37,650,165</u> |

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

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

Major capital asset events for 2009 include the following:

- A road program consisting of resurfacing E. 326th Street, Barjode, E. 291st Street, Willowick Drive, Forestgrove and Blissfield was completed
- Construction for the E. 322nd Street Outfall Project was completed
- Engineering was completed and construction commenced for the reconstruction of Thomas Street
- A pavilion was constructed at Dudley Park

City of Willowick
Management's Discussion and Analysis (Unaudited)
For The Fiscal Year Ended December 31, 2009

Debt

At December 31, 2009, the City of Willowick had \$5,147,647 in outstanding debt and compensated absences. Table 4 summarizes the outstanding obligations of the City.

Table 4
Outstanding Debt at Year End

| | Governmental Activities | | Business-Type Activities | | Totals | |
|--------------------------|-------------------------|---------------------|--------------------------|-------------------|---------------------|---------------------|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Short-term notes payable | \$ 675,000 | \$ 65,000 | \$ - | \$ 5,000 | \$ 675,000 | \$ 70,000 |
| Long-term notes payable | 2,295,000 | 3,145,000 | 650,000 | 605,000 | 2,945,000 | 3,750,000 |
| OPWC loan payable | 196,405 | 208,307 | - | - | 196,405 | 208,307 |
| Compensated absences | 1,265,803 | 1,306,547 | 37,635 | 28,785 | 1,303,438 | 1,335,332 |
| Capital Leases | <u>27,804</u> | <u>36,202</u> | <u>-</u> | <u>-</u> | <u>27,804</u> | <u>36,202</u> |
| Total | <u>\$ 4,460,012</u> | <u>\$ 4,761,056</u> | <u>\$ 687,635</u> | <u>\$ 638,785</u> | <u>\$ 5,147,647</u> | <u>\$ 5,399,841</u> |

State law limits the amount of debt a City can issue in general obligation bonds to 10.5 percent of tax valuation. The City had a tax valuation of \$290,489,806 at the end of 2009. The City has borrowed approximately 12 percent of our debt limitation. The OPWC and compensated absences balances included in the above total are not subject to the limitation.

At December 31, 2009, the City had outstanding short-term notes of \$675,000 and long-term notes of \$2,945,000. Total notes payable decreased \$200,000 from 2008. The notes consisted of \$2,295,000 for Shoreland Crossings infrastructure and \$650,000 for sanitary sewer improvements, \$575,000 for sewer outfall improvements, and \$100,000 for a pavilion.

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

Current Related Financial Activities

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

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

Due to these challenging economic times, the City has made some staffing reductions in January, 2010. Additionally, we are funding 25 percent of the Fire Department's operational costs from the General Fund and 75 percent from the Emergency Rescue Levy Fund. Prior to 2008, these costs were funded equally from the General Fund and the Emergency Rescue Levy Fund.

City of Willowick
Management's Discussion and Analysis (Unaudited)
For The Fiscal Year Ended December 31, 2009

The contracts for all six of the City's collective bargaining units expired on December 31, 2009 and are currently under negotiation.

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

Contacting the City of Willowick's Finance Department

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

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City of Willowick, Ohio

Statement of Net Assets

December 31, 2009

| | Governmental Activities | Business-Type Activities | Total |
|---|----------------------------|-----------------------------|----------------------|
| Assets: | | | |
| Equity in pooled cash and cash equivalents | \$ 6,862,272 | \$ 210,939 | \$ 7,073,211 |
| Materials and supplies inventory | 27,573 | - | 27,573 |
| Accrued interest receivable | 7,378 | - | 7,378 |
| Accounts receivable | 122,481 | 574,987 | 697,468 |
| Intergovernmental receivable | 2,347,483 | 153,107 | 2,500,590 |
| Internal balances | 200,000 | (200,000) | - |
| Taxes receivable | 5,166,047 | - | 5,166,047 |
| Special assessments receivable | 3,056 | - | 3,056 |
| Nondepreciable capital assets | 1,115,029 | 372,887 | 1,487,916 |
| Depreciable capital assets, net | <u>30,947,180</u> | <u>5,371,413</u> | <u>36,318,593</u> |
| Total assets | <u>46,798,499</u> | <u>6,483,333</u> | <u>53,281,832</u> |
| Liabilities: | | | |
| Accounts payable | 391,246 | 328,227 | 719,473 |
| Accrued wages and benefits | 314,288 | 11,603 | 325,891 |
| Intergovernmental payable | 175,571 | 94,275 | 269,846 |
| Accrued interest payable | 52,027 | 13,134 | 65,161 |
| Notes payable | 675,000 | - | 675,000 |
| Deferred revenue | 4,097,069 | - | 4,097,069 |
| Long-term liabilities: | | | |
| Due within one year | 708,465 | 54,263 | 762,728 |
| Due in more than one year | <u>3,076,547</u> | <u>633,372</u> | <u>3,709,919</u> |
| Total liabilities | <u>9,490,213</u> | <u>1,134,874</u> | <u>10,625,087</u> |
| Net assets: | | | |
| Invested in capital assets, net of related debt | 28,868,000 | 5,094,300 | 33,962,300 |
| Restricted for: | | | |
| Debt service | 22,968 | - | 22,968 |
| Other purposes | 2,477,516 | - | 2,477,516 |
| Unrestricted | <u>5,939,802</u> | <u>254,159</u> | <u>6,193,961</u> |
| Total net assets | <u>\$ 37,308,286</u> | <u>\$ 5,348,459</u> | <u>\$ 42,656,745</u> |

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

City of Willowick, Ohio

Statement of Activities

For The Year Ended December 31, 2009

| | <u>Program Revenues</u> | | | |
|----------------------------------|-------------------------|---------------------------------|---|---|
| | <u>Expenses</u> | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Capital Grants and Contributions</u> |
| Government activities: | | | | |
| General government | \$ 1,884,478 | \$ 231,281 | \$ - | \$ - |
| Security of persons and property | 5,220,142 | 360,819 | 103,033 | - |
| Public health and welfare | 115,592 | - | - | - |
| Transportation | 2,272,806 | - | - | 995,049 |
| Leisure time activities | 1,036,581 | 201,161 | - | - |
| Community development | 558,029 | 188,823 | 123,769 | 59,999 |
| Basic utility service | 998,716 | - | - | - |
| Interest and fiscal charges | <u>133,504</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total governmental activities | <u>12,219,848</u> | <u>982,084</u> | <u>226,802</u> | <u>1,055,048</u> |
| Business-type activities: | | | | |
| Sewer | <u>1,863,492</u> | <u>2,033,571</u> | <u>-</u> | <u>26,318</u> |
| Totals | \$ <u>14,083,340</u> | \$ <u>3,015,655</u> | \$ <u>226,802</u> | \$ <u>1,081,366</u> |

General revenues:

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

Change in net assets

Net assets beginning of year

Net assets end of year

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

Net (Expense) Revenue
and Changes in Net Assets

| Governmental Activities | Business- Type Activities | Total |
|----------------------------|------------------------------|----------------------|
| \$ (1,653,197) | \$ - | \$ (1,653,197) |
| (4,756,290) | - | (4,756,290) |
| (115,592) | - | (115,592) |
| (1,277,757) | - | (1,277,757) |
| (835,420) | - | (835,420) |
| (185,438) | - | (185,438) |
| (998,716) | - | (998,716) |
| (133,504) | - | (133,504) |
| <u>(9,955,914)</u> | <u>-</u> | <u>(9,955,914)</u> |
| - | 196,397 | 196,397 |
| <u>(9,955,914)</u> | <u>196,397</u> | <u>(9,759,517)</u> |
| 4,730,548 | 35,102 | 4,765,650 |
| 2,440,693 | - | 2,440,693 |
| 2,952,777 | - | 2,952,777 |
| 115,156 | 114 | 115,270 |
| <u>68,525</u> | <u>-</u> | <u>68,525</u> |
| <u>10,307,699</u> | <u>35,216</u> | <u>10,342,915</u> |
| 351,785 | 231,613 | 583,398 |
| <u>36,956,501</u> | <u>5,116,846</u> | <u>42,073,347</u> |
| \$ <u>37,308,286</u> | \$ <u>5,348,459</u> | \$ <u>42,656,745</u> |

City of Willowick, Ohio

Balance Sheet Governmental Funds

December 31, 2009

| | <u>General</u> | <u>Fire Emergency</u> |
|--|----------------------------|----------------------------|
| Assets: | | |
| Equity in pooled cash and cash equivalents | \$ 1,103,282 | \$ 1,247,397 |
| Taxes receivable | 3,294,641 | 579,230 |
| Accounts receivable | 48,272 | 74,209 |
| Accrued interest receivable | 7,378 | - |
| Intergovernmental receivable | 1,184,999 | 57,745 |
| Special assessments receivable | 3,056 | - |
| Due from other funds | 387,383 | - |
| Materials and supplies inventory | <u>3,210</u> | <u>-</u> |
| Total assets | \$ <u>6,032,221</u> | \$ <u>1,958,581</u> |
| | | |
| Liabilities and fund balances: | | |
| Liabilities: | | |
| Accounts payable | \$ 136,630 | \$ 7,225 |
| Due to other funds | - | - |
| Accrued wages | 161,771 | 37,968 |
| Intergovernmental payable | 164,793 | - |
| Deferred revenue | 4,095,029 | 683,636 |
| Accrued interest payable | - | - |
| Notes payable | <u>-</u> | <u>-</u> |
| Total liabilities | <u>4,558,223</u> | <u>728,829</u> |
| | | |
| Fund balances: | | |
| Reserve for encumbrances | 45,336 | 3,275 |
| Reserve for inventory | 3,210 | - |
| Unreserved: | | |
| Undesignated, reported in: | | |
| General fund | 1,425,452 | - |
| Special revenue funds | - | 1,226,477 |
| Capital project fund | <u>-</u> | <u>-</u> |
| Total fund balances | <u>1,473,998</u> | <u>1,229,752</u> |
| | | |
| Total liabilities and fund balances | \$ <u>6,032,221</u> | \$ <u>1,958,581</u> |

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

| <u>Capital Improvement</u> | <u>Debt Service</u> | <u>Other Governmental</u> | <u>Total Governmental</u> |
|--------------------------------|---------------------|-------------------------------|-------------------------------|
| \$ 2,555,489 | \$ - | \$ 1,956,104 | \$ 6,862,272 |
| 1,104,238 | - | 187,938 | 5,166,047 |
| - | - | - | 122,481 |
| - | - | - | 7,378 |
| 715,689 | 245 | 388,805 | 2,347,483 |
| - | - | - | 3,056 |
| - | - | - | 387,383 |
| - | - | 24,363 | 27,573 |
| <u>\$ 4,375,416</u> | <u>\$ 245</u> | <u>\$ 2,557,210</u> | <u>\$ 14,923,673</u> |

| | | | |
|------------------|------------|----------------|------------------|
| \$ 171,494 | \$ - | \$ 75,897 | \$ 391,246 |
| - | - | 187,383 | 187,383 |
| - | - | 114,549 | 314,288 |
| 10,778 | - | - | 175,571 |
| 1,819,927 | 245 | 526,306 | 7,125,143 |
| 5,655 | - | - | 5,655 |
| <u>675,000</u> | <u>-</u> | <u>-</u> | <u>675,000</u> |
| <u>2,682,854</u> | <u>245</u> | <u>904,135</u> | <u>8,874,286</u> |

| | | | |
|---------------------|---------------|---------------------|----------------------|
| 545,382 | - | 145,422 | 739,415 |
| - | - | 24,363 | 27,573 |
| - | - | - | 1,425,452 |
| - | - | 1,483,290 | 2,709,767 |
| <u>1,147,180</u> | <u>-</u> | <u>-</u> | <u>1,147,180</u> |
| <u>1,692,562</u> | <u>-</u> | <u>1,653,075</u> | <u>6,049,387</u> |
| <u>\$ 4,375,416</u> | <u>\$ 245</u> | <u>\$ 2,557,210</u> | <u>\$ 14,923,673</u> |

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City of Willowick, Ohio

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

December 31, 2009

Total Governmental Funds Balances \$ 6,049,387

*Amounts reported for governmental activities in the statement
of net assets are different because:*

Capital assets used in Governmental Activities are not financial
resources and therefore are not reported in the funds. 32,062,209

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

| | |
|--------------------------|---------------|
| Property and other taxes | \$ 280,633 |
| Municipal income taxes | 768,483 |
| Intergovernmental | 1,922,062 |
| Special assessments | 3,056 |
| Investment income | 7,378 |
| Charges for services | <u>46,462</u> |

Total 3,028,074

In the Statement of Activities, interest is accrued on outstanding
bonds, whereas in governmental funds, an interest expenditure
is reported when due. (46,372)

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

| | |
|-----------------------|--------------------|
| Notes payable | (2,295,000) |
| Loan payable | (196,405) |
| Capital lease payable | (27,804) |
| Compensated absences | <u>(1,265,803)</u> |

Total (3,785,012)

Net assets of Governmental Activities \$ 37,308,286

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

City of Willowick, Ohio

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

For The Year Ended December 31, 2009

| | <u>General</u> | <u>Fire Emergency</u> |
|--|----------------------------|----------------------------|
| Revenues: | | |
| Property and other taxes | \$ 2,513,818 | \$ 616,132 |
| Municipal income tax | 2,283,135 | - |
| Other local taxes | 135,436 | - |
| Intergovernmental | 2,520,637 | 124,415 |
| Charges for services | 426,741 | 194,015 |
| License and permits | 206,663 | - |
| Fines and forfeitures | 107,230 | - |
| Investment income | 102,822 | - |
| Miscellaneous income | 48,072 | - |
| Total revenues | <u>8,344,554</u> | <u>934,562</u> |
| Expenditures: | | |
| Current operations and maintenance: | | |
| Security of persons and property | 3,519,054 | 1,080,100 |
| Public health | 115,592 | - |
| Leisure time activities | 921,080 | - |
| Community development | 372,076 | - |
| Basic utility service | 888,712 | - |
| Transportation | 252,780 | - |
| General government | 1,653,110 | - |
| Capital outlay | - | - |
| Debt service: | | |
| Principal retirement | 8,398 | - |
| Interest and fiscal charges | 1,430 | - |
| Total expenditures | <u>7,732,232</u> | <u>1,080,100</u> |
| Excess of revenues over (under) expenditures | <u>612,322</u> | <u>(145,538)</u> |
| Other financing sources (uses): | | |
| Sale of assets | 4,842 | - |
| Debt proceeds | - | - |
| Transfers – in | - | - |
| Transfers – out | (680,000) | - |
| Total other financing sources (uses) | <u>(675,158)</u> | <u>-</u> |
| Net change in fund balance | (62,836) | (145,538) |
| Fund balance at beginning of year | <u>1,536,834</u> | <u>1,375,290</u> |
| Fund balance at end of year | \$ <u><u>1,473,998</u></u> | \$ <u><u>1,229,752</u></u> |

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

| <u>Capital Improvement</u> | <u>Debt Service</u> | <u>Other Governmental</u> | <u>Total Governmental</u> |
|--------------------------------|---------------------|-------------------------------|-------------------------------|
| \$ 1,121,553 | \$ - | \$ 197,161 | \$ 4,448,664 |
| - | - | - | 2,283,135 |
| - | - | - | 135,436 |
| 530,271 | - | 974,301 | 4,149,624 |
| - | - | - | 620,756 |
| - | - | - | 206,663 |
| - | - | 2,110 | 109,340 |
| 3,234 | - | 1,722 | 107,778 |
| 500 | - | 12,321 | 60,893 |
| <u>1,655,558</u> | <u>-</u> | <u>1,187,615</u> | <u>12,122,289</u> |
| - | - | 473,447 | 5,072,601 |
| - | - | - | 115,592 |
| - | - | 11,892 | 932,972 |
| - | - | 160,727 | 532,803 |
| - | - | 194,393 | 1,083,105 |
| - | - | 714,730 | 967,510 |
| - | - | 7,348 | 1,660,458 |
| 1,700,098 | - | - | 1,700,098 |
| - | 3,156,902 | - | 3,165,300 |
| 3,092 | 82,610 | - | 87,132 |
| <u>1,703,190</u> | <u>3,239,512</u> | <u>1,562,537</u> | <u>15,317,571</u> |
| <u>(47,632)</u> | <u>(3,239,512)</u> | <u>(374,922)</u> | <u>(3,195,282)</u> |
| - | - | - | 4,842 |
| 2,295,000 | - | - | 2,295,000 |
| 145,000 | 3,236,156 | 535,000 | 3,916,156 |
| <u>(3,236,156)</u> | <u>-</u> | <u>-</u> | <u>(3,916,156)</u> |
| <u>(796,156)</u> | <u>3,236,156</u> | <u>535,000</u> | <u>2,299,842</u> |
| (843,788) | (3,356) | 160,078 | (895,440) |
| <u>2,536,350</u> | <u>3,356</u> | <u>1,492,997</u> | <u>6,944,827</u> |
| \$ <u><u>1,692,562</u></u> | \$ <u><u>-</u></u> | \$ <u><u>1,653,075</u></u> | \$ <u><u>6,049,387</u></u> |

City of Willowick, Ohio

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

For The Year Ended December 31, 2009

Net Change in Fund Balances - Total Governmental Funds \$ (895,440)

Amounts reported for Governmental Activities in the Statement of Activities are different because:

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

| | | |
|----------------|--------------------|----------|
| Capital outlay | \$ 1,088,768 | |
| Depreciation | <u>(1,134,379)</u> | |
| Total | | (45,611) |

In the Statement of Activities, only the loss on the disposal of property and equipment is reported, whereas, in the Governmental Funds, the proceed from the disposal increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the property and equipment. (16,338)

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

| | | |
|--------------------------|---------------|---------|
| Property and other taxes | 146,448 | |
| Municipal income taxes | 157,558 | |
| Intergovernmental | 87,792 | |
| Special assessments | (1,336) | |
| Investment income | 7,378 | |
| Charges for services | <u>46,662</u> | |
| Total | | 444,502 |

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

| | | |
|-----------------------------|-----------------|-----------|
| Principal | 3,165,300 | |
| Interest and fiscal charges | <u>(46,372)</u> | |
| Total | | 3,118,928 |

Other financing sources in the governmental funds increase long-term liabilities in the Statement of Net Assets. (2,295,000)

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

| | | |
|----------------------|---------------|--|
| Compensated absences | <u>40,744</u> | |
|----------------------|---------------|--|

Change in Net Assets of Governmental Activities \$ 351,785

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

City of Willowick, Ohio

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

General Fund

For The Year Ended December 31, 2009

| | Budget | | Actual | Variance with |
|---|-------------------|-------------------|---------------------|--|
| | Original | Final | | Final Budget Positive (Negative) |
| Revenues: | | | | |
| Property taxes | \$ 2,452,850 | \$ 2,452,850 | \$ 2,513,818 | \$ 60,968 |
| Municipal income taxes | 2,330,000 | 2,285,000 | 2,286,153 | 1,153 |
| Other local taxes | 110,000 | 175,000 | 179,810 | 4,810 |
| Intergovernmental | 2,175,000 | 2,394,000 | 2,410,861 | 16,861 |
| Charges for services | 351,500 | 407,500 | 426,741 | 19,241 |
| Licenses and permits | 186,700 | 199,200 | 206,663 | 7,463 |
| Fines and forfeitures | 77,750 | 97,750 | 102,732 | 4,982 |
| Investment income | 160,000 | 156,500 | 156,601 | 101 |
| Other | 19,575 | 50,575 | 48,072 | (2,503) |
| Total revenues | <u>7,863,375</u> | <u>8,218,375</u> | <u>8,331,451</u> | <u>113,076</u> |
| Expenditures: | | | | |
| Current operations and maintenance: | | | | |
| Security of persons and property | 3,708,876 | 3,675,257 | 3,635,415 | 39,842 |
| Public health | 125,000 | 116,000 | 115,592 | 408 |
| Leisure time activities | 996,640 | 958,535 | 923,687 | 34,848 |
| Community development | 370,580 | 386,095 | 382,865 | 3,230 |
| Basic utility services | 1,001,086 | 954,586 | 950,917 | 3,669 |
| Transportation | 259,625 | 259,075 | 252,021 | 7,054 |
| General government | <u>1,768,981</u> | <u>1,744,693</u> | <u>1,701,994</u> | <u>42,699</u> |
| Total expenditures | <u>8,230,788</u> | <u>8,094,241</u> | <u>7,962,491</u> | <u>131,750</u> |
| Excess of revenue over (under) expenditures | <u>(367,413)</u> | <u>124,134</u> | <u>368,960</u> | <u>244,826</u> |
| Other financing sources (uses): | | | | |
| Sale of assets | 5,000 | 5,000 | 4,842 | (158) |
| Advances-out | (175,000) | (162,383) | (162,383) | - |
| Transfers-out | <u>(550,000)</u> | <u>(680,000)</u> | <u>(680,000)</u> | <u>-</u> |
| Total other financing sources (uses) | <u>(720,000)</u> | <u>(837,383)</u> | <u>(837,541)</u> | <u>(158)</u> |
| Net change in fund balance | (1,087,413) | (713,249) | (468,581) | 244,668 |
| Fund balance at beginning of year | 1,433,158 | 1,433,158 | 1,433,158 | - |
| Outstanding encumbrances | <u>138,705</u> | <u>138,705</u> | <u>138,705</u> | <u>-</u> |
| Fund balance at end of year | \$ <u>484,450</u> | \$ <u>858,614</u> | \$ <u>1,103,282</u> | \$ <u>244,668</u> |

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

City of Willowick, Ohio

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

Fire Emergency Fund Special Revenue

For The Year Ended December 31, 2009

| | Budget | | Actual | Variance with |
|-------------------------------------|---------------------|---------------------|---------------------|------------------|
| | Original | Final | | Final Budget |
| | | | | Positive |
| | | | | (Negative) |
| Revenues: | | | | |
| Property taxes | \$ 600,710 | \$ 600,710 | \$ 616,132 | \$ 15,422 |
| Intergovernmental | 121,780 | 121,780 | 124,415 | 2,635 |
| Charges for services | <u>210,000</u> | <u>255,000</u> | <u>265,120</u> | <u>10,120</u> |
| Total revenues | <u>932,490</u> | <u>977,490</u> | <u>1,005,667</u> | <u>28,177</u> |
| Expenditures: | | | | |
| Current operations and maintenance: | | | | |
| Security of persons and property | <u>1,168,966</u> | <u>1,128,242</u> | <u>1,110,779</u> | <u>17,463</u> |
| Total expenditures | <u>1,168,966</u> | <u>1,128,242</u> | <u>1,110,779</u> | <u>17,463</u> |
| Net change in fund balance | (236,476) | (150,752) | (105,112) | 45,640 |
| Fund balance at beginning of year | 1,342,319 | 1,342,319 | 1,342,319 | - |
| Outstanding encumbrances | <u>10,190</u> | <u>10,190</u> | <u>10,190</u> | - |
| Fund balance at end of year | \$ <u>1,116,033</u> | \$ <u>1,201,757</u> | \$ <u>1,247,397</u> | \$ <u>45,640</u> |

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

City of Willowick, Ohio

Statement of Fund Net Assets Proprietary Funds

December 31, 2009

| | <u>Business-Type Activities</u> |
|---|-------------------------------------|
| | <u>Sewer</u> |
| Assets: | |
| Current assets: | |
| Equity in pooled cash and cash equivalents | \$ 210,939 |
| Accounts receivable | 574,987 |
| Intergovernmental receivable | <u>153,107</u> |
| Total current assets | <u>939,033</u> |
| Non-current assets: | |
| Nondepreciable capital assets | 372,887 |
| Depreciable capital assets, net | <u>5,371,413</u> |
| Total non-current assets | <u>5,744,300</u> |
| Total assets | <u>6,683,333</u> |
| Liabilities: | |
| Current liabilities: | |
| Accounts payable | 328,227 |
| Accrued wages and benefits | 11,603 |
| Intergovernmental payable | 94,275 |
| Internal payable | 200,000 |
| Accrued interest payable | 13,134 |
| Accrued compensated absences | 34,263 |
| Notes payable | <u>20,000</u> |
| Total current liabilities | <u>701,502</u> |
| Long-term liabilities (net of current portion): | |
| Accrued compensated absences | 3,372 |
| Notes payable | <u>630,000</u> |
| Total long-term liabilities | <u>633,372</u> |
| Total liabilities | <u>1,334,874</u> |
| Net assets: | |
| Invested in capital assets, net of related debt | 5,094,300 |
| Unrestricted | <u>254,159</u> |
| Total net assets | <u>\$ 5,348,459</u> |

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

City of Willowick, Ohio

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

For The Year Ended December 31, 2009

| | Business-Type Activities |
|---|-----------------------------|
| | <u>Sewer</u> |
| Operating revenues: | |
| Charges for services | \$ <u>1,880,464</u> |
| Operating expenses: | |
| Personal services | 321,699 |
| Contractual services | 1,363,445 |
| Materials and supplies | 7,700 |
| Depreciation | <u>153,199</u> |
| Total operating expenses | <u>1,846,043</u> |
| Operating income | <u>34,421</u> |
| Non-operating revenue (expenses): | |
| Property taxes | 35,102 |
| Investment income | 114 |
| Other revenue | 179,425 |
| Interest and fiscal charges | (16,054) |
| Loss on sale of capital assets | <u>(1,395)</u> |
| Total non-operating revenues (expenses) | <u>197,192</u> |
| Change in net assets | 231,613 |
| Net assets beginning of year | <u>5,116,846</u> |
| Net assets end of year | \$ <u><u>5,348,459</u></u> |

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

City of Willowick, Ohio

Statement of Fiduciary Net Assets Fiduciary Funds

December 31, 2009

| | Business-Type Activities |
|---|-----------------------------|
| | <u>Sewer</u> |
| <i>Increase (Decrease) in Cash and Cash Equivalents:</i> | |
| Cash Flows from Operating Activities | |
| Cash received from customers | \$ 1,621,731 |
| Cash payments for goods and services | (1,095,094) |
| Cash payments to employees for services | (317,396) |
| Cash payments for materials and supplies | (7,700) |
| <i>Net cash provided by operating activities</i> | <u>201,541</u> |
| Cash Flows from Non-Capital Financing Activities | |
| Property taxes | <u>35,102</u> |
| Cash Flows from Capital and Related Financing Activities | |
| Acquisition and construction of assets | (372,887) |
| Intergovernmental receipts | 26,318 |
| Proceeds from debt | 650,000 |
| Principal paid on debt | (610,000) |
| Interest paid | (17,611) |
| <i>Net cash used in capital and related financing activities</i> | <u>(324,180)</u> |
| Cash Flows from Investing Activities | |
| Interest received | <u>114</u> |
| Net decrease in cash and cash equivalents | (87,423) |
| Cash and cash equivalents, beginning of year | <u>298,362</u> |
| Cash and cash equivalents, end of year | \$ <u><u>210,939</u></u> |
| <i>Reconciliation of Operating Income to Net Cash From Operating Activities:</i> | |
| Operating income | \$ 34,421 |
| Adjustments: | |
| Depreciation | 153,199 |
| Changes in assets/liabilities: | |
| (Increase) decrease in accounts receivable | (258,733) |
| Increase (decrease) in accounts payable | 280,554 |
| Increase (decrease) in accrued wages and benefits | 2,513 |
| Increase (decrease) in compensated absences payable | 8,850 |
| Increase (decrease) in intergovernmental payable | (19,263) |
| Total adjustments | <u>167,120</u> |
| Net cash provided by operating activities | \$ <u><u>201,541</u></u> |

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

City of Willowick, Ohio

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

For The Year Ended December 31, 2009

| | <u>Agency</u> |
|--|------------------|
| Assets: | |
| Equity in pooled cash and cash equivalents | \$ <u>69,056</u> |
| Liabilities | |
| Deposits held | \$ <u>69,056</u> |

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

City of Willowick, Ohio

Notes To Basic Financial Statements

For The Year Ended December 31, 2009

Note 1: The Reporting Entity

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

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

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

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

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

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

Jointly Governed Organization

Lake County General Health District – The Lake County General Health District, a jointly governed organization, provides health services to the citizens within the County. The Board of Health, which consists of a representative from each of the participating governments, oversees the operation of the District. The members are elected to staggered five year terms. Two members are elected by the City of Mentor. The remaining 13 members are elected by the various mayors of cities, villages, chairmen of the township trustees, and the County Commissioners. Five townships, nine villages, and nine cities, including the City of Willowick, participate in the District. The City contributed \$115,592 during 2009 for the operation of the District.

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2009

Note 1: The Reporting Entity (continued)

Northeast Ohio Public Energy Council – The City is a member of the Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of energy. NOPEC is currently comprised of 162 communities who have been authorized by ballot to purchase energy on behalf of their citizens. The intent of NOPEC is to provide energy at the lowest possible rates while at the same time ensuring stability in prices by entering into long-term contracts with suppliers to provide energy to the citizens of its member communities.

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each county then elect one person to serve on the eight-member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. The City of Willowick did not contribute to NOPEC during 2009. Financial information can be obtained by contacting NOPEC, 31320 Solon Rd, Suite 20, Solon, Ohio 44139.

Note 2: Summary of Significant Accounting Policies

The significant accounting policies followed in the preparation of these financial statements are summarized below. These policies conform to generally accepted accounting principles (GAAP) for local governmental units as prescribed in the statements issued by the Governmental Accounting Standards Board (GASB) and other recognized authoritative sources. The City also applies Financial Accounting Standards Board Codification, Statements and Interpretations issued after November 30, 1989, to its proprietary activities, provided they do not conflict with or contradict GASB pronouncements. On December 31, 2009, the City adopted authoritative guidance by the Financial Accounting Standards Board (“FASB”) which established the FASB Accounting Standards Codification (“ASC”) as the single source of authoritative accounting principles generally accepted in the United States of America. The City has modified its disclosures in this report to comply with the requirements. Accordingly, references to authoritative accounting principles after the effective date with reference the codification and not the previous accounting guidance. The adoption of the guidance did not have a material effect on the City’s financial statements. The most significant of the City’s accounting policies are described below.

A. Basis of Presentation

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

Government-Wide Financial Statements

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

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2009

Note 2: Summary of Significant Accounting Policies (continued)

A. Basis of Presentation (continued)

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

Fund Financial Statements

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

B. Fund Accounting

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

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

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

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

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2009

Note 2: Summary of Significant Accounting Policies (continued)

B. Fund Accounting (continued)

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

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

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

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

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

C. Measurement Focus and Basis of Accounting

Government-Wide Financial Statements

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

Fund Financial Statements

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

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2009

Note 2: Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting (continued)

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

D. Basis of Accounting

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

Revenues – Exchange and Non-Exchange Transactions

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

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

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

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

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

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2009

Note 2: Summary of Significant Accounting Policies (continued)

D. Basis of Accounting (continued)

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of December 31, 2009, but which were levied to finance year 2010 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures

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

E. Budgetary Process

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

Tax Budget

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

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2009

Note 2: Summary of Significant Accounting Policies (continued)

E. Budgetary Process (continued)

Estimated Resources

The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include unencumbered cash balances at December 31 of the preceding year. The certificate may be further amended during the year if the Finance Director determines, and the Budget Commission agrees, that an estimate needs to be either increased or decreased. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 2009.

Appropriations

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

Lapsing of Appropriations

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

Encumbrances

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

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2009

Note 2: Summary of Significant Accounting Policies (continued)

F. Cash and Cash Equivalents

Cash received by the City is deposited into several bank accounts. Monies for all funds, including the enterprise fund, are maintained in these accounts or temporarily used to purchase short-term investments. Individual fund integrity is maintained through the City's records. Each fund's interest in the pooled bank accounts is presented as "equity in pooled cash and cash equivalents" on the combined balance sheet. During fiscal year 2009, investments were limited to STAR Ohio.

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

STAR Ohio is an investment pool managed by the State Treasurer's office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 2009. All investment earnings accrue to the general fund except those funds specifically required to earn interest by Ohio law.

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

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2009 amounted to \$102,822, which includes \$85,310 assigned from other City funds.

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

G. Inventory

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

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2009, are recorded as prepaid items by using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed. At December 31, 2009, the City did not have any prepaid items.

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2009

Note 2: Summary of Significant Accounting Policies (continued)

I. Capital Assets

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

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

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

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

J. Interfund Balances

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

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2009

Note 2: Summary of Significant Accounting Policies (continued)

K. Compensated Absences

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

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

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account “matured compensated absences” in the fund from which the employees who have accumulated unpaid leave are paid. There are no matured compensated absences at December 31, 2009. The noncurrent portion of the liability is not reported. In the proprietary fund, the entire amount of compensated absences is reported as a fund liability.

L. Accrued Liabilities and Long-Term Obligations

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

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

M. Fund Balance Reserves

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

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2009

Note 2: Summary of Significant Accounting Policies (continued)

N. Net Assets

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

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

O. Operating Revenues and Expenses

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

P. Interfund Activity

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

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

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of these transactions occurred during 2009.

R. Estimates

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

S. Subsequent Events

In preparing these financial statements, the City has evaluated events and transactions for potential recognition or disclosure through June 24, 2010, the date the financial statements were available to be issued.

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2009

Note 2: Summary of Significant Accounting Policies (continued)

T. Comparative Data/Reclassifications

Prior year data presented in Management's Discussion and Analysis and Statistical Section have been reclassified in order to be comparative and provide an understanding of the changes in financial position and operations. Certain reclassifications have been made to the 2008 financial statements in order to conform to the 2009 presentation.

Note 3: Change in Accounting Principle

For 2009, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, and GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance contained in the AICPA Statements on Auditing Standards*.

GASB Statement No. 52 establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments are also required to report the changes in fair value as investment income to disclose the methods and significant assumptions employed to determine fair value. The implementation of this statement did not result in any change to the financial statements.

GASB Statement No. 55 incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the GASB's authoritative literature. The implementation of this statement did not result in any changes to the financial statements.

GASB Statement No. 56 incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accounts (AICPA) auditing literature into the GASB's accounting and financial reporting literature for state and local governments – related party transactions, going concern considerations and subsequent events. The implementation of this statement did not result in any changes to the financial statements.

Note 4: Budgetary Basis of Accounting

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

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2009

Note 4: Budgetary Basis of Accounting (continued)

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

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

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

| | <u>Net Change in Fund Balance</u> | |
|-----------------------------|-----------------------------------|---------------------------|
| | <u>General</u> | <u>Fire Emergency</u> |
| GAAP basis | \$ (62,836) | \$ (145,538) |
| Increase (decrease) due to: | | |
| Revenue accruals | (13,103) | 71,105 |
| Expenditure accruals | (531,347) | (40,869) |
| Encumbrances outstanding | <u>138,705</u> | <u>10,190</u> |
| Budget basis | \$ <u>(468,581)</u> | \$ <u>(105,112)</u> |

Note 5: Deposits and Investments

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

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

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

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2009

Note 5: Deposits and Investments (continued)

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

1. United States Treasury notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily;
4. Investment grade obligations of state and local governments, and public authorities;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and,
6. The State Treasurer's investment pool (STAROhio).

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

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

Deposits

Custodial credit risk is the risk that in the event of bank failure, the City's deposits may not be returned to it. Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution, by surety company bonds or by a single collateral pool established by the financial institution. In accordance with Chapter 135 of the Ohio Revised Code, any

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2009

Note 5: Deposits and Investments (continued)

public depository receiving deposits pursuant to an award of City funds shall be required to pledge as security for repayment of all public moneys.

At year-end, the carrying amount of the City’s deposits was \$7,096,187 including petty cash and the bank balance was \$7,171,004. Of the bank balance, \$737,918 was covered by the federal depository insurance. Of the remaining bank balance, \$6,433,086 was collateralized with securities held by the pledging institution’s trust department, not in the City’s name.

Investments

Investments are reported at fair value. As of December 31, 2009, the city had the following investments:

| | <u>Fair Value</u> | <u>Weighted Average Maturity (Days)</u> |
|----------|-------------------|---|
| STAROhio | \$ 46,080 | N/A |

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

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

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

Concentration of credit risk is defined by the Governmental Accounting Standards Board as five percent or more in the securities of a single issuer. The City’s investment policy requires diversification of the portfolio but does not indicate specific percentage allocations. The following is the City’s allocation as of December 31, 2009:

| <u>Investment Issuer</u> | <u>Percentage of Investments</u> |
|--------------------------|--------------------------------------|
| STAROhio | 100% |

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2009

Note 6: Receivables

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 2009 for real and public utility property taxes represents collections for 2008 taxes. Property tax payments received during 2009 for tangible personal property (and other public utility property) are for 2009 taxes.

Real property taxes (other than public utility property) are levied after October 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by the County Auditor at 35 percent of the appraised market value, and reappraisal of all property is required every six years with a triennial update. The last reappraisal was completed for tax year 2006 affecting collections beginning in 2007.

Real property taxes are payable annually or semi-annually. If paid annually, the payment is due January 20, if paid semi-annually, the first payment is due January 20, with the remainder payable by June 20. Taxes not paid become delinquent after December 31 of the year in which payable. Under certain circumstances, state statute permits earlier or later payment dates to be established.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. Public utility real and tangible personal property taxes collected during the calendar year were levied in the preceding calendar year based on assessed values as of January 1 of that preceding year, the lien date.

Tangible personal property used in business (except for public utilities) is currently assessed for *ad valorem* taxation purposes and is being phased out – the assessment percentage for all property including inventory for 2009 is zero. Amounts 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. Under Ohio law, personal property taxes do not attach as a lien on the personal property.

While property tax rates are levied by the City, the County Auditor is statutorily responsible for administering and collecting real property taxes on the behalf of all taxing authorities in the county, including the City. The county periodically remits to the City its portion of the taxes collected.

The assessed values per category applicable to the 2009 tax are as follows:

| | |
|----------------------------|-----------------------|
| Real property | \$ 287,993,720 |
| Public utility property | 2,272,120 |
| Tangible personal property | <u>223,966</u> |
| Total valuation | \$ <u>290,489,806</u> |

The full tax rate for all City operations for the year ended December 31, 2009 was \$19.50 per \$1,000 of assessed value.

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2009

Note 6: Receivables (continued)

B. Income Taxes

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

C. Intergovernmental Receivables

A summary of the principal items of intergovernmental receivables follows:

| | <u>Amount</u> |
|--|----------------------------|
| Governmental activities: | |
| Local government | \$ 752,381 |
| Homestead and Rollback | 410,908 |
| Gasoline\motor vehicle license tax | 259,095 |
| Estate tax | 189,937 |
| Permissive tax | 7,191 |
| CAT Tax | 11,931 |
| TIF | 97,154 |
| Lake County storm water management program | 611,250 |
| Other | <u>7,636</u> |
| Total governmental activities | <u>2,347,483</u> |
| Business-type activities: | |
| Grants | <u>153,107</u> |
| Total business-type activities | <u>153,107</u> |
| Total intergovernmental receivables | \$ <u><u>2,500,590</u></u> |

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2009

Note 7: Capital Assets

Capital asset activity for the year ended December 31, 2009, was as follows:

| | Balance <u>12/31/08</u> | Additions | Disposals | Balance <u>12/31/09</u> |
|---|----------------------------|--------------------|---------------------|----------------------------|
| Governmental Activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Construction in process | \$ 474,027 | \$ 491,640 | \$ (807,480) | \$ 158,187 |
| Land | <u>956,842</u> | <u>-</u> | <u>-</u> | <u>956,842</u> |
| Total non-depreciable capital assets | <u>1,430,869</u> | <u>491,640</u> | <u>(807,480)</u> | <u>1,115,029</u> |
| Capital assets being depreciated: | | | | |
| Land improvements | 809,222 | - | - | 809,222 |
| Building and improvements | 9,451,264 | 113,368 | - | 9,564,632 |
| Machinery and equipment | 5,242,326 | 256,290 | (144,866) | 5,353,750 |
| Infrastructure: | | | | |
| Roadways | 20,750,447 | - | - | 20,750,447 |
| Sidewalks | 1,824,406 | - | - | 1,824,406 |
| Drive aprons | 1,383,900 | 22,719 | (9,749) | 1,396,870 |
| Curbs | 1,978,913 | 204,751 | (18,320) | 2,165,344 |
| Fencing/masonry | 324,440 | - | - | 324,440 |
| Vine street beautification | 482,774 | - | - | 482,774 |
| Traffic signals | 47,849 | - | - | 47,849 |
| Decorative street lights | 547,490 | - | - | 547,490 |
| Storm sewers | <u>404,252</u> | <u>807,480</u> | <u>-</u> | <u>1,211,732</u> |
| Total capital assets being depreciated | <u>43,247,283</u> | <u>1,404,608</u> | <u>(172,935)</u> | <u>44,478,956</u> |
| Less accumulated depreciation: | | | | |
| Land improvements | (288,849) | (49,058) | - | (337,907) |
| Building and improvements | (3,224,903) | (226,558) | - | (3,451,461) |
| Machinery and equipment | (3,025,426) | (278,134) | 143,169 | (3,160,391) |
| Infrastructure: | | | | |
| Roadways | (4,764,212) | (415,008) | - | (5,179,220) |
| Sidewalks | (396,669) | (36,488) | - | (433,157) |
| Drive aprons | (308,406) | (27,679) | 4,634 | (331,451) |
| Curbs | (443,227) | (39,578) | 8,794 | (474,011) |
| Fencing/masonry | - | (12,978) | - | (12,978) |
| Vine street beautification | (57,933) | (19,311) | - | (77,244) |
| Traffic signals | (2,936) | (1,913) | - | (4,849) |
| Decorative street light | (41,433) | (21,899) | - | (63,332) |
| Storm Sewers | <u>-</u> | <u>(5,775)</u> | <u>-</u> | <u>(5,775)</u> |
| Total accumulated depreciation | <u>(12,553,994)</u> | <u>(1,134,379)</u> | <u>156,597</u> | <u>(13,531,776)</u> |
| Net capital assets being depreciated | <u>30,693,289</u> | <u>270,229</u> | <u>(16,338)</u> | <u>30,947,180</u> |
| Governmental activities capital assets, net | \$ <u>32,124,158</u> | \$ <u>761,869</u> | \$ <u>(823,818)</u> | \$ <u>32,062,209</u> |

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2009

Note 7: Capital Assets (continued)

| | <u>Balance</u> <u>12/31/08</u> | <u>Additions</u> | <u>Disposals</u> | <u>Balance</u> <u>12/31/09</u> |
|--|-----------------------------------|-------------------|-------------------|-----------------------------------|
| Business-type activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Construction in process | \$ - | \$ 372,887 | \$ - | \$ 372,887 |
| Capital assets being depreciated: | | | | |
| Machinery and equipment | 563,836 | - | - | 563,836 |
| Infrastructure: | | | | |
| Sanitary sewers | 3,692,418 | - | - | 3,692,418 |
| Storm sewers | <u>5,814,998</u> | <u>-</u> | <u>(1,500)</u> | <u>5,813,498</u> |
| Total capital assets being depreciated | <u>10,071,252</u> | <u>-</u> | <u>(1,500)</u> | <u>10,069,752</u> |
| Less accumulated depreciation: | | | | |
| Machinery and equipment | (316,186) | (27,136) | - | (343,322) |
| Infrastructure: | | | | |
| Sanitary sewers | (2,486,718) | (40,511) | - | (2,527,229) |
| Storm sewers | <u>(1,742,341)</u> | <u>(85,552)</u> | <u>105</u> | <u>(1,827,788)</u> |
| Total accumulated depreciation | <u>(4,545,245)</u> | <u>(153,199)</u> | <u>105</u> | <u>(4,698,339)</u> |
| Net capital assets being depreciated | <u>5,526,007</u> | <u>(153,199)</u> | <u>(1,395)</u> | <u>5,371,413</u> |
| Business-type activities capital assets, net | \$ <u>5,526,007</u> | \$ <u>219,688</u> | \$ <u>(1,395)</u> | \$ <u>5,744,300</u> |

Depreciation expense was charged to governmental activities as follows:

| | <u>Governmental</u> |
|----------------------------------|---------------------|
| Security of persons and property | \$ 180,098 |
| Leisure time activities | 146,788 |
| Community development | 36,385 |
| Basic utility | 2,349 |
| Transportation | 593,017 |
| General government | <u>175,742</u> |
| Total depreciation expense | \$ <u>1,134,379</u> |

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2009

Note 8: Long-Term Obligations

Changes in long-term obligations during the year ended December 31, 2009, consisted of the following:

| | Balance 12/31/08 | Issued | Retired | Balance 12/31/09 | Due Within One Year |
|---|---------------------|---------------------|-----------------------|---------------------|------------------------|
| Governmental Activities: | | | | | |
| Notes payable – Royalview Drive | \$ 850,000 | \$ - | \$ (850,000) | \$ - | \$ - |
| Various Purpose Improvement Notes | 2,295,000 | 2,295,000 | (2,295,000) | 2,295,000 | 5,000 |
| OPWC loan payable – Euclid Avenue Sewer, 0%, maturing 7/1/2025 | 117,686 | - | (7,132) | 110,554 | 7,133 |
| OPWC loan payable – Sanitary Sewer Rehabilitation, 0%, maturing 1/1/2028 | 90,621 | - | (4,770) | 85,851 | 4,770 |
| Capital lease payable | 36,202 | - | (8,398) | 27,804 | 7,106 |
| Compensated absences | <u>1,306,547</u> | <u>565,447</u> | <u>(606,191)</u> | <u>1,265,803</u> | <u>684,456</u> |
| Total governmental activities | \$ <u>4,696,056</u> | \$ <u>2,860,447</u> | \$ <u>(3,771,491)</u> | \$ <u>3,785,012</u> | \$ <u>708,465</u> |
| Business-Type Activities: | | | | | |
| Various Purpose Improvement Notes | \$ 605,000 | \$ 650,000 | \$ (605,000) | \$ 650,000 | \$ 20,000 |
| Compensated absences | <u>28,785</u> | <u>29,617</u> | <u>(20,767)</u> | <u>37,635</u> | <u>34,263</u> |
| Total business-type activities | \$ <u>633,785</u> | \$ <u>679,617</u> | \$ <u>(625,767)</u> | \$ <u>687,635</u> | \$ <u>54,263</u> |

Compensated absences reported in the “compensated absences payable” account will be paid from the fund from which the employees’ salaries are paid. Notes payable will be paid from the fund which received the original proceeds. The OPWC loans will be paid from the debt service fund.

Long-term notes payable at December 31, 2009, consisted of Various Purpose Improvement Notes. The notes have a term of one year or less. The notes were issued to open public streets to be known as Shoreland Circle and Lakewick Lane; to improve the municipal sewerage system; and to improve Dudley Park. The notes are dated March 11, 2009 and are due on March 10, 2010 at an interest rate of 2.5%.

The annual debt service requirements are as follows:

| <u>Year</u> | <u>OPWC Loans Payable Principal</u> | |
|-------------|-------------------------------------|--|
| | <u>Euclid Avenue Sewer</u> | <u>Sanitary Sewer Rehabilitation</u> |
| 2010 | \$ 7,133 | \$ 4,770 |
| 2011 | 7,133 | 4,770 |
| 2012 | 7,133 | 4,770 |
| 2013 | 7,133 | 4,770 |
| 2014 | 7,133 | 4,770 |
| 2015-2019 | 35,665 | 23,850 |
| 2020-2024 | 35,665 | 23,850 |
| 2025-2027 | <u>3,559</u> | <u>14,301</u> |
| Total | \$ <u>110,554</u> | \$ <u>85,851</u> |

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2009

Note 9: Note Debt

The City's note activity for the year ended December 31, 2009 is as follows:

| | <u>Balance</u> <u>12/31/08</u> | <u>Issued</u> | <u>Retired</u> | <u>Balance</u> <u>12/31/09</u> |
|---|-----------------------------------|-------------------|--------------------|-----------------------------------|
| Governmental Activities: | | | | |
| 3.00% Shoreland Circle improvements | \$ 5,000 | \$ - | \$ (5,000) | \$ - |
| 3.00% Dudley pool improvement | 60,000 | - | (60,000) | - |
| 2.50% Dudley pool improvement | - | 100,000 | - | 100,000 |
| 2.33% Storm drainage system improvement | - | <u>575,000</u> | - | <u>575,000</u> |
| Total governmental activities | \$ <u>65,000</u> | \$ <u>675,000</u> | \$ <u>(65,000)</u> | \$ <u>675,000</u> |
| Business-Type Activities: | | | | |
| 3.00% Sanitary sewer improvement | \$ <u>5,000</u> | \$ <u>-</u> | \$ <u>5,000</u> | \$ <u>-</u> |

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

Note 10: Lease Obligations

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

In 2008, the City has entered into capital leases for the acquisition of telephone equipment. The lease meets the criteria of a capital lease with the "Leases" topic of the FASB ASC, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital assets acquired by lease have been capitalized as equipment in the amount of \$38,786 equal to the present value of the future minimum lease payments in the government-wide financial statements. Accumulated depreciation on the capital assets is \$1,293. Principal payments in the current year totaled \$8,398 in the Governmental Activities.

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

| <u>Year</u> | <u>Capital Lease</u> <u>Governmental</u> <u>Lease Payments</u> | <u>Operating Leases</u> <u>Governmental</u> <u>Lease Payments</u> |
|---|--|---|
| 2010 | \$ 8,316 | \$ 17,076 |
| 2011 | 9,072 | 17,076 |
| 2012 | 9,072 | 11,384 |
| 2013 | <u>6,048</u> | <u>-</u> |
| Total minimum lease payments | <u>32,508</u> | <u>45,536</u> |
| Less: amount representing interest | <u>(4,704)</u> | <u>-</u> |
| Present value of minimum lease payments | \$ <u>27,804</u> | \$ <u>45,536</u> |

Rental expense related to operating leases for equipment totaled \$17,076 for governmental funds for the year ended December 31, 2009.

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2009

Note 11: Employee Benefits – Compensated Absences

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

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

Note 12: Pension Plans

A. Ohio Public Employees Retirement System

The City of Willowick 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, OPERS invests employer contributions to provide a formula retirement benefit similar in nature 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 614-222-5601 or 800-222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2009, member and employer contribution rates were consistent across all three plans. For the year ended December 31, 2009, the members of all three plans were required to contribute 10.0 percent of their annual covered salary to fund pension obligations. The City contributed 14.0 percent of covered payroll.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2009, 2008, and 2007 were \$411,587, \$421,554, and \$411,754, respectively. The full amount has been contributed for 2008 and 2007. For 2009, 92.9 percent has been contributed, with the remainder being reported as a liability.

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2009

Note 12: Pension Plans (continued)

B. Ohio Police and Fire Pension Fund

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

Plan members are required to contribute 10 percent of their annual covered salary to fund pension benefits, while employers are required to contribute 19.5 percent for police officers and 24.0 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the OP&F for the years ended December 31, 2009, 2008, and 2007 were \$359,957, \$354,147, and \$338,732, respectively. The full amount has been contributed for 2008 and 2007. For 2009, 77 percent has been contributed, with the remainder being reported as a liability.

C. Social Security System

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

Note 13: Postemployment Benefits

A. Ohio Public Employees Retirement System

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

OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-retirement health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and qualified survivor recipients is available. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2009

Note 13: Postemployment Benefits (continued)

A. Ohio Public Employees Retirement System (continued)

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town St., Columbus, OH, 43215-4642, or by calling 614-222-5601 or 800-222-7377

The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care benefits. Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2009, the City contributed at a rate of 14.0 percent of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0 percent of covered payroll for state and local employer units. Active members do not make contributions to the OPEB Plan.

OPERS' Post Employment Health Care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of the post employment health care benefits. For 2009, the employer contribution allocated to health care was 7.0 percent from January 1 through March 31, 2009 and 5.5 percent from April 1 through December 31, 2009. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care coverage by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions for health care for the years ended December 31, 2009, 2008, and 2007 were \$172,720, \$185,112, and \$169,366, respectively. The full amount has been contributed for 2008 and 2007. For 2009, 92.9 percent has been contributed, with the remainder being reported as a liability.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Board of Trustees on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased on January 1 of each year from 2006 to 2008. These rate increases allowed additional funds to be allocated to the health care plan.

B. Ohio Police and Fire Pension Fund

The City of Willowick contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored health care program, a cost-sharing multiple-employer defined postemployment health care plan administered by OP&F. OP&F provides healthcare benefits including coverage for medical, prescription drugs, dental, vision, Medicare Part B Premium and long term care to retirees, qualifying benefit recipients and their eligible dependents.

OP&F provides access to post-retirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2009

Note 13: Post Employment Benefits (continued)

B. Ohio Police and Fire Pension Fund (continued)

The Ohio Revised Code allows, but does not mandate OP&F to provide OPEB benefits. Authority for the OP&F Board of Trustees to provide health care coverage to eligible participants and to establish and amend benefits is codified in Chapter 742 of the Ohio Revised Code.

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the Plan. That report may be obtained by writing to OP&F, 140 E. Town St., Columbus, Ohio 43215-5164.

The Ohio Revised Code provides for contribution requirements of the participating employers and of the plan members to the OP&F (defined benefit pension plan). Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.5 percent and 24.0 percent of covered payroll for police and fire employers, respectively. The Ohio revised Code states that the employer contribution may not exceed 19.5 percent of the covered payroll for police employer units and 24.0 percent of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

OP&F maintains funds for health care in two separate accounts. One for health care benefits under an IRS Code Section 115 trust and one for Medicare Part B reimbursements administered as an Internal Revenue Code 401(h) account, both of which are within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2009, the employer contribution allocated to health care plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 1150 and 401(h).

The OP&F Board of Trustees also is authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions to OP&F for the years ended December 31, 2009, 2008, and 2007 were \$359,957, \$354,147, and \$338,732, respectively, of which \$124,601, \$122,589, and \$117,269, respectively, was allocated to the healthcare plan. The full amount has been contributed for 2008 and 2007. For 2009, 77.0 percent has been contributed, with the remainder being reported as a liability.

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2009

Note 14: Risk Management

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2009, the City contracted with Wichert Insurance for various types of insurance as follows:

| | |
|----------------------------|---------------|
| Type of Coverage: | |
| Property | \$ 20,419,652 |
| Boilers and machinery | 20,419,652 |
| Inland marine | 277,903 |
| Crime | 100,000 |
| Automobile liability | 1,000,000 |
| General liability | 1,000,000 |
| Law enforcement liability | 1,000,000 |
| Public officials liability | 1,000,000 |
| Umbrella liability | 10,000,000 |

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

The City participates in the Ohio Municipal League public risk pool for workers' compensation. The Group Rating Plan was administered by Gates McDonald through September 27, 2009. Effective September 28, 2009, CompManagement, Inc became the administrator. The OML Group Rating Plan is intended to achieve lower workers' compensation premium rates for the participants, and result in the establishment of a safer working environment. There are no additional contributions required by a participant other than their annual fee.

Note 15: Transfers

Interfund transfers for the year ended December 31, 2009, consisted of the following:

| Transfer to | Transfer From | | Total |
|-----------------------------|-------------------|--------------------------|---------------------|
| | General Fund | Capital Improvement Fund | |
| Capital improvement fund | \$ 145,000 | \$ - | \$ 145,000 |
| Debt service fund | - | 3,236,156 | 3,236,156 |
| Nonmajor governmental funds | <u>535,000</u> | <u>-</u> | <u>535,000</u> |
| Total transfers | \$ <u>680,000</u> | \$ <u>3,236,156</u> | \$ <u>3,916,156</u> |

City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

For The Year Ended December 31, 2009

Note 16: Contingencies/Pending Litigation

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

Note 17: Subsequent Events

On March 9, 2010, the City issued Various Purpose Improvement Notes in the amount of \$2,920,000 with an interest rate of 1.35%, maturing on March 9, 2011, to retire previously outstanding Various Improvement Notes. Original notes were issued to open public streets Shoreland Circle and Lakewick Lane; to improve the municipal sewerage system; and to improve Dudley Park.

Note 18: Fair Value Measurements

In accordance with the "Fair Value Measurements" topic of the FASB ASC, the City uses a three-level fair value hierarchy that categorizes assets and liabilities measured at fair value based on the observability of the inputs utilized in the valuation. This hierarchy prioritizes the inputs into three broad levels as follows: Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly; and Level 3 inputs are unobservable inputs in which little or no market data exists, therefore, requiring an entity to develop its own valuation assumptions. These inputs reflect management's judgment about the assumptions that a market participant would use in pricing the asset and are based on the best available information, which has been internally developed.

In accordance with the "Fair Value Measurements" topic of the FASV ASC, the City has elected to not apply the provisions of topic 820, as discussed in paragraph 820-10-15-1A of the FASB ASC, no non-financial assets and liabilities, except for those items that are recognized or disclosed at fair value in an entity's financial statements on a recurring basis.

Financial assets consisted of the following:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>12/31/2008</u> |
|-------------------------|------------------|----------------|----------------|-------------------|
| Certificates of deposit | \$ 59,068 | \$ - | \$ - | \$ 59,068 |
| STAROhio | <u>1,361</u> | <u>-</u> | <u>-</u> | <u>1,361</u> |
| | \$ <u>60,429</u> | \$ <u>-</u> | \$ <u>-</u> | \$ <u>60,429</u> |

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

Members of the City Council
Willowick, Ohio

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Willowick, Ohio (the “City”) as of and for the year ended December 31, 2009, which collectively comprise the City’s basic financial statements and have issued our report thereon dated June 24, 2010, wherein we noted the City adopted *GASB Statement Nos. 52, 55, and 56*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City’s financial statements will not be prevented, or detected and corrected on a timely basis.

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

Members of the City Council
Willowick, Ohio

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City, in a separate letter dated June 24, 2010.

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

Cini & Paricki, Inc.

Cleveland, Ohio
June 24, 2010



Mary Taylor, CPA
Auditor of State

CITY OF WILLOWICK

LAKE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 27, 2010**